



A VIRAL MARKET MELTDOWN IV: PREPARING FOR A POST-VIRUS WORLD!

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Another week... More pain!

- At the end of each of the weeks leading into the last one, I have done a market update, reflecting the changes that occurred in the week not just to market values but to investor psyches
- Each week, I have hoped that it would be the last one needed for this crisis. That hope was dashed last week, as markets continued on their downward spiral, and here I am again, writing another one.
- In this week's update, I will begin by again first chronicling the market damage, across sectors, industries and company characteristics, but I will follow up by looking at four different investment strategies for those who have the ability and the capacity to look past the near term, recognizing that many might not have that luxury..

The Macro Picture: Equities had a really bad week..

	<i>Index</i>	<i>Country/Region</i>	<i>Level on 3/20</i>	<i>% Change</i>	
				<i>3/13-3/20</i>	<i>Last Month</i>
<i>Americas</i>	S&P 500	US	2305	-14.98%	-30.94%
	NASDAQ	US	6994	-12.52%	-25.96%
	TSX	Canada	11852	-13.59%	-33.58%
	IPC Mexico	Mexico	34270	-10.02%	-23.51%
	Bovespa	Brazil	67069	-18.88%	-41.00%
<i>Europe</i>	FTSE 100	UK	5191	-3.27%	-29.89%
	DAX	Germany	8929	-3.28%	-34.25%
	CAC 40	France	4131	-1.67%	-33.31%
	S&P Euro 350	Europe	1181	1.59%	-31.32%
<i>Asia</i>	Nikkei 225	Japan	16553	-10.81%	-29.50%
	Shanghai 50	China	2628	-6.09%	-11.45%
	Hang Seng	Hong Kong	22805	-5.11%	-16.49%
	BSE	India	29916	-12.28%	-25.88%
<i>Australia & NZ</i>	ASX 50	Australia	4828	-12.87%	-31.97%
	NZX 50	New Zealand	9202	-6.36%	-23.79%
<i>Africa</i>	FTSE JSE top 40	South Africa	36302	-8.04%	-29.62%
	NSE All-Share	Nigeria	22198	-2.36%	-18.95%

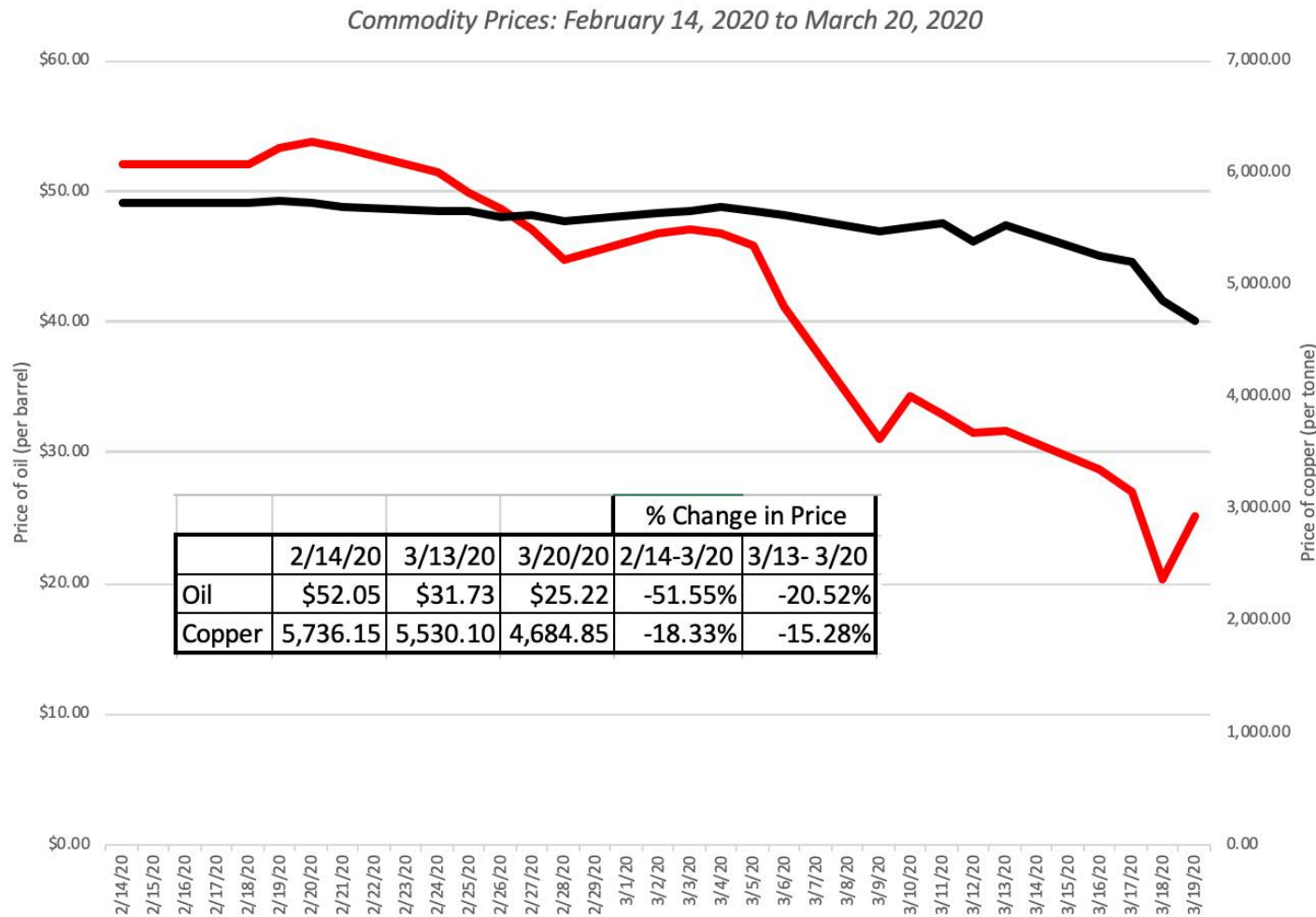
But Treasuries did not benefit..

