

Market Update on Coronavirus with Professor Siegel

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WisdomTree

Contributor

Professor Jeremy Siegel, WisdomTree's Senior Investment Strategy Advisor and Professor of Finance at Wharton, provides his perspective on the current market and how to prepare for the Coronavirus aftermath.

Highlights from this week's call include the slowing of Coronavirus and potential economic benefits if a vaccine is discovered.

Please listen to the full recording from the 4 May below:

Operator: Hello, everyone. Thank you for joining the WisdomTree weekly call with Professor Siegel. In this extremely volatile market, we want to make sure we provide advisors with the help and guidance they need. Please visit our website for additional insights, including the recordings of these calls.

Today, Professor Siegel will provide a quick 15-minute update, and then we will open the lines for your questions.

Please note that this call is being recorded and is for financial professionals only. If you need assistance, dial *zero, and an operator will be happy to assist you.

With that, I turn the line to Professor Siegel.

Professor Siegel: Yes, Jaclyn. What a very nice rally at the close. So, a lot of things are going on for them.

Let's talk about Warren Buffett. Yeah. I mean, he was pessimistic. The truth of the matter was that the Fed kind of pulled the rug right from under him. I mean, he would have financed had the Fed not come in, but the Fed came in and it was too fast for him. You know, he is a deliberate man. You know, if you missed the bottom by the five days, you missed 10 percent of the market. So, I think that, you know, he didn't find it cheap now. He hasn't found it cheap for years. He uses, one of his criteria that I talked about before and then it's there's been questions to me about I do not like the GDP due to market value indicator. I think it's dated. It doesn't take into account the globalization of the S&P and 40 percent of the profits are global, which was not true back in the 1960s and '70s. So, you have a way upward trend of this indicator that does not represent overvaluation on the market. So, he has never loved this market, so, when it went within 15

percent of the all-time high, he said, hey, it doesn't look like it was cheap. It sort of surprises me, got out of all the airlines and now the airlines are down 6, 7, 8 percent. I mean, I think we all remember when he once said, you know, it was about 25 years ago, he said, if you ever hear me say that I want to buy an airline again, take a revolver to my head and shoot me before I do that. You know, I have to prevent myself from ever doing again. Well, he got convinced to do it again. And then I don't know if he's made profits on this. I'm sure the returns have been way, way below the market. Listen, I admire Warren. I mean, I know him personally. He's a wonderful man. And I hope when I'm 89 years old that I'm as sharp as he is. But let us also face the facts. His performance has not been good over the last year, over the last five years, over the last 10 years. It's way underperformed the S&P.

One could imagine four years ago he wasn't dragged kicking and screaming into buying Apple stock, where would he be? I remember back then he made his statement, said, yeah, we only own two technologies, IBM and Apple. Apple is speculative. I'm much more confident in IBM. By the way, I think he bought IBM at \$100 a share. He's down. Well, IBM has been a disaster. I mean, I'm not saying his judgment is always wrong. And obviously, over his lifetime, it's been a remarkable and wonderful lifetime. But should people now hang on every word, such that, oh, my God, he is now the guru of the future in terms of whether we should buy or not? First of all, he's never been a market time. I don't think so.

Let's also talk about tariffs, because it's been increasingly in the news and Trump has bought it. It was it's been clear to me for over two or three weeks that Trump is going to be campaigning against China for his presidential re-election campaign. He's going to blame the Chinese. I'm not going to go where whether he's right or wrong, although it is absolutely true that they totally bungled the beginning, and had they not, you know, we probably would not have this pandemic at all. But I don't think it was intentional, although there are debates. But nonetheless, that doesn't matter. He will be campaigning against China. There will be tariff talks. Tariff talk at this time is not good. No tariffs are really good at this point. My feeling is it's going to be much more talk than it's going to be action because he also knows the stock market doesn't like it, but he's got to talk tough for his base. And I think that's going to be, you know, why is the market down? Why is unemployment at 20 percent? Why? Why? Why? Well, China, China, China. So, I think, you know, this is the beginning. And we're going to be, you know, hearing this for months and months afterwards. As I said, more talk than action. But I just want you to be put on notice with that.

The virus news. OK, so let's say, you know, I've been on the on the thing that I don't care that much about—and I know how bad the economy is. I'm glad it is opening up. I think, you know, the states are opening up, and it's we're waiting and seeing what is happening. So, let's talk about it. First of all, in Europe, it's good. Really, rates are way down. Amazingly, even in that experiment called Sweden, rates are down. Debts are down. Rates are down. Although, it has definitely suffered more cases than some of the other Nordic countries. It's certainly much less cases than Central Europe, as far as that's concerned. Which is interesting. Of course, we're also looking in the United States at Georgia and how that might respond as states selected, we open up. We will see whether there is a surge of cases.

Everything else is on the downside. The only pessimism there and you may have read again, Scott Gottlieb's op-ed in today's Wall Street Journal. I'm a fan of his, and he actually expressed this last week that rates and not coming down. They are coming down in New York, which is excellent. Social distancing has worked. We've prevented the overcrowding of the medical system, which was all a goal and all that seems to have been achieved, but rates are not coming down quite fast or he says they are in Europe. They're lingering. They are going down, but they are lingering. He said, you know, it might go down faster. We don't know all the reasons. You know, maybe it's been a we've had beef up here in the northeast, a lot of warmer weather in the last three or four days. We're going to see how that affects it, whether that also is the cause of a decline. There's a lot of unknowns. We need more data, I think, to confirm it.

