



STATE STREET GLOBAL ADVISORS

COVID-19: From Daily Disruption to the Long-Term Impact on the Homefront

IMPORTANT NOTICE

The following material is provided by a third-party strategist unaffiliated with AssetMark. The strategist is solely responsible for its content. Please read the risks and disclosures section for additional important information. AssetMark has not verified the accuracy of the information contained in this material.

For financial advisor use with advisory clients.

C20-15705 | 04/2020 | EXP 03/31/2021

Uncommon Sense

[Insights](#) • [Market Outlooks](#)

COVID-19: From Daily Disruption to the Long-Term Impact on the Homefront

“Disruption isn't about what happens to you, it's about how you respond to what happens to you.”

— Jay Samit

Michael Arone, CFA

Chief Investment Strategist, State Street Global Advisors

March 31, 2020

In many ways, Uncommon Sense has become my personal diary. Readers have learned about my friends, family, colleagues and some of my favorite holiday traditions, books, movies and music. They have discovered that I'm a skeptic and a professional

procrastinator. Along the way, they have picked up a few interesting tidbits about the capital markets, investing and the global economy.

Amid the global coronavirus pandemic, it may seem odd for me to write about myself. A self-centered, look-at-me moment in a world too often filled with social media look-at-me moments. But, I'm doing it to reveal something about myself that could provide you with helpful context to process your own feelings during these incredibly challenging times of personal, professional and financial disruption.

I'm a linear thinker. There, I said it. What a huge relief. That's probably why I enjoy cooking. There's great comfort in following a recipe - step 1, step 2 and so on until I have created something good and useful. Being a linear thinker has its pros and cons. However, responding to an unpredictable virus presents particular challenges for those of us who prefer to move forward in a straight line. How we live and work has been upended overnight, rendering the best-laid plans obsolete.

On Monday, March 23, for example, I had prepared pre-opening bell comments for a meeting to discuss the volatile quadruple witching trading session that took place on Friday, March 20. Quadruple witching occurs four times a year, when stock index futures, stock index options, stock options, and single stock futures expire simultaneously. These four days traditionally have some of the heaviest trading volumes of the year. And, given recent market turmoil, March 20 didn't disappoint. Stocks swung from solid gains to violent losses at the close. Strategas Research Partners described it as "perhaps the most unusual trading we can remember in our careers, and the data might even argue over the last 75 years."¹

Moments before I was scheduled to speak, the Federal Reserve (Fed) announced another round of massive monetary policy actions to protect the US economy against the negative impacts of the coronavirus pandemic. The Fed pledged to purchase assets, including corporate bonds for the first time, without limits, to support the smooth functioning of markets. Incredibly, the announcement came on the heels of already aggressive Fed operations to calm short-term funding markets the previous week. In one fell swoop, my prepared comments about quadruple witching trading were irrelevant. What had been described by some very smart folks as some of the most unusual trading in the last 75 years, wasn't even worth mentioning. And in a sign of the times, US stock

futures were trading limit down before the Fed's announcement, skyrocketed on the news as expected, yet finished the day with big losses.

With our daily lives changing so quickly and so dramatically, it's easy to feel distracted and overwhelmed. When there is so much going on, it feels impossible, especially for linear thinkers, to focus on a singular task. That helps explain why you are receiving Uncommon Sense so late this month. I'm adjusting to working at home where my wife and two teenage kids are dutifully following social distancing guidelines. They may not know much about bear markets, but they know what it's like to live with a short-tempered, cranky bear of a man in today's wildly unusual environment. If this sounds all too familiar to you, please know that you are not alone.

Enough about me – let's think about how we can get through this crisis together. Maybe just as long-term goals can motivate investors to look beyond short-term losses, envisioning our lives in the aftermath of COVID-19 could help us handle the mounting day-to-day challenges. So forget trying to call the bottom of the market. Let's pivot to examine some of the longer-term impacts of the global coronavirus pandemic.

Home Sweet Home

Ironically, in the aftermath of the global pandemic, how we live, work and play will increasingly center around our home. "A man's home is his castle" may never have truer meaning.