	Yields on US Treasuries		
Maturity	2/14/20	3/13/20	3/20/20
3 month	1.58%	0.28%	0.05%
2 year	1.42%	0.49%	0.37%
5 year	1.42%	0.70%	0.52%
10 year	1.59%	0.94%	0.92%
20 year	1.89%	1.31%	1.35%
30 year	2.04%	1.56%	1.55%
	Yield curve slope		
2 yr - 3 month	-0.16%	0.21%	0.32%
10 yr - 2 yr	0.17%	0.45%	0.55%
30 yr - 10 yr	0.45%	0.62%	0.63%

And Corporate Bonds had their worst week yet..

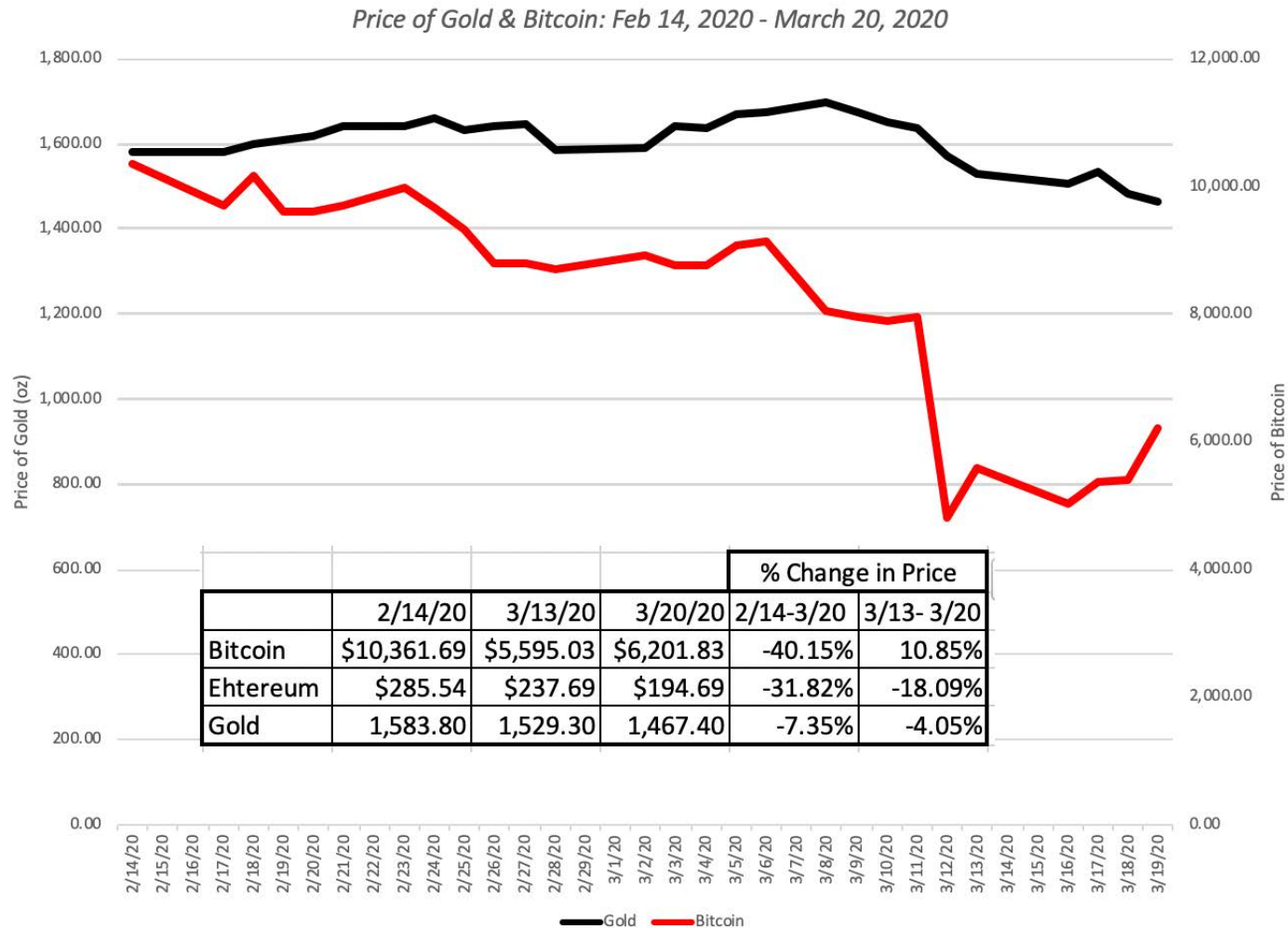
	Yields and Spreads on Corporates					
	Spread over 10-yr Treasury			Yield on Bond		
S&P Bond Rating	2/14/20	3/13/20	3/20/20	2/14/20	3/13/20	3/20/20
AAA	0.69%	1.45%	2.18%	2.28%	2.39%	3.10%
AA	0.72%	1.48%	2.21%	2.31%	2.42%	3.13%
A	0.80%	1.84%	2.97%	2.39%	2.78%	3.89%
BBB	1.33%	2.83%	4.31%	2.92%	3.77%	5.23%
BB	1.93%	5.09%	6.77%	3.52%	6.03%	7.69%
B	3.40%	7.78%	10.59%	4.99%	8.72%	11.51%
CCC or lower	9.65%	14.76%	17.96%	11.24%	15.70%	18.88%

Commodities continued to bottom...



And Gold and Bitcoin were not havens of safety either..

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Equity Market Damage: By Sector

				3/13 - 3/20		2/14 - 3/20	
