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The Recent Rebound In U.S. Covid-19 Cases Is A New Risk Factor For Investors

The renewed rise in reported cases of Covid-19 infections in the U.S. in June is raising new questions about the outlook for the disease. "It's unclear at this point if the rising number of coronavirus cases is due to wider testing or the reopening of the economy," says Andrew Willms, president and chief executive officer of The Milwaukee Company, a wealth management firm in Thiensville, Wisconsin.

"Until the health experts can make a distinction, investors should consider the implications and act appropriately, based on their ability to tolerate portfolio risk," he advises.

The ten-day average of the daily change in reported Covid-19 cases in the U.S. had been trending down for two months, falling to just over 20,000 in early June—a two-month low, based on numbers published by Johns Hopkins University. But over the last several weeks the trend has reversed and cases are increasing once more. The 10-day average for the daily change in U.S. infections rose to more than 26,000 on June 22, the most since early May.

"The good news is that a higher infection rate, so far, hasn't lifted the pace of Covid-19 fatalities" says Willms. "On June 22, for the first time since March 31, the ten-day average for the daily change in deaths dipped under 600."

The unknown is whether the rising infections will soon reverse the falling trend of fatalities. In that case, the rebound in the rate of deaths would pose a much greater threat for the U.S. from a health care perspective, he surmises. In turn, economic risk would rebound anew and the financial markets would be vulnerable to a fresh wave of risk-off sentiment.

The alternative possibility: the rise in infections reflects wider Covid-19 testing rather than a broader spread of infections. If so, the death rate may not be destined to rise.

"Unfortunately, it's not yet obvious which narrative applies," says Willms.

Nonetheless, the potential for a new round of trouble can't be dismissed. As Dr. Anthony Fauci, the White House health advisor, told Congress this week: parts of the U.S. are starting to report a "disturbing surge" in coronavirus infections.

“Investors need to take a fresh look at the data and reconsider the Covid-19 risk factor,” Willms says. “If you’re a conservative investor with a low tolerance for loss, now may be a good time to cut back on exposure to the stock market and raise exposure to safe assets.”

It’s possible that the stock market will continue to rise and set new highs, he adds. Regardless of what happens, investors need to be clear about how much risk they can bear, which in turn will provide context for deciding how aggressively to set a portfolio’s allocation to stocks.

“Age is a key variable,” Willms reminds. “Younger investors with the luxury of time can wait out market corrections and so they’re obvious candidates for higher levels of equity allocations. By contrast, older investors, particularly retirees, are usually best served by erring on the side of caution.”

“The one common theme is that every investor, regardless of risk tolerance and age, should consider the full range of outcomes that’s implied by the recent rise in Covid-19 infections,” Willms recommends. “Different investors will come to different conclusions, but no one can afford to ignore what could be a new phase of coronavirus risk.”

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