

DZWGMG Update- May 15, 2020

Stock markets were lower this week, though the decline was relatively tame. In this week's note, we provide an update on the virus, discuss the implications of some comments made by the World Health Organization, and share some thoughts on how we are staying disciplined through this unusual period.

Coronavirus update

We continue to see a mostly positive, or declining, trend in new global case counts this week. In Europe, trends are lower with the exception of Germany and northern Italy, where there have been recent increases. In Canada, most provinces continue to move in the right direction, with the exception being Quebec, and Montreal in particular, whose levels have not seen as much of a decline. In the U.S., the state of New York continues to improve. But, there have been other states – Illinois, Massachusetts, Michigan, and Louisiana for example - whose numbers have increased and driven the country's daily new case count higher. Lastly, in the emerging world, new cases continue to be elevated in countries such as Russia and Brazil, though they have not necessarily accelerated. Overall, the gradual reopening of the global economy – Europe, Canada, and the United States – has progressed with more districts, including parts of the state of New York, easing some restrictions.

Will it go away?

This week, officials at the World Health Organization warned that Covid-19, as it's often called, may never go away. While alarming, the organization did go on to say the virus may continue to exist in our communities for years just as other viruses do while the global population builds natural immunity to it over time. Moreover, they indicated that treatments may also be developed in the future to allow people to more effectively manage the disease. A vaccine too, while more challenging, cannot be ruled out, particularly given the many efforts underway globally.

Implications for investing

Government restrictions are getting lifted around the world and the healing of economies has begun. But, it is hard to imagine life completely returning to normal any time soon, particularly if society has to accept the scenario described above. And so, while we expect economic activity, personal income, and company earnings to experience a rebound in the near-term as more restrictions get eased and people finally leave their homes, it may still be some time before economies are running at full capacity. In fact, our firm's own economists expect the output gap – measuring the potential and actual output of an economy – to last well more than a year.

It can be challenging to remain disciplined through this period. This is particularly true because of the circumstances which feel unique. But, two considerations keep us grounded in our long-term approach. First, the resiliency and ability of human kind to adapt and innovate over time should not be underestimated. This has been proven through history with other devastating episodes such as wars, financial crises, natural disasters, and pandemics, among other things. Second, the earnings of most well run companies have a tendency of gravitating back to their long-term trajectories after periods of crisis, even if it takes a few years to do so. We believe these longer-term perspectives will continue to help guide us through the near-term which remains undeniably uncertain.

Should you have any questions or concerns, please feel free to reach out.