

# Investor Pulse #1: The COVID-19 Crisis

Setting the Baseline

# BCG's COVID-19 Investor Perspectives Survey

**BCG surveyed leading investors, March 20–22, to understand their perspectives on the US market and economy—and to bring the voice of the investor to senior executives and boards of directors in the midst of the COVID-19 crisis**

## About the respondents:

- They represent investment firms that have more than \$4 trillion in combined assets under management
- About 80% are portfolio managers and senior analysts directly responsible for making buy, sell, and hold decisions
- They cover a broad spectrum of investing types or styles, including deep value, income, growth at a reasonable price, and core growth; they also include some quantitative, technical, and special situation investors

## The survey focused on two key topics:

1

Investor expectations for the US stock market and economy as well as the shape of the recovery

2

Investor perspectives on critical decisions and actions that corporate executives and boards of directors are considering

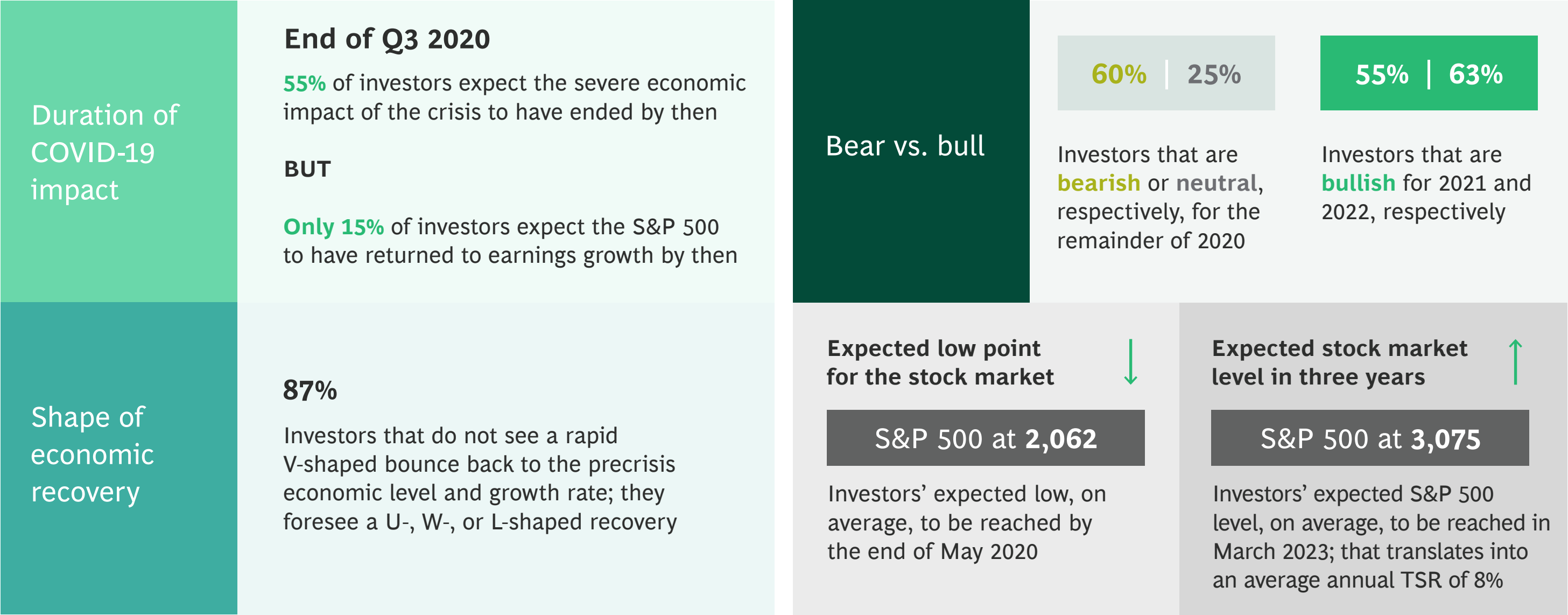
This is the first in a series of periodic surveys that BCG will conduct in the weeks ahead to help corporate executives and boards understand the perspectives of investors in this rapidly changing environment

The analysis shared in this document represents an aggregated view that is not segmented by investor type; it is important for corporate executives and boards to keep in mind their current and target investor mix while interpreting the results

The results represent the views of surveyed investors only; to understand BCG's point of view, please visit [on.bcg.com/covid19insights](https://on.bcg.com/covid19insights)

# US investors' perspectives

## US investors' perspectives on the US economy and stock market due to COVID-19



Source: BCG's COVID-19 Investor Perspectives Survey, March 22, 2020; n = 150.

Note: TSR = total shareholder return.



# Investor expectations (I/III)

Investors have clear expectations, but they also appear to offer financially healthy companies unexpected flexibility to navigate the crisis<sup>1</sup>

Source: BCG's COVID-19 Investor Perspectives Survey, March 22, 2020; n = 150.

Note: EPS = earnings per share.

<sup>1</sup>Financially healthy companies was defined as companies with relatively strong and resilient free cash flow and a healthy balance sheet.

