

MARKET INSIGHTS

from Ziegler Capital Management

Sage Thoughts from an Old Friend

“If you stick around long enough you'll see everything in markets, and it [took] me to 89 years of age to throw this one into the experience”

– Warren Buffett

The near-term impact of COVID-19 could not have been predicted as little as a month ago and our hearts go out to all of those affected by this virus throughout the world. This is a global tragedy and, as of this writing, it has not been contained. Over 300,000 cases of coronavirus have been confirmed worldwide, resulting in over 13,000 deaths. Italy has now surpassed China in the number of deaths – in spite of a population of 60.5 million versus 1.4 billion. There are now more than 54,000 cases in the United States and at least 700 deaths as of March 24. Health experts are continuing to project a rise in cases in the coming days and weeks. More and more states are issuing stay at home directives to halt the spread of the virus.

There are significant disruptions to our daily lives that effects people on all levels. Jobs are being lost across many industries that have significant numbers of employees including airlines (747k), hotels (2.3 million), entertainment and others. The economic impact of these job losses will be magnified by a lack of savings to weather the storm – the median household savings in the U.S. is around \$12,300. Twenty-nine percent of households have less than \$1,000 saved. Some industries are benefiting in the near term such as grocers, online service providers, and cleaning supply manufacturers. The economic impact will take some time to sort out, but needless to say, there will be pain for many.

While it has been a challenging month, significant aids to recovery are emerging. With a deal emerging for an unprecedented stimulus of a reported \$2 trillion, the stock market has rallied on this news with the Dow Jones Industrial gaining 2112.98 points (11.37%) and the S&P 500 gaining 209.93 points (9.38%) on March 24 as this news hit the markets. The Dow's gain was the largest single day gain since 1933. A string of emergency measures by the Federal Reserve to support credit markets and ensure funding for American businesses has helped alleviate additional concerns.

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ABOUT ZCM MARKET INSIGHTS

This series provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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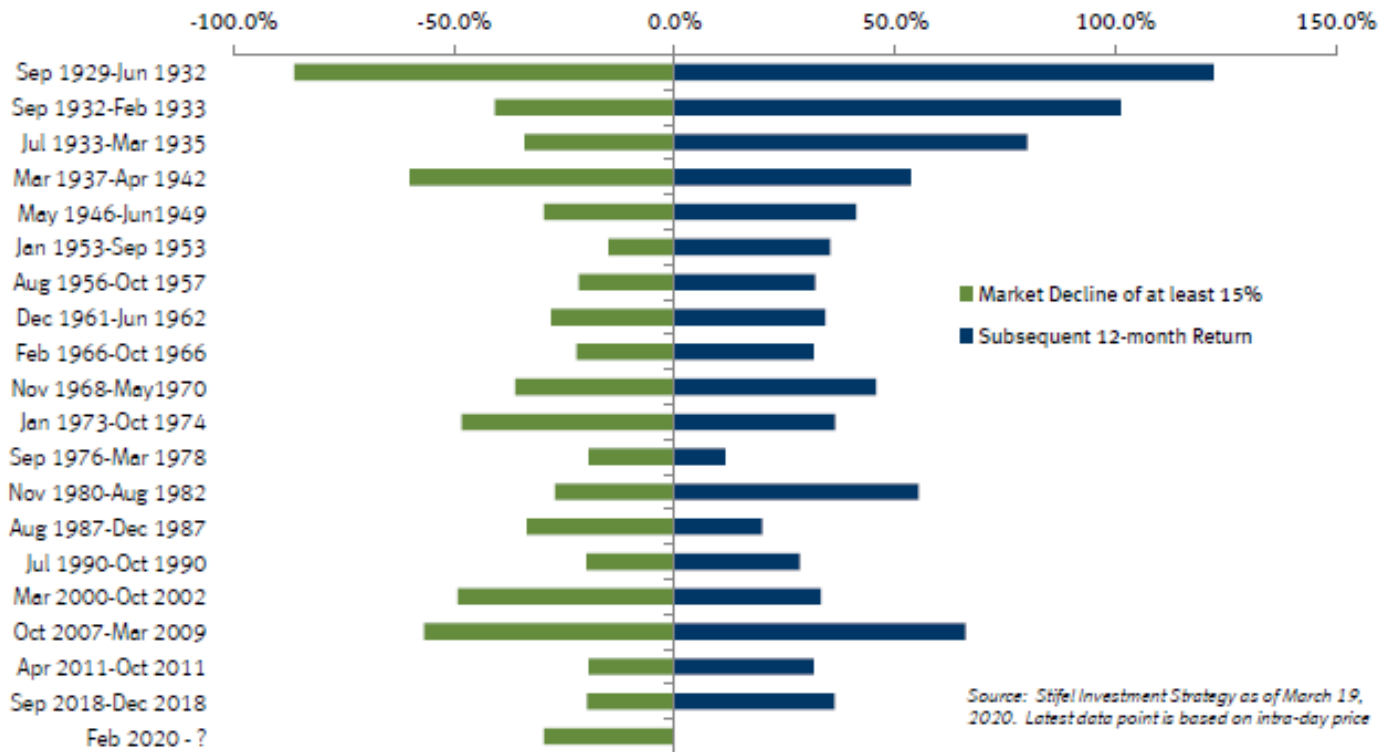
“Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble”

- Warren Buffett

While our portfolio management teams preach patience and to avoid market timing, a moment arrives in every market downturn where stocks cease trading on fundamentals and everything trades together regardless of the characteristics of a particular stock. Individual stock correlations have jumped to 90% from 35% prior to the sell-off – indicating that investors are not differentiating among investments in what is being sold.

While not discounting the severity of the 2020 market decline, pullbacks are rather common. In fact, they occur with relative frequency regardless of the economic cycle or underlying market conditions. Significant events like COVID-19 often drive market volatility like we have experienced over the past month. The chart below profiles every 15% or more decline of the S&P 500 since the 1929 market crash and its related bear market. The recent sell-off is the 20th such event. The right-hand side of the chart shows the subsequent 12-month return for each event.

Figure 4: Market Declines and Subsequent Returns



While a stock market bottom can be difficult to predict, they often happen prior to an economic bottom as astute investors purchase beaten up stocks at low prices. With stock correlations of 90%, the market is telling us that there has been little differentiation in the behavior of individual stocks as of late. There are companies in this current environment that are undervalued based on fundamentals and offer good buying opportunities.

"It is not necessary to do extraordinary things to get extraordinary results."

- Warren Buffett

In an October 2008 editorial in The New York Times, Buffett wrote, "In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497." Keep in mind that this was in the depth of the 2008 stock market crash.

Obviously, time will tell whether the market has a strong bounce back this year once COVID-19 gets contained and our lives return to normalcy. We acknowledge that these can be scary times for all investors. While every crisis is different, each has shared one consistent ending – recovery.

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