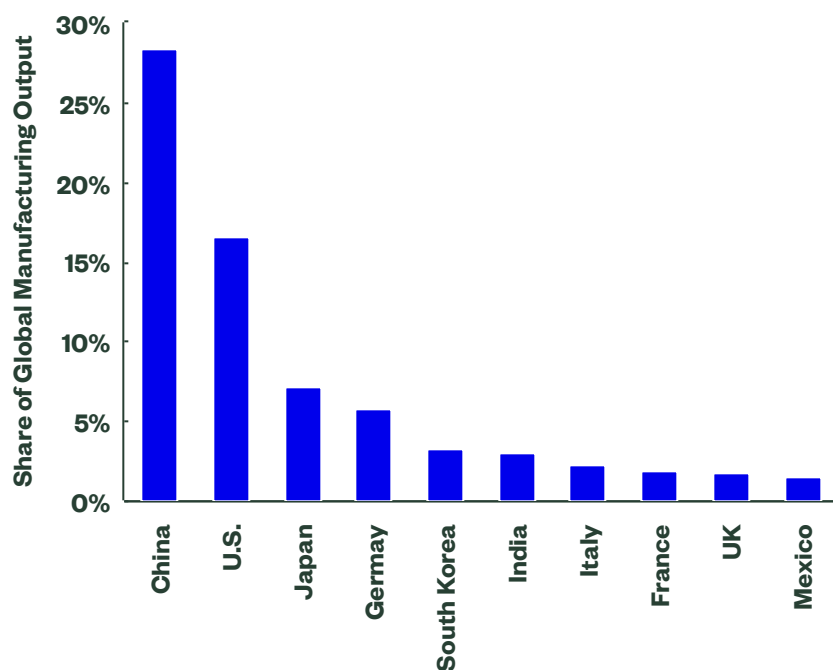
Our work environment was undergoing dramatic shifts before the pandemic, but COVID-19 has resulted in an explosion in the number of people working from home. Businesses have invested millions in ramping-up technology and that increased capacity will not go unused when the pandemic dissipates. The need for sprawling corporate campuses and giant skyscrapers in expensive urban centers will recede. Travel and conference budgets will be slashed, and video conferencing and super-fast in-home broadband will become the new norm. People will spend more on computer hardware, office supplies and furniture to upgrade their home offices.

Spending more time at home likely means that home improvement projects will increase, too. Since we've begun social distancing in Massachusetts, my wife has painted two rooms and purchased some furniture. The demand for locally produced products and

services will also probably increase, given that the fear of visiting crowded shopping centers and malls may be tough to shake. And while increasing populism around the globe and ongoing trade tensions have resulted in many businesses rethinking their supply chains, the pandemic has underscored the risk of having 30% of the world's manufacturing output concentrated in a single country. Therefore, expect major advances in robotics and automation to move supply chains closer to where products are consumed.

Concentration of World Manufacturing Capacity:

Top 10 Countries by Share of Global Manufacturing Output in 2018



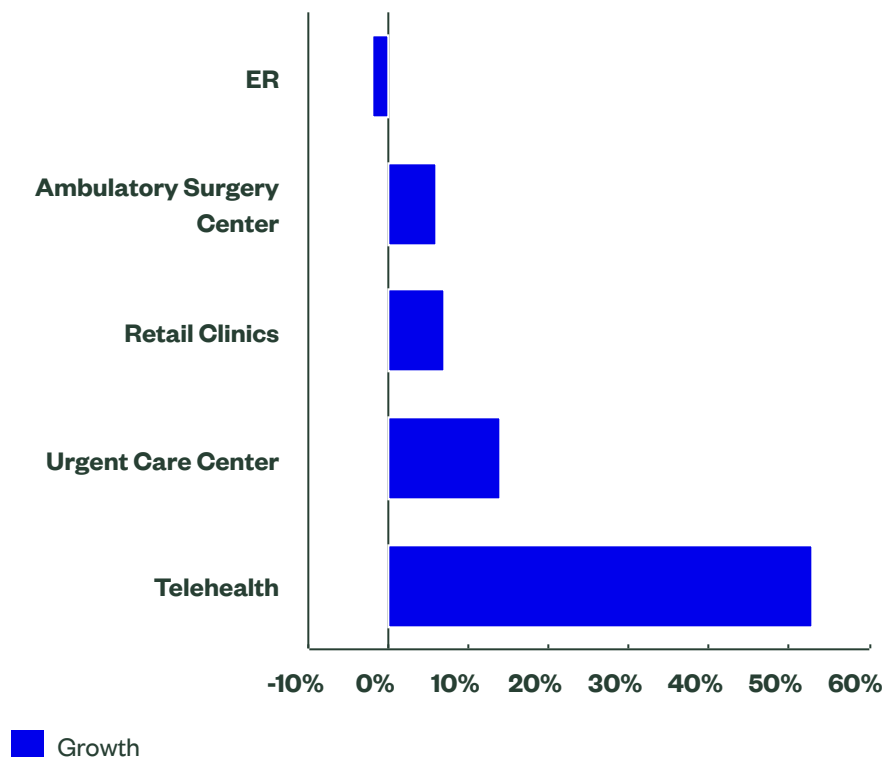
■ Share of global manufacturing output in 2018

Source: Statista, United Nations Statistics Division, as of 12/31/2018.

On the health front, new habits like washing our hands regularly for 20 seconds will likely remain. And better personal hygiene and improved health are bound to lead to a greater focus on healthy living. What we eat and where it comes from will remain top of mind. Jefferies Research points out that today while about 50% of US food consumption takes place at home, that percentage should increase going forward.² The mandate to stay at home and the fear of hospitals and doctors' offices will result in significant growth in the virtual healthcare industry. Medical spending will continue to rise but money will be spent

more efficiently. R&D will become a greater focus for companies working to find innovative solutions to the world’s growing healthcare concerns.

