

Q: I’ve seen how some major investors are betting on the impact that this virus is going to have on the market. everything that’s going on and the negative impacts we’ve already seen, where might be an interesting place to hedge a bet today for when things finally stabilize and we start to feel With and see some sense of normalcy?

The 3 areas that seem to have been the least hit are the ones the market is signaling as “temporarily affected” in my judgment. These businesses are obviously going to be interrupted for a while but will probably be OK longer term. In fact, they will probably come out of this better. Think of all the restaurants, stores and service businesses in the “consumer staples” group that will be nimbler and customer ready from all the things they have learned from this crisis. And people are going to continue to buy all the normal things of life like paper towels, hardware, pharmaceuticals, etc. So, this business area seems to strengthen. Likewise, with Info Tech. How many companies are now learning that they can run more efficiently with people off site and their major functions in the cloud? And, as they recognize this, they are going to be spending on tech!

Meanwhile, the areas in the middle seem to be split. I would say healthcare stands to benefit as we will (hopefully) be smart enough the next time around to have invested heavily in equipment and infrastructure to deal with the next crisis. However, areas like Real Estate – especially commercial – may be a loser if my guess about tech is right. The more people working off site, the less we need commercial office buildings. But.... we may need a lot more “server farms” to house all that tech infrastructure to support people working off site. So, real estate would appear to be in turmoil for a while.

“Discretionary spending” is a roll of the dice. I have to figure people will be storming the gates to get back into Disney once it opens. And, I bet it won’t take long to fill up airplanes. Although it will take a while for carriers to dig out of the hole they are in now. But how fast will we be booking cruises? Or going to high end resort out of the country? That may take a while.

And then there’s the financial and energy areas which have done the worst. The obvious problem with energy is that it is a capital-intensive business with lots of borrowing. And if you lose the vast majority of your revenue, you don’t last long. So, most of the small players and those who are highly leveraged will get squeezed out pretty quickly. Which means the strong get stronger and the big get bigger. The overall recovery may take a while. With oil and gas reserves piling up, it could take a long time to unwind the oil and gas markets. But, if you are looking for a long-term recovery candidate, this seems to be the biggest opportunity.

The financial area is much more difficult to read. We would expect the kind of initial turmoil we’ve seen in financial markets any time there is a shock to the system. But banks, for example, have been in a very strong capital position for several years now and the strong economy has made their loans more productive. And, with the Federal Reserve pouring funds and lending vehicles at record levels (and at a record pace), it would seem the selloff there is overdone. But, when interest rates are so darn low (and that’s the way they are going to be for a while), banks have trouble making money. Thus, the sell off. The question here is: how long for recovery of the economy? Some banks and financial institutions haven’t fully recovered from the financial crisis of a decade ago. So, I am less optimistic here.

		Results through 3/30/20		Sectors of S&P 500	
ETF	Sector	P/E	P/E Cat Avg	NAV	G/L YTD
XLU	Utilities	19.21	17.66	55.69	-13.10%
XLK	Info Tech	21.22	22.72	78.62	-13.88%
XLP	Consumer Staples	18.84	18.63	53.5	-14.58%
XLV	Health Care	14.68	16.25	84.98	-16.19%
XLRE	Real Estate	45.85	47.85	31.17	-18.77%
XLC	Communication Services	18.8	14.7	42.74	-20.05%
XLY	Consumer Disc	21.94	17.45	98.09	-21.50%
XLI	Industrials	16.44	16.78	58.9	-27.25%
XLB	Materials	17.29	14.54	44.23	-27.52%
XLF	Financials	11.89	11.24	21	-31.24%
XLE	Energy	14.15	13.16	28.33	-51.94%

I welcome your comments and thoughts on this.