Everyone hates Covid-19 and the way it has disrupted our lives. The Covid pandemic has shut down the world and led to the layoff of millions of workers. Unemployment has soared, GDP has declined, and businesses have gone bankrupt. With winter arriving in the northern hemisphere, Covid cases are likely to increase. The main consolation is that a vaccine is on the way, and once it is available, life can hopefully return to the pre-pandemic "normal" which we all enjoyed.

Or will this be the Covid Decade? Will we be fighting Covid-19 not for the next year, but for the next decade? Will there be other corona-related viruses which may be even worse than Covid-19? Will the Covid-19 virus evolve and make the vaccines which are being developed useless causing reinfections? Will we be wearing masks and social distancing for the rest of the decade, or our lives? Will we be unable to go to concerts and theaters and conventions for the next ten years? Will the government maintain a closed 90% economy to "protect" us for the rest of the decade? Although few people are anticipating this, we may be facing a Covid decade, not a Covid year.

Economics by the Decade

Although we can be optimistic and hope that a year from now the Covid economy will have disappeared and life can return to the pre-pandemic normal, there is also the possibility that we will be fighting the Covid pandemic for the rest of the decade. The economy was affected by one or two events in each decade over the past 100 years as the list below shows, and Covid could be the event for the 2020s.

1910s World War I

1920s Great Bull Market

1930s Great Depression

1940s World War II

1950s Economic Recovery

1960s Great Society and Vietnam

1970s OPEC and Stagflation

1980s Declining Interest Rates

1990s Globalization

2000s Housing Boom

2010s Internet and Social Media

2020s Covid-19

If this occurs, how will the economy respond and where is the best place to invest your money during the 2020s?

Hope for the Best, Prepare for the Worst

How could the 2020s be the decade of Covid and little else? It is not unreasonable to project that the entire decade of the 2020s was affected by the appearance of Covid in Wuhan in 2019. Just as the 1940s were shaped by Germany's invasion of Poland in 1939, the 1970s by the quadrupling of oil prices in 1973 and the 1980s by Paul Volcker's decision to fight inflation with high interest rates in 1981, so the appearance of the Coronavirus in Wuhan in December 2019 may shape the 2020s. By March of 2020, the whole world had shut down with over 3 billion people in quarantine to stop the pandemic from spreading. Today, we remain in an economic purgatory with economic starts and stops pervading our daily life.

The main precedents for the Covid pandemic were the outbreaks of the Spanish Flu in 1918, the Asian Flu of 1958 and the Hong Kong Flu of 1968. The impact of each was poorly measured. The number of deaths from the Spanish Flu could have been anywhere from 20 million to 50 million and one million for the 1958 and 1968 pandemics, and even those were estimates. The anticipation is that since each of those viruses persisted for about two years, so will the Covid-19 Pandemic. *But, how can you predict what a virus will do?*

No other virus has spread so vast and so fast. By the end of September, there had been over 33 million registered cases and over 1 million deaths. But there are many cases that have not been registered and many Covid deaths were not attributed to Covid. Estimates by *The*

Economist are that as many as 500-730 million people may have been infected by Covid to date. Probably over 2 million people have died as a result of Covid. The leaders of the United States, United Kingdom and Brazil have all caught Covid. The only consolation is that the number of people dying from Covid is declining.

Everyone knows the severity of Covid, the main question is how will it end, and when will it end? Maybe the only way of stopping the spread of the Covid virus is through herd immunity. This process may take several years, and even if the spread of Covid is stopped, the measures the government will take to prevent any future virus could last the rest of the decade. Can we extrapolate from the present to determine what the economy and financial markets will look like in the coming decade if Covid-19 continues to plague the economy?

The Economy

Covid discourages interaction between people to limit the spread of the virus. Any industry that relies upon large crowds, such as the movies, music concerts and conventions, the travel industry, the retail industry, and sports will all see a reduction in business. Industries dependent on commodities and other real goods will also do poorly. On the other hand, "virtual" industries that can bring people together over the internet will do well, as will the health care industry whose aim is to eliminate Covid. The government is dedicated to relieving the economy from the impact of Covid and trillions of dollars will flow into the economy over the coming decade to help those impacted by Covid. Deficits will soar, debt will increase and interest rates will remain low. Income inequality will rise. We must prepare for a decade when Covid and the government will run the economy and change our investing decisions to accommodate these changes.