79%

While 79% of **investors want companies to provide or revise their guidance** for the current fiscal year within the next three months, **investors also indicate surprising flexibility regarding near-term EPS commitments** for financially healthy companies

56%

of investors think that it is important for companies to deliver EPS in line with their revised guidance or the consensus estimate for the current fiscal year

89%

of investors want management to prepare for the bounce back by building advantaged business capabilities to drive future growth—even if it means lowering EPS guidance or delivering below the consensus estimate

## Investor expectations (II/III)

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Investors highlight the importance (for financially healthy companies) of financial resilience and a strong balance sheet to endure the crisis and be ready for the rebound; **they even support some typically unconventional near-term moves that would previously have been off the table**

73%

of investors believe that companies should be intensely focused on preserving liquidity even if it is at the expense of investing to achieve advantage in the business

61%

of investors think that companies should not aggressively repurchase shares despite today's very low valuations

59%

of investors are comfortable with companies not maintaining the dividend per share in the near term

# Investor expectations (III/III)

Investors have clear expectations, but they also appear to offer financially healthy companies unexpected flexibility to navigate the crisis<sup>1</sup>

Given today's low valuations, **investors expect financially healthy companies to explore potential acquisitions as well as to prepare for increased activism risk**

58%

of investors believe that companies should actively pursue acquisitions to strengthen the business

59%

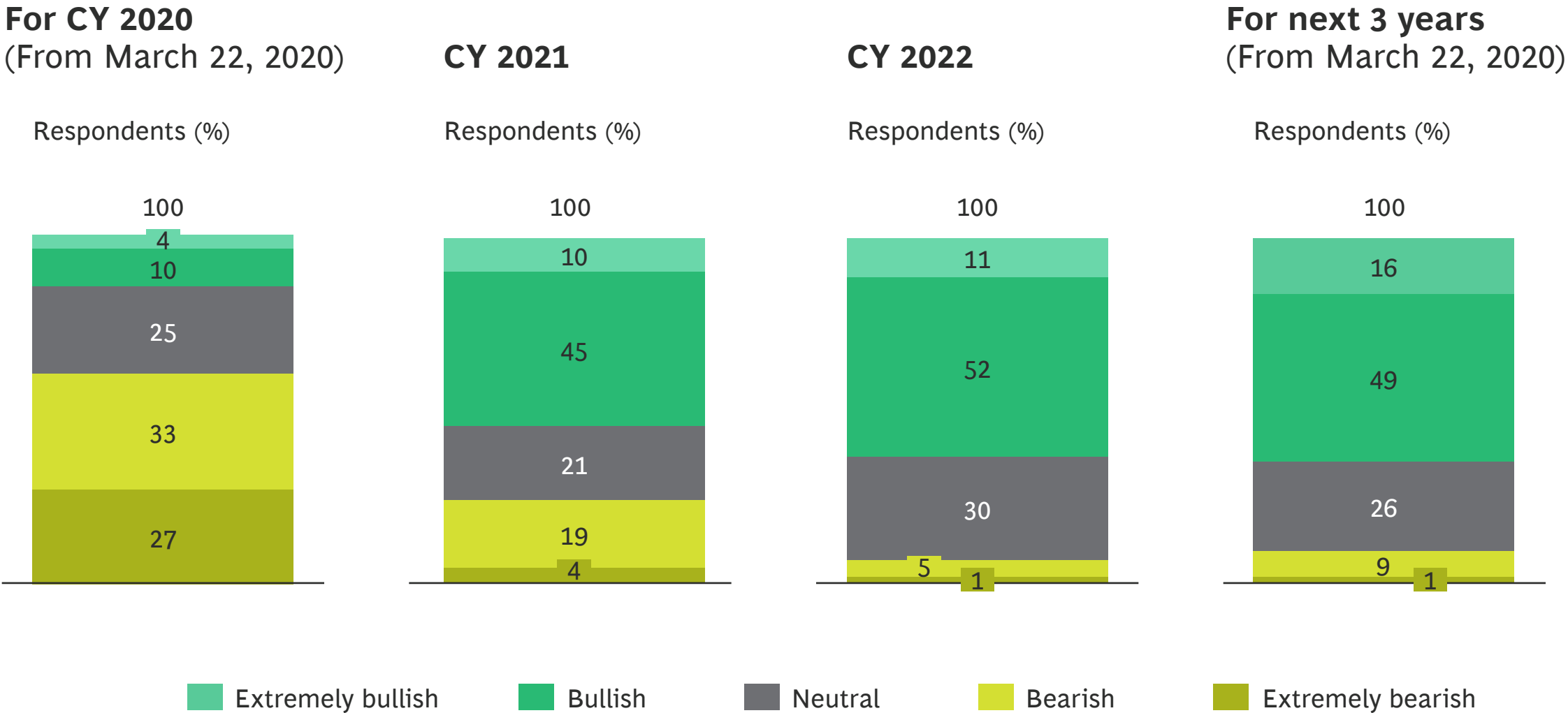
of investors think that there will be an increase in activist activity and that companies should take proactive steps to mitigate activism risk by strengthening their businesses' near-term and medium-term fundamentals

Source: BCG's COVID-19 Investor Perspectives Survey, March 22, 2020; n = 150.