Growth from 2016–2017 of Claim Lines Based on Place of Services



Source: FH Healthcare Indicators and FH Medical Price Index, a New View of Place of Service Trends and Medical Pricing 2019

Andrà Tutto Bene

It’s impossible to pinpoint when this pandemic nightmare will end. Conservatively, the world is likely to emerge from the COVID-19 crisis by summer’s end. But will things be exactly the same as before? Most definitely not. Sure, perhaps like me, you can’t wait to schedule a fun night out with friends. And, I’m most definitely going to reschedule my wife’s birthday getaway vacation. These small personal examples give me confidence that there is sufficient pent-up demand waiting to re-energize the economy later this year. Regrettably, before the economy rebounds, it’s likely to suffer mightily over the next couple of quarters, while entering a recession.

For inspiration in the days and months ahead, look to Italy. Presently, no other country has suffered as much human tragedy from COVID-19. As I write, Italy has 97,689 confirmed cases, the second -highest number of cases in the world, and 10,779 deaths,

the most of any country.³ Despite the health crisis and growing number of casualties, Italians, still on a countrywide lockdown, have been sharing the hopeful slogan, *andrà tutto bene* - everything will be all right - from balconies and on social media platforms.

Italy has the world's second-oldest population and, sadly, older Italians have suffered the most from COVID-19. But with old age comes wisdom and the unshakable confidence that this too shall pass. Like all of us, Italians know that just as surely as spring turns to summer, COVID-19 will eventually be defeated. Until then, extraordinary fiscal and monetary policies should soften a few of the negative economic impacts from the pandemic and buy some time for the development of therapies and a vaccination to conquer the virus. Unfortunately, the health solutions to COVID-19 are likely still months away. And only a health solution can fully remedy a health problem.

In the meantime, let's push aside the overwhelming feelings of daily distraction and focus our attention on the longer-term impacts of the pandemic. Only then can investors more thoughtfully manage the risks and identify the opportunities in the coming post-coronavirus environment.

Footnotes



Disclosures



Questions? Feel free to Contact Us

[Twitter](#)

[LinkedIn](#)

[YouTube](#)

Content on this site is approved for Investment Professional use only.

View More Information About Our Firm: [FINRA's BrokerCheck](#)

ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns.

Standard & Poor's[®], S&P[®] and SPDR[®] are registered trademarks of Standard & Poor's Financial Services LLC (S&P); Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC (Dow Jones); and these trademarks have been licensed for use by S&P Dow Jones Indices LLC (SPDJ) and sublicensed for certain purposes by State Street Corporation. State Street Corporation's financial products are not sponsored, endorsed, sold or promoted by SPDJ, Dow Jones, S&P, their respective affiliates and third party licensors and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability in relation thereto, including for any errors, omissions, or interruptions of any index.

Distributor: State Street Global Advisors Funds Distributors, LLC, member [FINRA](#), [SIPC](#), an indirect wholly owned subsidiary of State Street Corporation. References to State Street may include State Street Corporation and its affiliates. Certain State Street affiliates provide services and receive fees from the SPDR ETFs. ALPS Distributors, Inc., member FINRA, is the distributor for DIA, MDY and SPY, all unit investment trusts. ALPS Portfolio Solutions Distributor, Inc., member FINRA, is the distributor for Select Sector SPDRs. ALPS Distributors, Inc. and ALPS Portfolio Solutions Distributor, Inc. are not affiliated with State Street Global Advisors Funds Distributors, LLC.

THIS SITE IS INTENDED FOR QUALIFIED INVESTORS ONLY.

No Offer/Local Restrictions

Nothing contained in or on the Site should be construed as a solicitation of an offer to buy or offer, or recommendation, to acquire or dispose of any security, commodity, investment or to engage in any other transaction. SSGA Intermediary Business offers a number of products and services designed specifically for various categories of investors. Not all products will be available to all investors. The information provided on the Site is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation.

All persons and entities accessing the Site do so on their own initiative and are responsible for compliance with applicable local laws and regulations. The Site is not directed to any person in any jurisdiction where the publication or availability of the Site is prohibited, by reason of that person's nationality, residence or otherwise. Persons under these restrictions must not access the Site.

Information for Non-U.S. Investors:

The products and services described on this web site are intended to be made available only to persons in the United States or as otherwise qualified and permissible under local law. The information on this web site is only for such persons. Nothing on this web site shall be considered a solicitation to buy or an offer to sell a security to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the

securities laws of such jurisdiction.

Before investing, consider the funds' investment objectives, risks, charges and expenses. To obtain a prospectus or summary prospectus which contains this and other information, call 1-866-787-2257, download a prospectus or summary prospectus now, or talk to your financial advisor. Read it carefully before investing.

Not FDIC Insured * No Bank Guarantee * May Lose Value

2732006.4.1.AM.INST © 2020 [State Street Corporation](#). All rights reserved.