<i>Sub Region</i>	<i>Market Cap (2/14)</i>	<i>Mkt Cap 3/13</i>	<i>Mkt Cap (3/20)</i>	<i>\$ Change</i>	<i>% Change</i>	<i>\$ Change</i>	<i>% Change</i>
Communication Services	\$7,384,613	\$6,036,485	\$5,535,638	-\$500,847	-8.30%	-\$1,848,974	-25.04%
Consumer Discretionary	\$10,170,019	\$7,931,212	\$7,100,584	-\$830,627	-10.47%	-\$3,069,434	-30.18%
Consumer Staples	\$7,138,019	\$6,095,210	\$5,752,410	-\$342,800	-5.62%	-\$1,385,608	-19.41%
Energy	\$5,936,168	\$4,175,554	\$3,858,267	-\$317,287	-7.60%	-\$2,077,902	-35.00%
Financials	\$14,989,759	\$11,484,694	\$10,022,128	-\$1,462,565	-12.73%	-\$4,967,630	-33.14%
Health Care	\$8,982,000	\$7,581,470	\$6,937,020	-\$644,451	-8.50%	-\$2,044,980	-22.77%
Industrials	\$10,191,830	\$7,866,278	\$6,952,360	-\$913,919	-11.62%	-\$3,239,471	-31.78%
Information Technology	\$13,635,819	\$11,160,356	\$9,794,692	-\$1,365,664	-12.24%	-\$3,841,127	-28.17%
Materials	\$4,994,750	\$3,880,703	\$3,539,539	-\$341,164	-8.79%	-\$1,455,212	-29.13%
Real Estate	\$4,048,594	\$3,293,223	\$2,713,351	-\$579,872	-17.61%	-\$1,335,243	-32.98%
Utilities	\$3,207,906	\$2,595,085	\$2,333,959	-\$261,126	-10.06%	-\$873,947	-27.24%