Note: EPS = earnings per share.

<sup>1</sup>Financially healthy companies was defined as companies with relatively strong and resilient free cash flow and a healthy balance sheet.

# Most investors—60%—are bearish for the remainder of 2020 but they are increasingly bullish for 2021 and 2022

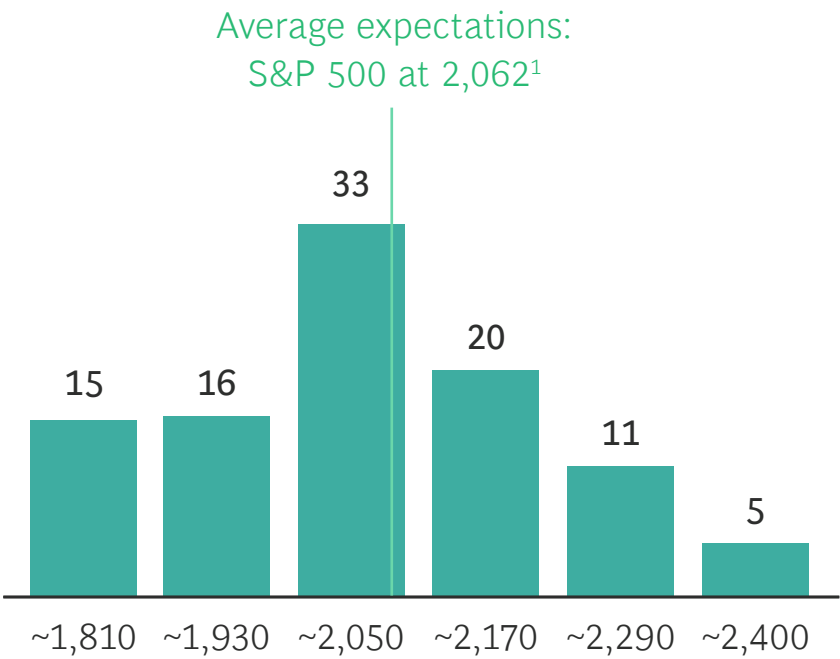


Source: BCG's COVID-19 Investor Perspectives Survey, March 22, 2020; n = 150.  
Note: CY = calendar year. Because of rounding, not all percentages add up to the totals shown.

# Investors expect even more downward pressure on valuations—with an average S&P 500 level of 2,062 by end of May 2020, if not sooner

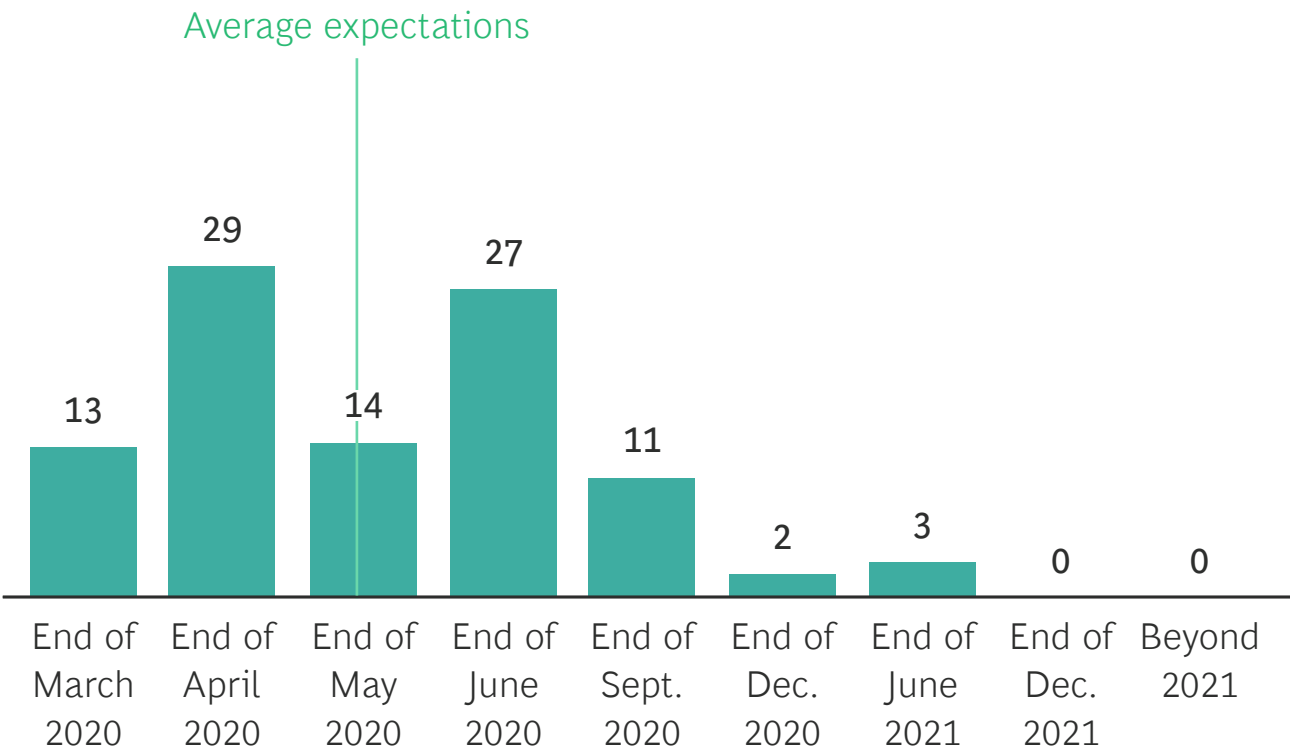
## S&P low-point expectations: **level**

