



# as we see it

Spring 2020

## THOUGHTS FROM OUR CHAIRMAN

Most agree post-covid times will not look much like years past. Even with new anti-virals, people will likely be more careful about their contact with others. Will the hand shake be the exception rather than the rule? While there are many unknowns, our associate Wade Walbrun, in this issue, outlines some continuing investment strategies that should fare well for investors.

*Alfred B. Van Liew*

## On the Other Side of Covid

*Wade M. Walbrun*

With domestic stock markets significantly off their highs and much of the US struggling with the Covid-19 pandemic to one degree or another, investors are trying to determine what a post-Covid world will look like. For starters, absent new anti-virals or a vaccine, we most certainly will be relegated to continued social distancing, mask wearing, and frequent hand washing routines. It is also quite possible consumers will be slow to run back to restaurants, department stores, movie theaters and theme parks, or anywhere there's a crowd, for that matter. Regular patterns of life and activities we took for granted have been altered and most likely will be extended into the future.

While much around us seems quite different, there appears to be little in the way of a sea change from recent times regarding the S&P 500's sector performance. The leading stock sectors in 2019 were technology, healthcare and consumer discretionary companies, and likewise, they continue to outperform in 2020. How can that be? After all, investors are confronted with the end of a 10+ year bull market,

staggering unemployment levels and recession-like economic reports. Aren't we in a new paradigm? Perhaps not. Many of the broad trends and themes to surface in recent years have not faded under the current weight of Covid-19 but are actually accelerating. The following are a few examples.

**The digitalization of business.** Since the technology boom in the late 90s, companies have sought new ways, via technology, to sell and market their goods and services, to reach out and create a new experience for customers, to manage their business and improve productivity, or just to reduce costs. Many bricks and mortar businesses with modest commitments to technology have scrambled to shore up their e-commerce sites, to service and retain customers, and maintain some semblance of sales revenue. Other companies have sought new ways, through technology, for their employees to remain engaged and productive, often from remote settings. Educational institutions, too, have moved into the realm of digitalization, relying on online and video learning as alternatives to physical classrooms. Looking forward, we anticipate

accelerated adoption and penetration of digitalization in companies as technology spending is now more likely to be viewed as imperative and integral to business.

**New consumer behavior.** Since the rise of Amazon.com in the world of retail, consumers have embraced online shopping and speedy delivery as happy alternatives to the traditional bricks and mortar world. During Covid-19 online shopping has quickly moved beyond the mere convenience factor into the realm of necessity. Consumers flocked to new experiences like online grocery services and ordered dinner off of online menus of restaurant delivery services. Consumers have come to expect more from business, too. The nascent trend of offering multi-delivery options to consumers prior to Covid-19 has quickly expanded such that home, curbside, in-store pickup and alternate site pickup are practically the norm, not just for restaurants, but now at hardware stores, bakeries and even veterinary clinics. Consumers worked from home more than they ever have, cooked more meals, and entertained themselves with video games and streaming services in increasing numbers. The concept of one-stop shopping also gathered steam during this time as retail super-stores, who offer both food and hard goods, remained open while traditional department stores closed their doors. Add to this the trend of an increasingly cashless society. Consumers have been moving away from the use of paper currency for a number of years but the potential health threat of the virus contaminating publicly circulated dollars has pushed further adoption of debit and credit card use and touchless payment apps on smartphones. We think many of these new consumer behaviors gain further traction in a post-Covid world.

**Structural changes in business.** We think manufacturing jobs and supply chains may migrate back to the US at a faster pace. Prior to Covid-19,

the modest trend of manufacturing jobs moving back to the US was partly driven by an up swell against globalization and partly by fundamental issues of underlying raw material costs, work force training and wages and relative transportation cost of finished goods, compared to overseas counterparts. The move back to the US has tended to be more glacial in nature, lacking real urgency. Likewise, supply chain management was dictated by cost and volume factors with seemingly little thought to their country of origin or general availability during times of crisis. The Covid experience has brought to light the importance of a viable manufacturing industry and reliable parts and raw material suppliers from the angle of national self-reliance and security. The relative uncertainty of attaining adequate supplies of critical medical wears, equipment and pharmaceuticals was highlighted during Covid-19, sparking questions about US readiness and capacity to attend to our own needs. Going forward we would not be surprised to see further introspection on the matter and expansion of what industries, businesses and supply chains are considered “necessary” and should be more domestically oriented.

Many questions remain unanswered about the reopening of states from the Covid-19 shutdown. What kind of economic recovery can we expect? What is the long-term damage to businesses? Will consumers continue to spend? There are few definitive answers. The unique nature of the shutdown and speed at which it happened make it unlike any other event experienced in the last 100 years. Much of the economic landscape is just beginning to emerge. Despite the fog, we continue to focus on those individual stocks well positioned to succeed based on the trends and themes of the times. With regard to the broader difficulties brought about by Covid-19, eventually, we know this too shall pass.

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