

Market Update on the 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 likely trajectory for markets based on the latest developments in the Coronavirus pandemic and thoughts on what the effects that a longer than expected shutdown may have.

Please listen to the full recording from the 30 March 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. Please note that this call is being recorded and is for financial professionals only. If you need assistance, dial *0 and an operator will be happy to assist you. With that, I turn the line to Professor Siegel.

Professor Siegel:

There are four steps to economic end and therefore market recovery, because we're only going to have a market recovery if we have an economic recovery. The first of these steps is fiscal and monetary support. We can check that box. That came in full force in the last two weeks as well as I could hope on both sides. I think that those concerns—and as you know I was one that called for very a strong response—it has been made. Obviously, there can be a few other things that can do and there will be technical corrections and other measures, but by and large we did that well.

Factor number two, flattening the curve. I am encouraged by what I see. In Europe, Italy which outside of China was the first to really clamp down, has seen a drop in deaths and new cases; Spain even. These were the two hot beds. We're seeing it in several other countries. We're even seeing it in places in the United States. We saw it in Washington and the Seattle area, New Rochelle. We are going to continue to see very high cases in New York City. The crest has not come through, but what is very important is the fact that social distancing does seem to work.

I am much more encouraged and optimistic that we will be able to avoid widespread rationing of ventilators

for those who fall into the seriously ill category. Not a slam dunk, but we may have slowed it down enough, and that was the goal. The goal was to do that so we would not overload our medical systems, and if distancing can be maintained and some of the early data bear itself out, I think we have accomplished that.

Factor three, vaccines and therapeutics. I applaud Johnson & Johnson which, as you know, announced this morning some great progress in the development of a vaccine. I mean the vaccine is like the gold standard to stop the pandemic, and even though it is record time and that is also extraordinary and it deserves our plaudits, the sobering fact was that they announced it would not really be ready until a year from now. What does that mean?

We cannot wait a year to open up the economy. In other words, oh the all-clear sign has sounded; everyone can get out and no one's home. So, that's great news. It sort of puts an end date. I mean some people were even talking about two years, and I even heard some people thinking longer, because some vaccines have taken up to seven years to develop. Again, they're just very optimistic, but from understanding this strain of what they were talking about I think they may have it, but nonetheless, that's too far in the future. What do I mean by that?

The market will tolerate a two-to-three-month shutdown. That's what I think is discounted now. It is not discounted a six-to-nine-month shutdown. If we are shut down for six to nine months, we have some more downside, a lot more downside in my opinion. Now what could improve that?

Well on factor number three I did mention vaccines and therapeutics. Now therapeutics are of course medicines, drugs, pharmaceuticals that can lessen the severity of the degree of the disease. We know they've been banding around remdesivir, hydroxychloroquine, and several others with some favorable factors. And I think as I mentioned last week, if we could get a drug that would eliminate or greatly reduce the death count—even though it might make people deathly sick as the expression goes—but cut down on fatalities that would be a huge psychological boost to the market, and that's a possibility of coming relatively soon. So those therapeutics are also going to be very important.

But I would like to go to the fourth plan, and this is the most important. Dr. Scott Gottlieb and any of you who've been watching any shows have seen him; very well-spoken, very intelligent. He works for the American Enterprise Institute and on many boards. They came out over the weekend with a white paper called The Road Back to Normal. I believe you can get a copy of it on the American Enterprise website. It was summarized as a lead Op Ed piece in today's Wall Street Journal, so you can read it there.

And he talks about how we can get back what we need, the reduction in counts; how long, and then we have to have a number of very important measures, procedures in place. He talks about three in particular. He talks about a surveillance system that collects data about where the outbreak is and the announcement of the five to ten-minute test is very important there, but we have to have that available

everywhere, everywhere. We have to have rapid and reliable diagnostic tools so that they can test liberally of who has it, and we have to have what's called serology tests to find out who is in fact now resistant because of antibodies and who is not, because those are the people that can go back to work. We have no idea how many. There could be millions that have actually been asymptomatic.

These are not expensive. In fact, we have most of these, but we need to employ in my opinion a crash program to deploy them. This should be now our government's biggest challenge and biggest goal. To now set up the testing techniques and the surveillance techniques that we need. If we follow the guidelines that these eminent doctors and epidemiologists have set forth, we can get back to work maybe in two months. We can start getting people back to work, and that is what we really need for a big recovery.