Respondents (%)



## S&P low-point expectations: **timing**

Respondents (%)



Source: BCG's COVID-19 Investor Perspectives Survey, March 22, 2020; n = 150.

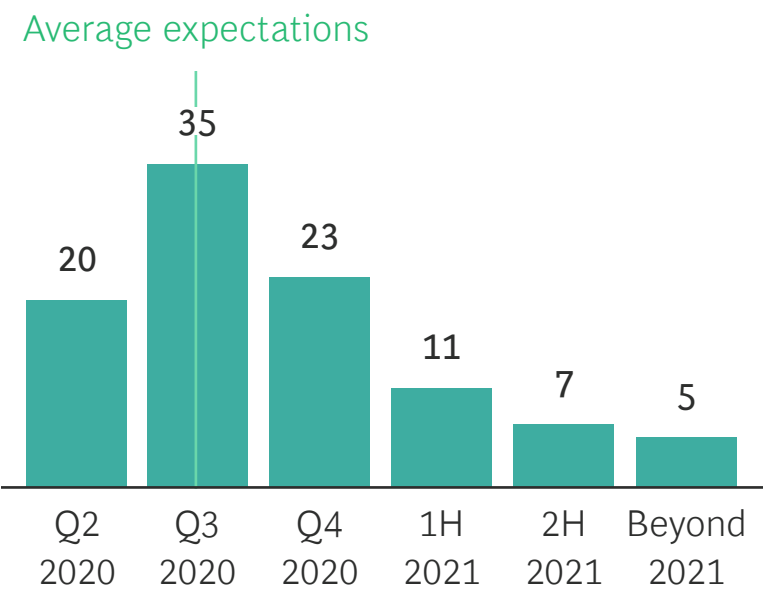
<sup>1</sup>Weighted average based on all responses.



# Most investors expect COVID-19 to severely impact the US economy through Q3; many expect a return to S&P 500 earnings growth in Q4 2020

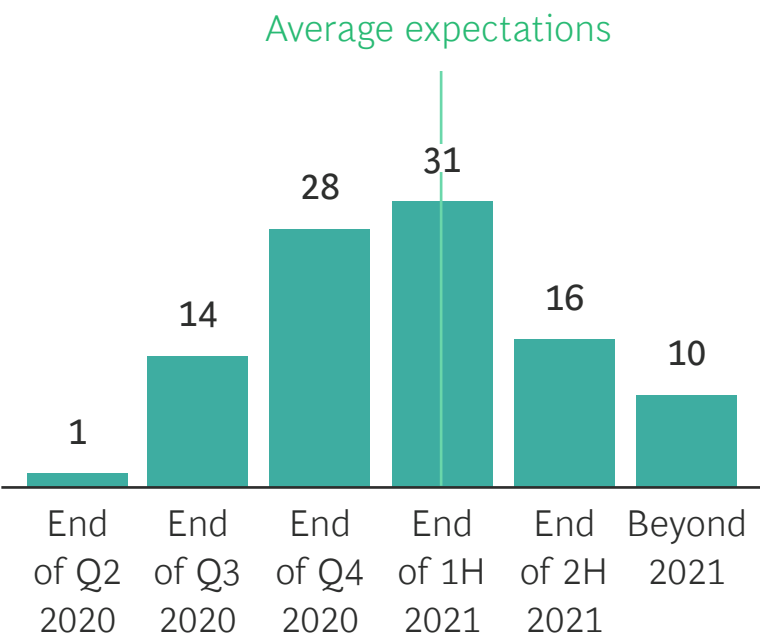
## Duration of COVID-19's severe impact on the US economy<sup>1</sup>

Respondents (%)