The Stock Market

Everyone has been surprised at how strongly the stock market has bounced back from the sell-off in March. No one would have expected that the NASDAQ index would hit new highs so quickly after the precipitous decline that happened earlier in the year. The stock market has bifurcated between those companies that benefit from the Covid economy and the ones that don't. Technology stocks, health stocks, and communication stocks have all done well while energy, material and finance stocks have all failed to bounce back. Consumer discretionary stocks in travel, entertainment, retail and other businesses that rely upon people interacting have also done poorly. Nevertheless, with returns to bonds and commodities collapsing and unlikely to bounce back soon, money has poured into the stocks that will lead the Covid rebound. Many people are predicting that Covid-friendly stocks are overpriced, but in reality they are probably underpriced.

Interest Rates

Interest rates will remain low for the rest of the decade. The yield on the 10-year bond has already fallen below 1% in the United States and is negative in many European countries. Interest rates are likely to remain around the 1% level for the rest of the decade. This means that investors cannot rely upon "safe" government bonds to provide a source of income. There will be little difference in the return to cash and bonds in the coming decade. If investors want a return, they will have to go elsewhere.

Commodities

Commodity prices are likely to remain low. Industries rely upon commodities and the economy is going virtual. Commodities have been in a long-term decline in price relative to other goods for decades, and Covid will continue this trend. Commodity prices are driven by growth in the economy and with growth likely to be limited in the coming decade, any increase in commodity prices will be limited as well.

Real Estate

There are two factors to consider for real estate. First, interest rates will stop their forty-year decline because interest rates are as low as they can go. Falling interest rates have allowed housing prices to increase during the past four decades. Most people look at how much they must pay on their mortgage each month, not the cost of the house. As interest rates have declined, the price of real estate has risen to compensate for the lower interest payments homeowners make. If interest rates can't go down anymore, this will limit the ability of real estate prices to rise.

The housing supply is limited and demand is increasing. The second factor to look at is that more people will work from home during the coming decade and want larger houses outside of city centers. Covid means that workers don't have to be near their jobs in New York or San Francisco and can move to another state with more affordable housing to take advantage of lower real estate costs outside of Silicon Valley. States like California and New York will lose people while states in the South and Southwest with low costs will gain population.

Government

The US federal government ran a $3 trillion deficit in fiscal year 2020 because the government increased spending to fight the Covid pandemic. The deficit was 15% of GDP in 2020, the largest deficit since 1945. Congress is currently arguing over another $2 trillion bail out to help people and businesses that have been affected by the pandemic. At the same time, central banks have pumped another $3 trillion into the economy. The combination of this fiscal and monetary stimulus has kept the economy on track and unemployment from collapsing. A V-shaped rebound has occurred. The government will be there to bail out the economy for the rest of the decade.

The First Government-Induced Recession

If the government continues to fear Covid and restrict businesses from reopening, it will have to continue to support the economy. The deficit was projected to rise even before Covid, and the government is likely to continue to pump money into the economy using fiscal and monetary policy. The federal government deficit will continue to grow for the rest of the decade.

Most people are hoping the Covid pandemic will be over by early next year, allowing life to return to “normal.” However, given the history of the government’s desire to protect everyone from the threat of Covid or a new coronavirus, the pandemic after affects will most likely continue for the rest of the decade. A new “normal” will be adopted that includes daily social practices of masks and social distancing for many years to come. Even after a vaccine is discovered, millions will refuse to take the vaccine allowing Covid to continue to spread. And even if Covid is controlled in the United States, until Covid has been constrained in the rest of the world, life will not return to “normal”.

Like it or not, Covid and the fear of Covid will influence the economy and financial markets for the rest of the decade. Every investor should make this assumption and invest accordingly. Stocks that help people to avoid each other in technology and healthcare will do well. Real estate will do well. Stocks in companies where social distancing is difficult, and investments in bonds and commodities will do poorly. Evaluate your investment strategy and prepare for the Covid decade.