I'm really hoping that the Trump Administration embraces this. And by the way, there are others. This is not the only one. Many of them—I haven't read them all—many of them come down very much on a similar footing. By the way as I even mentioned, the CDC may now be changing its tune about people not wearing masks in public; that they should wear masks in public. All Asian countries, by the way, people are wearing masks in public. And I know—and I'm not talking about the N95 masks—they're just talking about the standard cloth masks. It doesn't do as good a job as the other, but it does do a job, and it is necessary, I think. And there are rumors that in a few days or a short period of time the CDC may change its recommendation and for people to be able.

Now of course there's a question of availability. They are becoming available again, and again not the N95 that the doctors use, but the ones that are just very simple to go over your nose and mouth. And this is one example of things that can get people back in circulation, and that's what we need. I'd just love that to be a national goal. I'm old enough to remember when President Kennedy said in the early 60s let's put a man on the moon by the end of this decade, and we did in July of 1969. I would love to see them establish some dates where we could get—now obviously not everyone would be met or would see it—but I think we now have to have national goals on getting these things out and these measures in place, and then we will have a time table.

For someone who's been following the markets as long as I did and you guys know the same, one of the things it hates the most is uncertainty. Listen, I admire President Trump's optimism, his desire to get everyone back by Easter, but then he was forced to delay. And as I pointed out, it reminds me—and all of you I know are road warriors—how many times have you sat in the departure lounge waiting for an aircraft and the pilot or the airline representative gets on and says oh we have a minor technical delay; don't worry; it's only going to be 15 minutes. Yeah. I usually put my head in my hands, and I say oh no, and then it's a half an hour, and then it's an hour. I just am happy if that plane leaves the ground. I don't think we should do that.

I don't think President Trump should then wait two weeks and say oh it's going to be another two weeks. I think we have to have some realistic goals. We have to have aspirational goals that we might be able to

try to meet them and if we get there earlier, fine, but set these goals that are realistic to get the testing done and get the people back to work. I think that—if the data on flattening the curve continues to come in—now that's not a slam dunk yet, it's early—and epidemics are passing through and I know things are going to get worse before they get better, but the distancing seems to be helping everywhere around the world that it is practiced, and there's no reason therefore it should not help in the United States, and we could slow this down.

And this of course also buys us time for those therapeutics and maybe a development of a vaccine that's even sooner. And maybe J&J could maybe even get it earlier and then they don't want to promise something again that they can't deliver, but I think that this is where we should set our national agenda now is these factors of testing and monitoring. I think the guideline again I haven't read the entire report—I just read snaps of the report—I think they look for two or three weeks of steadily nationally declining cases, and then they specify which areas could open up, but those areas that open up have to have testing. We should have testing at all the airports. I mean it's a five-minute test, and there's a temperature test, and Asia has employed this already. I mean they employed it for SARS and even way before us.

We need to get this equipment out there. People can start traveling. Wearing a face mask gives you an extra level of protection for the healthy first, because remember as we know the mortality rate is still extremely low. Even though young people can get it, it is extremely low for young. Those people can get it into certain areas, and we can open it up. For me, that would be the most encouraging path that we could take. If we made a commitment that way, I believe that the bottom was put in last week. It may still be put in last week, but I think if we had a set of goals and the mitigation and curve flattening continues that we saw the bottom, and we can look forward.

It's going to be a rocky road, because again until you really have the vaccine and you know how many people are—I mean look at if we get millions of young people that we test serologically all have antibodies then they can occupy every single seat of a sports arena for an NBA game or an NFL game or whatever with no fear, and wow can you picture that. Until then it's going to be every other seat, every third seat or whatever else, and again there will be accommodation for seniors; they'll be accommodation for others. There will be areas where they'll be sparse. We're going to change practices where we can do that if we have the information and turn this in from being a potentially horrendous death rate. Again, we're talking about 100,000 to 200,000. Remember, the average death rate is about 40,000 from flu; 30,000 to 40,000. We had a real bad year last year with 60,000; 200,000 would be quite bad. Well much worse than any flu and could be even worse than that; it is a moving target – I don't think so. But again, I think Wall Street wants certainty. That's where I would really like the President and his advisors—he's listening to Gottlieb—I don't know where Fauci stands on this. I think he should be on line with this, on board with this type of situation.

It is wonderful that we can look forward to step four of these four, because one is done; two looks very promising. That's the flattening of the curve, vaccine and therapeutics is progressing. I mean we're happy.

We don't know what will come out of it, but that's always pluses, and the getting back to normal and what we need in testing is where I think we should put our national resources at the present time.

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

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