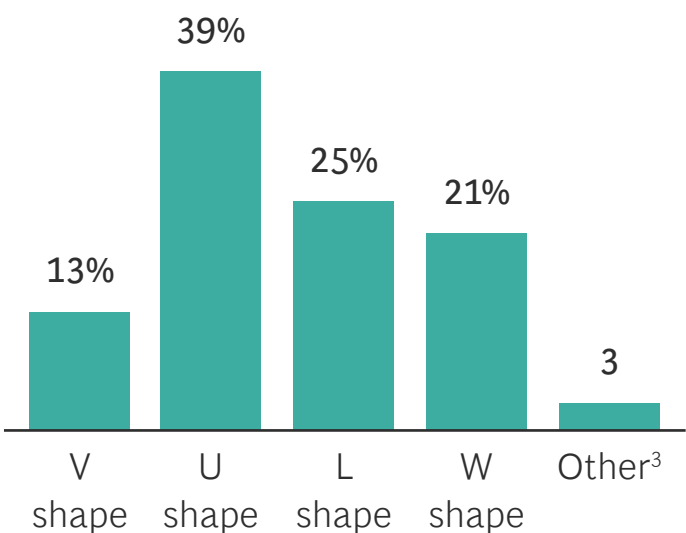
## Expected timing for the S&P 500 to return to earnings growth

Respondents (%)



## Likely shape of the US economy's recovery<sup>2</sup>

Respondents (%)



85% of investors expect the shape of the economic recovery to be a U, L, or W—and **not** a V

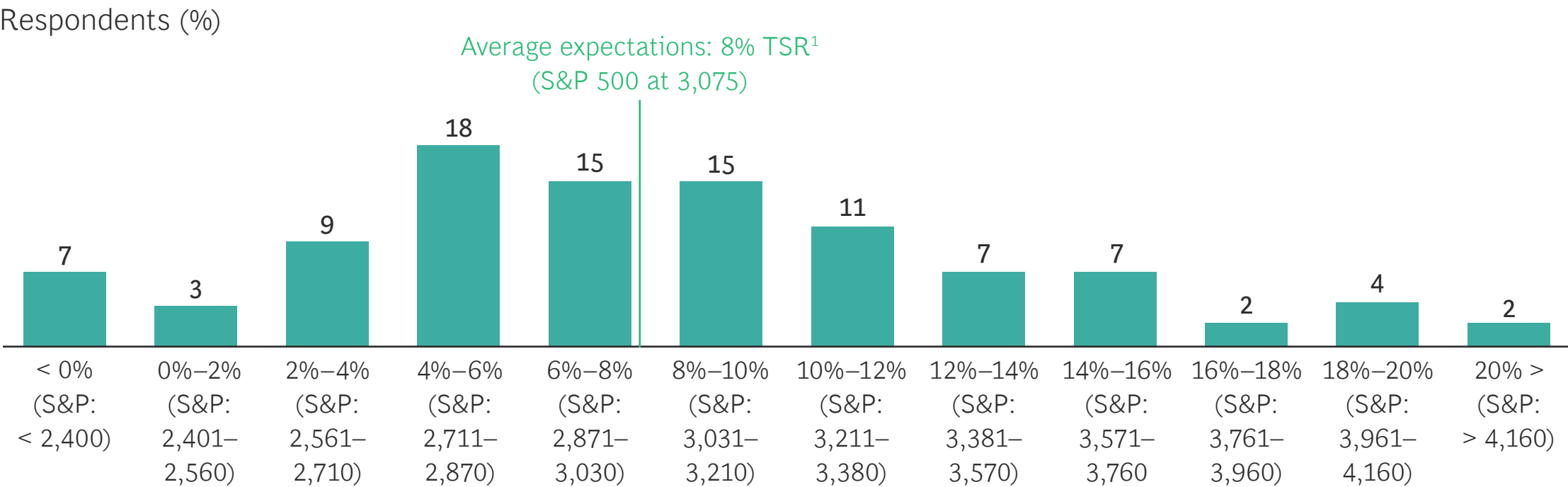
Source: BCG's COVID-19 Investor Perspectives Survey, March 22, 2020; n = 150.

Notes: 1H = first half; 2H = second half.

1. Question phrased "Through what time period..."; 2. V shape = return to the preshock economic level and growth rate; U shape = settle at a lower economic level, but return to the preshock growth rate; L shape = settle at a lower economic level and lower growth rate; W shape = Double dip, where economy settles at a lower economic level but returns to the preshock growth rate for a short period of time (a partial recovery), but then declines again before returning to the preshock economic level and growth rate; 3. Other = flatline, reorganization (fast recovery in new industries, old industries die), slow growth, chaotic and extreme volatility (this is unprecedented).

# Investors' three-year average annual TSR expectations of 8% are only moderate, compared with 9% returns over past 15 years

Average annual TSR expectations for the S&P 500 over next three years, March 22, 2020–March 21, 2023



Expected average annual TSR of 8% implies reaching an S&P 500 level of just over 3,000 points in three years—still well below the historical high (near 3,400 points) in February 2020 before the onset of the crisis