And the most hurt and least hurt industries...

Worst Performers: 3/13-3/20							
				3/13 - 3/20		2/14 - 3/20	
Industry	Market Cap (2/14)	Mkt Cap 3/13	Mkt Cap (3/20)	\$ Change	% Change	\$ Change	% Change
Retail (Building Supply)	\$453,437	\$361,714	\$270,245	-\$91,468	-25.29%	-\$183,192	-40.40%
R.E.I.T.	\$2,213,111	\$1,740,687	\$1,329,023	-\$411,664	-23.65%	-\$884,088	-39.95%
Retail (Automotive)	\$194,793	\$159,365	\$123,275	-\$36,089	-22.65%	-\$71,517	-36.71%
Homebuilding	\$247,371	\$162,537	\$127,596	-\$34,941	-21.50%	-\$119,774	-48.42%
Information Services	\$1,686,726	\$1,359,272	\$1,090,342	-\$268,931	-19.78%	-\$596,384	-35.36%
Aerospace/Defense	\$1,280,891	\$880,384	\$708,394	-\$171,991	-19.54%	-\$572,497	-44.70%
Healthcare Support Services	\$1,083,255	\$926,739	\$764,410	-\$162,329	-17.52%	-\$318,845	-29.43%
Air Transport	\$559,941	\$383,475	\$317,049	-\$66,426	-17.32%	-\$242,892	-43.38%
Hotel/Gaming	\$717,412	\$479,600	\$397,631	-\$81,969	-17.09%	-\$319,780	-44.57%
Best Performers: 3/13-3/20							
				3/13 - 3/20		2/14 - 3/20	
Industry	Market Cap (2/14)	Mkt Cap 3/13	Mkt Cap (3/20)	\$ Change	% Change	\$ Change	% Change
Retail (Grocery and Food)	\$480,084	\$405,993	\$398,136	-\$7,857	-1.94%	-\$81,948	-17.07%
Retail (Online)	\$2,458,484	\$2,043,793	\$1,992,297	-\$51,495	-2.52%	-\$466,187	-18.96%
Food Processing	\$1,796,479	\$1,567,559	\$1,510,514	-\$57,045	-3.64%	-\$285,965	-15.92%
Beverage (Alcoholic)	\$1,145,471	\$939,716	\$899,373	-\$40,343	-4.29%	-\$246,098	-21.48%
Household Products	\$1,463,594	\$1,251,022	\$1,196,819	-\$54,203	-4.33%	-\$266,775	-18.23%
Retail (General)	\$1,061,020	\$936,828	\$895,354	-\$41,474	-4.43%	-\$165,667	-15.61%
Telecom (Wireless)	\$1,084,928	\$898,035	\$856,820	-\$41,215	-4.59%	-\$228,108	-21.03%
Oil/Gas (Integrated)	\$3,679,286	\$2,749,752	\$2,620,851	-\$128,902	-4.69%	-\$1,058,436	-28.77%
Drugs (Pharmaceutical)	\$3,630,634	\$3,069,319	\$2,905,182	-\$164,138	-5.35%	-\$725,452	-19.98%

