

The Coronavirus Hits Home

October 5, 2020

Investors were blindsided last week with the surprise announcement that President Trump had contracted the Covid-19 virus. He was not alone; his wife and many of his staff had contracted the virus as well. The White House press secretary tested positive this morning. The reality of the spread of this disease should hit home with a lot of people who continue to flaunt the guidelines of distancing, face masks and frequent hand washing. Seeing all these prominent people catching the bug may prompt less cavalier behavior by people who did not feel threatened by the disease.

In response to the news, equity markets sold off last week on the back of uncertainty regarding the condition of the president and circumstances surrounding the upcoming election. If the president became incapacitated, how would voters feel about voting for uncertainty? Fortunately, the progress on finding a cure for the disease is closer than ever and the president's doctors implemented a "cocktail" of medicines over the weekend to help him weather the storm. The latest news is that the president is likely to be out of the hospital as early as today.

The good news reassured investors early Monday and stocks rebounded to levels that were higher than when the bad news came last week. As we write this missive, the major market indices are all pushing higher as a continuing stream of economic data point to an improving economy. We are at the beginning of the fourth quarter and October ushers in a flurry of earnings reports for the next three weeks. These reports are expected to contain a lot of positive news that companies are doing better than expected. There will be some disappointments for those companies severely affected by the coronavirus and subsequent shutdowns. For example, Cineworld, parent company of Regal, announced that it will be suspending operations of its 536 Regal theaters as of this Thursday, October 8th. The suspension also affects 127 Cineworld and Picturehouse cinemas in the UK. Cineworld had only just reopened theaters in August. The closures will impact approximately 40,000 employees across the U.S. and 5,500 employees in the UK.

The big news that will be coming by the end of October will be preliminary data on economic growth for the third quarter. Remember that growth declined by an annualized rate of 31.4% in the second quarter. We would have to see an annualized growth rate of 45.7% to get back to where we were before the coronavirus hit. One growth forecast from the Federal Reserve Bank of Atlanta expects to see a quarter over quarter gain at a 32% annualized rate. Any double-digit annualized growth rate would be welcome to investors and a confirmation that the economy is bouncing back from this forced recession.

Another important factor to consider is the pending legislation to provide additional fiscal support to various businesses and state and local governments that are experiencing severe tax losses due to the virus. We are hopeful that some form of legislation gets through Congress that is bipartisan and that could keep the economy from falling back into recession. The risk is for thousands of layoffs from industries such as airlines, cruise lines and restaurants where cash reserves have been dwindling quickly. The federal government can write the check to ensure the survival of these companies and we hope they act quickly like they did earlier this year to make this happen.

Last week, Victoria Capital celebrated its 20th anniversary as a registered investment advisor. We have weathered three major bear markets and are still growing at both the individual and institutional level. We thank you for your loyalty and confidence in our investment management capabilities!