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The coronavirus poses risks that are largely unprecedented. Reliable information about its scope and duration is hard to come by; making predictions is beyond our expertise. All we can do in that regard is urge all of our readers to take appropriate precautions – be careful out there! But we can and should let you know what we think of its economic and market consequences.

Most of the economic damage that has already been priced into the markets will be the result of government containment policies and other social distancing strategies intended to contain the virus. This is a very uncertain environment to predict; however, it should be limited to the next 12 to 18 months. It is reasonable to expect a vaccine or antivirals to be available within 12 months, and it is also reasonable to expect most of these containment and social distancing strategies to be removed before then.

So, while it is hard to predict business trends in the next 12 months, global growth should get a boost as a more normal environment returns once government policies can safely be removed. Markets should also recover. This has been the experience in past pandemic situations.

The cash flow dislocations expected in the next year will impact those companies with the least flexibility. Debt-laden companies may run into liquidity problems which may impact equity. Companies with strong balance sheets should be able to weather this storm and return to their normal business trends.

Unfortunately, the Saudis and Russians have chosen the current environment for an oil price showdown. Given the capital-intensive nature of the energy sector, this double whammy is having a huge impact on energy companies and investor confidence.

We like to say we invest in companies with solid balance sheets. 95% of our portfolio companies have investment-grade balance sheets with the few exceptions having strategic “special situations” advantages.

Overall, our portfolio companies should be able to withstand a weak economic environment over the next year and be in good standing to compete in a more normal environment when that comes. The current markdown in share prices does not look beyond the current crisis and does not price in the inevitable economic rebound once the crisis has passed.

Simply holding shares doesn’t seem like we’re doing much, but market history and our experience suggest that the economic environment will return to normal. Currently oversold markets should once again value companies based on their sustainable long-term fundamentals.