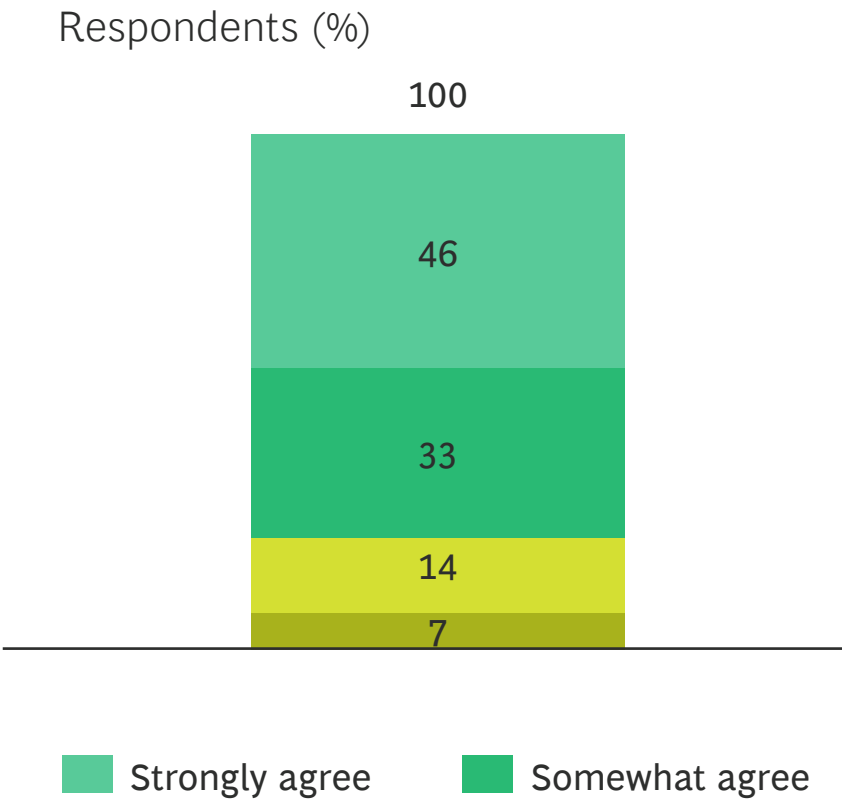
Source: BCG's COVID-19 Investor Perspectives Survey, March 22, 2020; n = 150.

Note: TSR = total shareholder return.

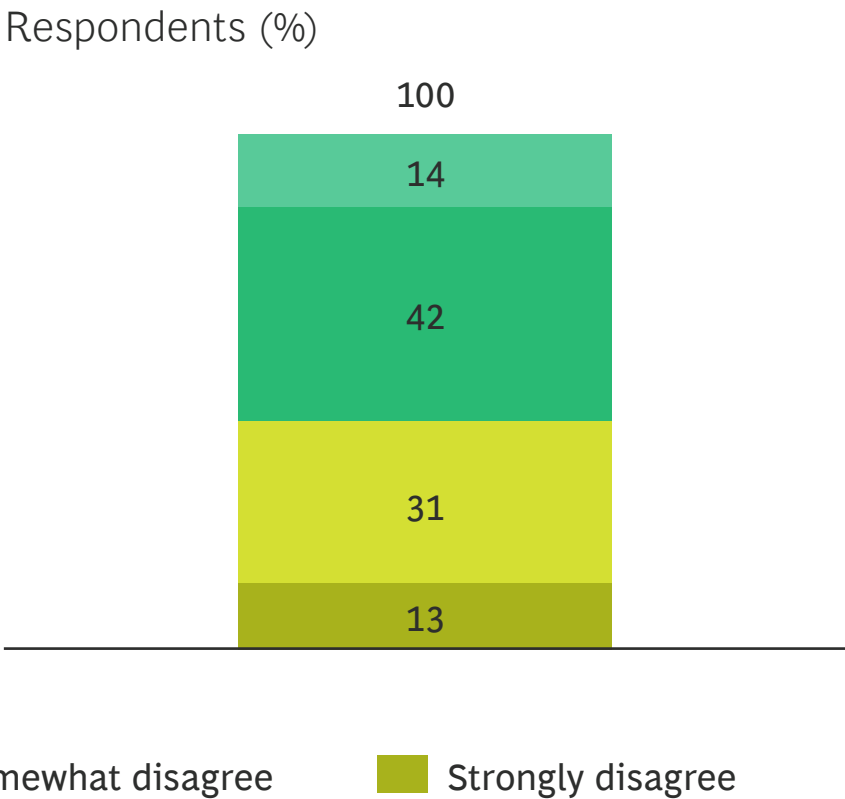
<sup>1</sup>Weighted average is based on all responses.