By Region

				3/13 - 3/20		2/14 - 3/20	
<i>Sub Region</i>	<i>Market Cap (2/14)</i>	<i>Mkt Cap 3/13</i>	<i>Mkt Cap (3/20)</i>	<i>\$ Change</i>	<i>% Change</i>	<i>\$ Change</i>	<i>% Change</i>
Africa	\$579,779	\$436,398	\$371,108	-\$65,290	-14.96%	-\$208,672	-35.99%
Australia & NZ	\$1,617,590	\$1,152,785	\$953,181	-\$199,603	-17.31%	-\$664,409	-41.07%
Canada	\$2,277,627	\$1,656,353	\$1,394,342	-\$262,010	-15.82%	-\$883,284	-38.78%
China	\$14,038,674	\$13,357,358	\$12,478,705	-\$878,653	-6.58%	-\$1,559,969	-11.11%
EU & Environs	\$13,679,774	\$9,912,662	\$9,325,884	-\$586,779	-5.92%	-\$4,353,890	-31.83%
Eastern Europe & Russia	\$821,126	\$551,311	\$507,336	-\$43,975	-7.98%	-\$313,790	-38.21%
India	\$2,206,945	\$1,736,810	\$1,531,087	-\$205,723	-11.84%	-\$675,858	-30.62%
Japan	\$6,054,160	\$4,607,680	\$4,483,653	-\$124,028	-2.69%	-\$1,570,507	-25.94%
Latin America & Caribbean	\$2,380,684	\$1,693,446	\$1,411,496	-\$281,950	-16.65%	-\$969,188	-40.71%
Middle East	\$3,098,229	\$2,601,800	\$2,593,386	-\$8,414	-0.32%	-\$504,843	-16.29%
Small Asia	\$5,109,556	\$4,085,566	\$3,592,792	-\$492,774	-12.06%	-\$1,516,764	-29.68%
UK	\$3,070,537	\$2,170,363	\$1,927,541	-\$242,823	-11.19%	-\$1,142,996	-37.22%
United States	\$35,745,889	\$28,142,389	\$23,976,462	-\$4,165,927	-14.80%	-\$11,769,427	-32.93%
Global	\$90,680,569	\$72,104,920	\$64,546,973	-\$7,557,948	-10.48%	-\$26,133,597	-28.82%

Net Debt and Profitability: A Breakdown

Net Debt	Profitability	Market Cap (2/14)	Mkt Cap 3/13	Mkt Cap (3/20)	3/13 - 3/20		2/14 - 3/20	
					\$ Change	% Change	\$ Change	% Change
Bottom quintile	Bottom quintile	\$452,796	\$357,479	\$331,552	-\$25,927	-7.25%	-\$121,243	-26.78%
	2nd quintile	\$2,608,641	\$2,078,222	\$1,840,769	-\$237,453	-11.43%	-\$767,872	-29.44%
	3rd quintile	\$1,017,073	\$837,235	\$759,873	-\$77,362	-9.24%	-\$257,200	-25.29%
	4th quintile	\$1,712,235	\$1,375,484	\$1,273,768	-\$101,716	-7.39%	-\$438,467	-25.61%
	Top quintile	\$1,325,005	\$1,071,449	\$988,089	-\$83,359	-7.78%	-\$336,916	-25.43%
2nd quintile	Bottom quintile	\$1,627,959	\$1,256,070	\$1,180,201	-\$75,870	-6.04%	-\$447,759	-27.50%
	2nd quintile	\$1,727,733	\$1,382,422	\$1,258,340	-\$124,082	-8.98%	-\$469,392	-27.17%
	3rd quintile	\$1,240,432	\$1,032,815	\$947,138	-\$85,677	-8.30%	-\$293,294	-23.64%
	4th quintile	\$3,465,743	\$2,888,058	\$2,653,193	-\$234,865	-8.13%	-\$812,550	-23.45%
	Top quintile	\$12,765,944	\$10,808,112	\$10,013,639	-\$794,474	-7.35%	-\$2,752,306	-21.56%
3rd quintile	Bottom quintile	\$841,876	\$602,153	\$512,657	-\$89,496	-14.86%	-\$329,220	-39.11%
	2nd quintile	\$1,534,878	\$1,230,480	\$1,084,798	-\$145,682	-11.84%	-\$450,080	-29.32%
	3rd quintile	\$4,260,015	\$3,457,367	\$3,196,041	-\$261,325	-7.56%	-\$1,063,973	-24.98%
	4th quintile	\$7,731,829	\$6,095,988	\$5,340,455	-\$755,533	-12.39%	-\$2,391,374	-30.93%
	Top quintile	\$15,346,458	\$12,615,004	\$11,255,004	-\$1,360,000	-10.78%	-\$4,091,455	-26.66%
4th quintile	Bottom quintile	\$357,688	\$272,998	\$237,461	-\$35,537	-13.02%	-\$120,227	-33.61%
	2nd quintile	\$2,513,879	\$1,878,158	\$1,638,979	-\$239,178	-12.73%	-\$874,900	-34.80%
	3rd quintile	\$3,622,329	\$2,626,666	\$2,344,732	-\$281,934	-10.73%	-\$1,277,596	-35.27%
	4th quintile	\$6,159,910	\$4,560,261	\$4,014,354	-\$545,908	-11.97%	-\$2,145,557	-34.83%
	Top quintile	\$8,799,556	\$6,909,824	\$5,908,773	-\$1,001,051	-14.49%	-\$2,890,783	-32.85%
Top quintile	Bottom quintile	\$211,844	\$152,353	\$130,747	-\$21,606	-14.18%	-\$81,097	-38.28%
	2nd quintile	\$5,201,169	\$3,914,788	\$3,486,254	-\$428,534	-10.95%	-\$1,714,916	-32.97%
	3rd quintile	\$1,823,712	\$1,360,096	\$1,218,210	-\$141,886	-10.43%	-\$605,502	-33.20%
	4th quintile	\$1,752,661	\$1,229,106	\$1,063,462	-\$165,644	-13.48%	-\$689,199	-39.32%
	Top quintile	\$2,136,832	\$1,619,406	\$1,394,517	-\$224,889	-13.89%	-\$742,315	-34.74%

