

COVID-19 – Sectors and stocks to benefit as economies are now reopening

Global coronavirus cases are now over 4.5 million with 303,078 deaths; however importantly global new daily cases have flatlined and healed new daily cases are now about the same as new cases. This should mean that the worst is behind us now. After much economic damage countries all around the world are opening up their economies. Today I look at sectors and stocks that can be winners as economies reopen.

The oil sector – A 2x long Oil ETF and a 3x US oil miner ETF

COVID-19 lockdown has decimated oil demand causing oil prices to crash from above US\$60 per barrel to below zero (negative prices) in the space of 2 months. This meant at one stage you had to actually pay to give away oil, due to oversupply and a lack of storage.

Recent reports have shown that oil demand has now picked up considerably and along with supply cuts the oil price has started to recover strongly.

Two ways to play the oil recovery.

- **ProShares Ultra Bloomberg Crude Oil (UCO)** is a long oil fund with 2x daily leverage to an index that consists of crude oil futures contracts.
- **MicroSectors US Big Oil Index 3X Leveraged ETN (NRGU)** offers investors a 3x leverage to go long (bullish) on the collective of ten equally weighted US oil miners in the Index basket. The fund rebalances daily and uses derivatives, so is more suitable to sophisticated investors.

My preference leans towards NRGU as you are getting exposure to the actual mining companies, which in itself gives leverage over the WTI oil price.

The WTI oil price is starting to recover strongly after turning negative in April 2020



Source

The property sector – iShares Global REIT (REET)

The global property industry has suffered heavily during COVID-19 dropping around 35% due to increased vacancies and pressure on rents. The iShares Global REIT ETF is a recovery play as shops and offices reopen. The REET fund is very well diversified across the property sectors including residential, industrial, retail, offices, specialized (logistics, data centers), and health care; but there is a strong US country allocation of ~65%. The current P/CF is 12.18 and the dividend yield is 7.09%.

The cruise line industry – Carnival Corporation (NYSE: CCL)

Carnival Corporation is the world's leading cruise line company, but it is currently shutdown and burning about US\$4 billion pa. The Company has adequate cash reserves to last about 18 months, so should survive provided we are back again cruising at full speed sometime in late 2020 or H1, 2021. Risks are high but so are the rewards as the stock has fallen from US\$54 a share to now sitting at US\$12.27 a share, up slightly from its low point. 2020 PE is estimated at -3.67 and 2021 PE at 19.4.

A Carnival Corporation cruise ship at night



The airline sector – US Global Jets ETF (JETS)

The global airline industry has been decimated by COVID-19 lockdowns. Luckily many airlines are backed by governments and in the US the government has provided support with a \$25 billion rescue package for US airlines.

The US Global Jets ETF (JETS) is mostly a recovery play on the US airlines sector, also with some global exposure. Airlines

(86.4%) dominate the sector holdings, followed by air freight & courier services (5.48%), and aerospace & defense (4.96%). The current PE is 6.98 and the dividend yield is 3.22%. Other sites quote a negative PE as 2020 earnings will be negative.

The sun will shine again soon on the airline sector



Closing remarks

As countries begin reopening their economies those sectors hurt the hardest have potential to recover the most. Initially increased global activity should boost the oil sector. Next as consumers again visit malls and go back to work in offices, the property sector will begin to recover. Finally, later in 2020 or by early 2021 we should have seen a significant recovery in the airlines and cruise industry.

Right now braver investors have the opportunity to buy into these areas at bargain prices and low valuations. This of course assumes we do go on and recover relatively quickly and do not fall back into lockdowns and global depression. As a

safety against the later it is always good to keep some gold and some cash.