# Most investors—79%—want companies to provide or revise guidance within 90 days, but 44% are comfortable with not meeting near-term EPS guidance

It is important for healthy companies to **provide or revise guidance** for the current fiscal year within the next three months<sup>1</sup>



It is important for healthy companies to **deliver EPS** for the current fiscal year that at least meet **revised guidance or consensus**<sup>1</sup>

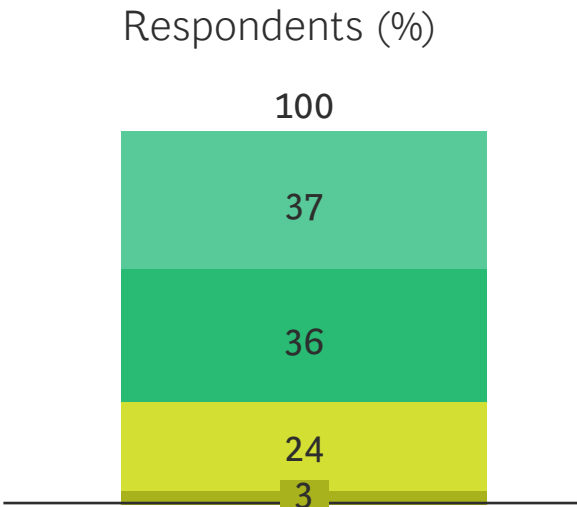


Source: BCG’s COVID-19 Investor Perspectives Survey, March 22, 2020; n = 150.

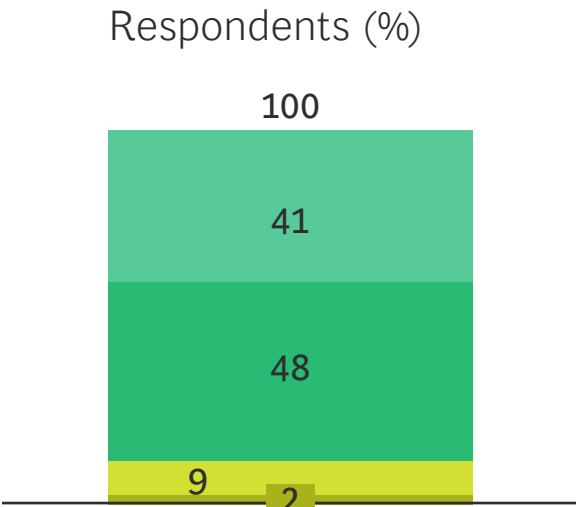
<sup>1</sup>Questions were posed with respect to financially healthy companies.

# Companies should be focused on the near-term and medium-term health of their businesses to not only endure the crisis but also prepare for the rebound

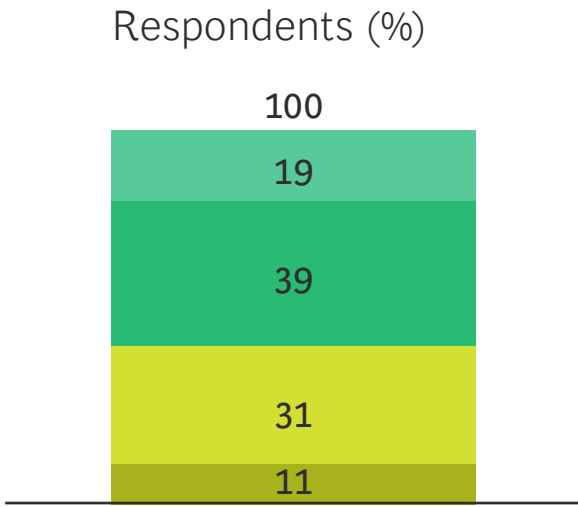
Over the next 12 months, it is important for healthy companies to intensely **focus on preserving liquidity**, even if it is at the expense of investing to achieve advantage in their businesses<sup>1</sup>



It is important for healthy companies to **prioritize building key business capabilities** to create advantage, drive future growth, and be better positioned to bounce back, even if it means lowering EPS guidance or delivering below consensus estimates<sup>1,2</sup>



At current valuations, healthy companies should actively pursue acquisitions to strengthen their businesses<sup>1</sup>



Strongly agree    Somewhat agree    Somewhat disagree    Strongly disagree

Source: BCG’s COVID-19 Investor Perspectives Survey, March 22, 2020; n = 150.

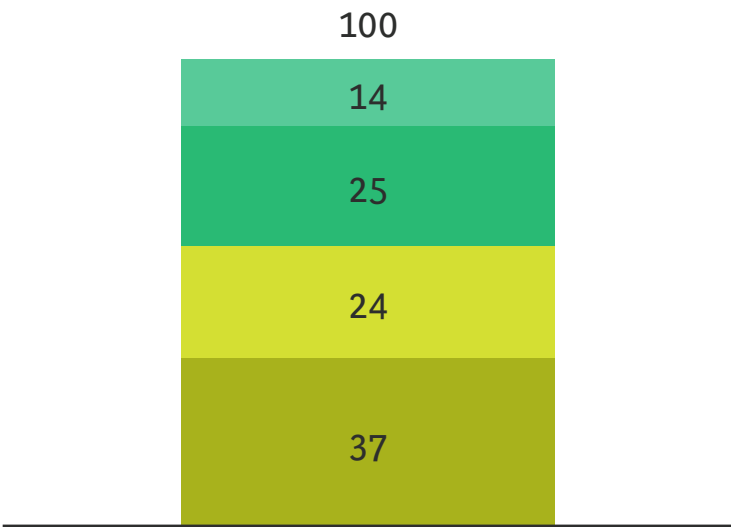
<sup>1</sup>Questions were posed with respect to financially healthy companies.