Looking past the crisis

- As you get deeper and deeper into the specifics of the crisis and the data, you will find yourself not only getting bogged down but in despair.
- I have had moments in the last few weeks, when I have had to force myself to step back from the abyss and think about a post-virus world and to reclaim the initiative as an investor.
- If you are a pessimist, you may view this as being in denial about what you see as an economic catastrophe that is about to unfold, but I am a natural optimist, and I believe that this too shall pass!

Start with your views on the economy!

- There is no disagreement that the virus will cause the economy to go into a deep recession, since commerce is effectively shut down for at least a few weeks to come.
- During that period, economic indicators such as unemployment claims & measures of economic activity will hit levels perhaps never seen before, given how big and broadly based the shock to the economy has been.
- There are two questions, though, where there can be disagreement.
 - How quickly will the global economy come back from the shut down, and when it does how completely will it recover?
 - How much permanent change will be created by this crisis in terms of both consumer (and investor) behavior and economic structure?

Investment strategies for those more optimistic about economic comeback..

- Bargain Basement: In this strategy, you focus on stocks that have been pounded in the last few weeks, losing 40%, 50% or more of market value, but which have the ingredients that you believe will allow them to survive (large market cap, low net debt), perhaps stronger, in the post-virus economy.
- Distressed Equity: There is a more risky strategy you can adopt, where you also look for stocks that have seen a significant loss in value over the last five weeks, but focus on the most endangered of these, with high net debt and fixed costs.
 - You are effectively buying options, with some already out of the money, and as with any strategy built around doing that, you will see a significant number of your investments go to zero.
 - Government bailouts, which are a mixed blessing, since they allow companies to survive, while wiping out or severely constraining equity claims in these companies.

And for those who are less optimistic about the turnaround

- Safety at a Reasonable Price (SARP): Here, you focus on companies that are best positioned to not just survive a long downturn but have the ammunition to make it work to their advantage. Large market cap firms with low debt ratios and high cash balances, that had high growth and profit margins in the pre-virus economy, would be good candidates.
- Change Agents: This is as much a bet on changes in consumer behavior and economic structure as it is on individual companies. Thus, if you believe that this crisis will make people more comfortable with delivery services for a wider range of goods and online interaction (in business and education), you could seek out lower profile companies that are innovators in these spaces.

A Composite Picture