Of course, we've also read that some of the states had opened up like Florida and someone else was on Wall Street Journal has not suffered some of the big increases that were feared. The same is true of Texas and a couple of others. But it is early, very early in this opening up stage, and there are clusters. And now we're getting the testing, the explosion of testing, the new testing that was just approved with a very good test record--90 percent, 95 percent, for specificity--which, you know, that that will be useful. Testing is being ramped up. But again, you know. Alright, well, so what do we know about the test? Well, the person definitely has antibodies and he can be fearless if he is absolutely positive. Well, for six months, so Gottlieb says. We're pretty sure it could be longer. It might be years. It would be very rare for there to be no immune response with antibodies. And he said it's probably a minimum of six months. So, if you get to that stage, that's possible. I mean, we do hear in the newspapers and on TV, oh, my God, you know, there may be no immune response. And then there's all the talk again about vaccine four years out, and then waves that go years. I mean, we're getting that the bears are in there and they're turning on that. I still think the evidence is way against it. I think the number—I mean, I'm just reading every time from the initial successes. Now they are initial, but the initial successes are really dramatic in terms of some of those, I mean going beyond Remdesivir, for early, very early stages. They may falter at later stages to be sure. But my feeling is that with the dozens that are now in testing, we're going to get some hits, and even Gottlieb had mentioned, you know, by fall, he said we could have a very effective cocktail of drugs that reduces this to a flu situation and not have it anywhere near as deadly as it is. So, you know, I am still optimistic on that. I think the numbers are still on the whole very, very good that I see on the virus front, and very, very good as I see on the therapeutic front and then on early vaccine development. But again, it is very, very early data here.

So, let's get to the main theme that I mentioned weeks ago when I held my very first conference call. And that that main theme is the fact that we have created money and debt at a level in this crisis that far exceeds any other crisis that we have. I talk about the money supply. I monitor the M1 money supply. It is continuing to jump. In the last five weeks, we have had a 17 percent increase in the M1 money. The M1 money supply is all transactions--checking account, payroll accounts and all that, plus the currency that's in circulation. But the checking accounts and the transactions and payroll accounts are by far, they're way over 80 percent of that, have jumped by 17 percent, that percent. It's virtually the same as the entire increase in that in M1 money supply from the week before the Lehman bankruptcy to a year after, in September of 2009. We have jumped as much in five weeks as we did in one year. Wow.

And I think this is just the beginning. What does this mean? In my opinion, when confidence returns, of course that depends on the therapies, the vaccine, confidence of the public, the psychology, you know, and a lot of factors, but there is going to be liquidity on the hands of the businesses and the public that is going to spur a very strong economic expansion. Now, everyone is talking, is it you? Is it me? Is it all the rest? And the important thing is that, I think, it's going to be determined by the virus. But it is my belief that once, you know, effective medicines and some confidence returns, that there is going to be spending power that is virtually unrivaled that is going to be spent here. And what is that going to lead to? Inflation. Hyperinflation? No, but inflation higher than we have seen it for years, decades, in the order of 5, 4 or 5 percent or more over several years.

What does well in that environment? Well, clearly, you know, certain precious metals will do well. Raw land will do well. I don't like commercial real estate. I think that's really challenged. And I do want to get back to the airlines in just a moment, because I think it does tell an interesting story about how they may or may not recover. So, real commodities will do well. I think stocks will do well. Stocks do well in that moderate inflationary environment, especially those that have locked in these rates on long-term debt, because I think interest rates are going to start rising from the half percent on treasuries to the one to one and a half, to two and three. I think, I repeat, that the 40 year bull market in bonds has ended in the spring of 2020, and we will be looking back for decades at this rate and say, oh my goodness, how could people with the debt at this level be buying treasury bonds had a half a percent. By the way, they were saying the same after World War 2. Oh, my God, how are people buying? And then it was one and a half percent, and inflation wiped out a lot of that in subsequent years after that.

I just heard a headline, by the way, which is pretty amazing. Because of the lack of tax revenue, the programs, and all the rest in the second quarter of this year, I guess we're in it, the Treasury expects to borrow three trillion dollars in one quarter. That's 15 percent of the GDP. That's more than what was borrowed entirely for World War 2. That is six times the previous record. Think about that. Six times in the history of the United States. The previous quarter, we record of borrowing three trillion dollars. Who's buying that? The Federal Reserve, and that's where all the money is being created. You know, you can't tell me that that is not going to have consequences down the road.

For more information, please also see our [weekly commentary from Professor Siegel](#).

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well in that environment? Well, clearly, you know, certain precious metals will do well. Raw land will do well. I don't This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of like commercial real estate. I think that's really challenged. And I do want to get back to the airlines in just a moment, because a public of think it does tell an interesting story about how they may or may not recover. So, real commodities will do well. I think stocksering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.will do well. Stocks do well in that moderate inflationary environment, especially those that have locked in these rates on long-term debt, because I think interest rates are going to start rising from the half percent on treasuries to the one to one and Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant ora half, to two and three. I think, I repeat, that the 40 year bull market in bonds has ended in the spring of 2020, and we will be guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or marketlooking back for decades at this rate and say, oh my goodness, how could people with the debt at this level be buying treasury activity, these views may change. Neither WisdomTree, nor any abonds had a half a percent. By the way, they were saying the same aer World War 2. Oh, my God, how are people buying? Andiliate, nor any of their respective oicers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of thisthen it was one and a half percent, and inflation wiped out a lot of that in subsequent years aer that. document or its contents. I just heard a headline, by the way, which is pretty amazing. Because of the lack of tax revenue, the programs, and all the rest in the second quarter of this year, I guess we're in it, the Treasury expects to borrow three trillion dollars in one quarter. That's 15 percent of the GDP. That's more than what was borrowed entirely for World War 2. That is six times the previous record. Think about that. Six times in the history of the United States. The previous quarter, we record of borrowing three trillion dollars. Who's buying that? The Federal Reserve, and that's where all the money is being created. You know, you can't tell me that that is not going to have consequences down the road.