<sup>2</sup>Business capabilities include digital and technology infrastructure, for example.

# Companies need to be financially resilient in the near term—and they have the license to make some unconventional moves

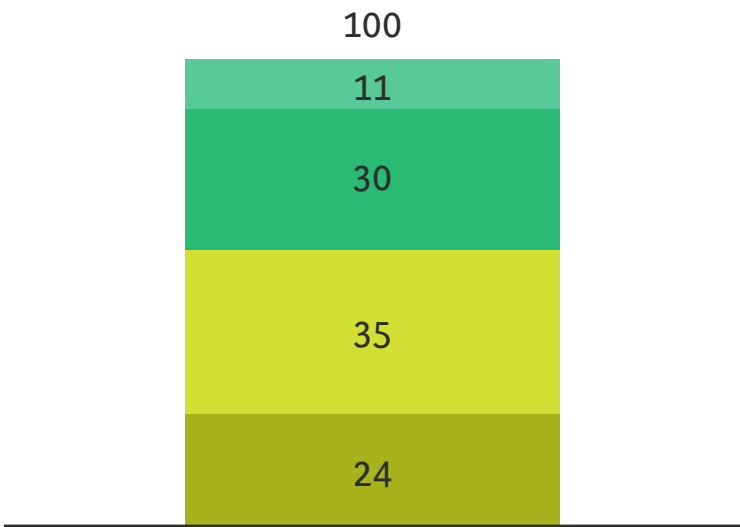
It is important for healthy companies to take advantage of today’s low valuations and aggressively repurchase shares<sup>1</sup>

Respondents (%)



It is important for healthy companies to maintain their dividend per share even if it is at the expense of other uses of cash (such as buybacks and capex spending)<sup>1</sup>

Respondents (%)



Strongly agree    Somewhat agree    Somewhat disagree    Strongly disagree

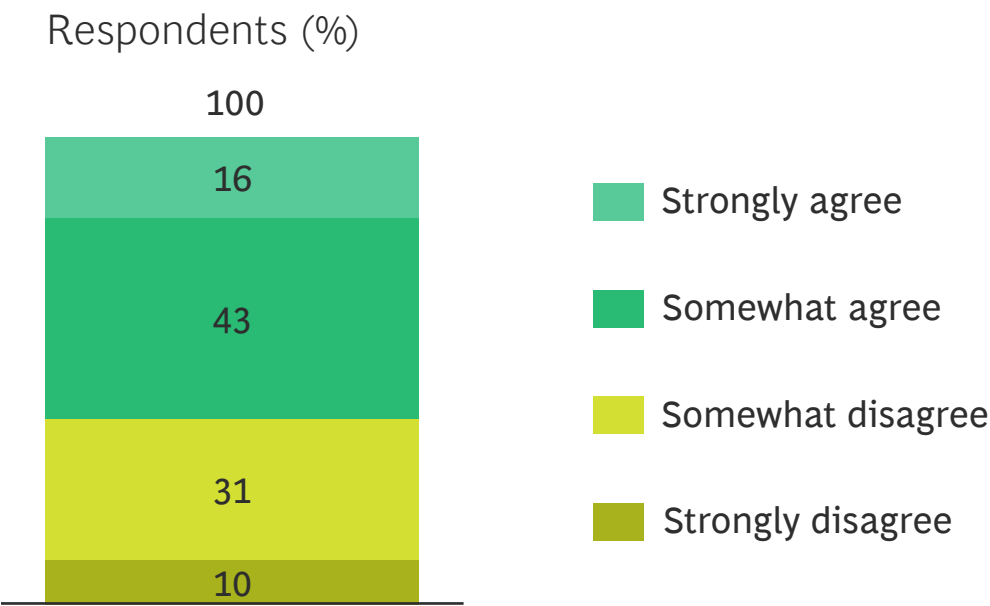
Source: BCG’s COVID-19 Investor Perspectives Survey, March 22, 2020; n = 150.

<sup>1</sup>Questions were posed with respect to financially healthy companies.



# Companies should expect increased activist activity at today's low valuations and proactively mitigate activism risk

Given today's low valuations, healthy companies should expect an **increase in activist activity** and, therefore, **take proactive steps to mitigate activism risk** by strengthening the near-term and medium-term fundamentals of their businesses<sup>1</sup>



Source: BCG's COVID-19 Investor Perspectives Survey, March 22, 2020; n = 150.

<sup>1</sup>Questions were posed with respect to financially healthy companies.

# COVID-19 Disclaimer

The situation surrounding COVID-19 is dynamic and rapidly evolving, on a daily basis. Although we have taken great care prior to producing this presentation, it represents BCG's view at a particular point in time. This presentation is not intended to: (i) constitute medical or safety advice, nor be a substitute for the same; nor (ii) be seen as a formal endorsement or recommendation of a particular response. As such you are advised to make your own assessment as to the appropriate course of action to take, using this presentation as guidance. Please carefully consider local laws and guidance in your area, particularly the most recent advice issued by your local (and national) health authorities, before making any decision.