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Market Update: April 12, 2020

U.S. stocks had their best week since 1974 … and it took only four days. Large domestic companies closed up about 12% for the shortened week, while smaller companies, with returns in excess of 18%, were the big winners. Signs of progress against the coronavirus, along with immense monetary and fiscal stimulus, are driving stock market gains.

> **We are neither a feeble society nor a feeble economy. Don't despair. This economic crisis will pass, and pass quickly, once the clampdown is lifted; especially if the financial shock is reduced by fiscal and monetary relief … the current anxiety of economic doom will surely pass along with the pandemic.**
>
> **Vernon L. Smith, Nobel Laureate in Economics – WSJ 4/5/20**

With signs that infections from the coronavirus are slowing, the focus is changing to reopening the $22 trillion U.S. economy. Will there be a second task force focused only on reopening the country? What about testing and surveillance systems? There are a host of questions.

> **It isn't like a light switch on and off. It's a gradual pulling back on certain of the restrictions to try and get society a bit back to normal. You've got to make sure you are absolutely going in the right direction. You gradually come back. You don't jump into it with both feet.**
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> **Dr. Anthony Fauci, Pandemic Task Force – WSJ 4/7/20**

U.S. unemployment claims totaled 6.6 million last week, bringing the total applications for the last *three weeks* to 17 million. By comparison, for the *previous 12 months*, total applications were 11.5 million.

The biggest direct impact of the loss of jobs is going to be loss of income and therefore the loss of spending.

Jacob Robbins, University of Illinois at Chicago – WSJ 4/9/20

Before the markets even had a chance to digest the *unemployment claims* of 6.6 million, the Federal Reserve announced an array of programs that would provide $2.3 trillion in loans to small and mid-size businesses, as well as U.S. cities and states. The funding to support these programs comes from the hundreds of billions of dollars provided by Congress in the recent $2 trillion economic relief package.

Our country's highest priority must be to address this public-health crisis, providing care for the ill and limiting the further spread of the virus. The Fed's role is to provide as much relief and stability as we can during this period of constrained economic activity, and our actions today will help ensure that the eventual recovery is as vigorous as possible.

Jerome Powell, Federal Reserve Chairman – WSJ 4/8/20

The banking system is awash in cash thanks to the liquidity injections by the Federal Reserve. For the first half of March, U.S. commercial banks saw deposits grow more than $420 billion. According to Autonomous Research, that would put the month of March on track for what would normally be a year's worth of deposit growth.

It's really an awesome display of creativity and decisiveness – the breadth and diversity of programs. They are taking a role well beyond any the Fed has played in its modern history, and the economy needs it.

Antonio Weiss, Harvard University – WSJ 4/9/20

Included as part of the government's $2.2 trillion relief bill was a $350 billion lending facility for small businesses. The Small Business

Administration (SBA) is responsible for distributing these loans over the next few weeks or so. By comparison, the SBA makes an average of 60,000 loans totaling around $30 billion in a normal year.

According to an economic analysis by Moody's Analytics, at least 25% of the U.S. economy has suddenly gone idle due to the coronavirus pandemic. The scale of the decline has been nothing short of astonishing, although most economists expect things to rebound during the summer.

> **This is a natural disaster. There's nothing in the Great Depression that is analogous to what we're experiencing now.**
>
> **Mark Zandi, Moody's Analytics – WSJ 4/5/20**

Government data is often adjusted for seasonal swings to capture the underlying trends in the economy. For example, last year's second quarter home sales were 2.6% higher than the first quarter on a *seasonally adjusted* basis. If you did not make the seasonal adjustment, home sales were actually 32% higher in the second quarter.

> **Spring is supposed to be the season of renewal, not just for nature but for many businesses. Take away those seasonal adjustments and the second quarter, more than any other time, is when the economy really surges.**
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> **Justin Lahart – WSJ 4/7/20**

Emerging market countries have economies that are less diversified. Along with weaker social safety nets, they generally have less money to provide fiscal stimulus to offset disruptions such as the coronavirus.

Brazil and Mexico, for example, have no unemployment insurance for laid-off workers. While Mexico has a diversified economy, there is less U.S. demand for its exports, a huge decline in oil income that makes up one-fifth of government revenues, and a significant falloff in tourism.

It's always unpleasant to be an emerging market in a crisis. Just when you need capital, it flees to safer harbors. Just as you rely more on export earnings, the price and volume of your commodities exports fall. Just as your tax revenue drops, your currency depreciates and your dollar debt skyrockets.

Benjamin Gedan, Wilson Center – WSJ 4/5/20

South Korea is the world's 12th largest economy. With a population of 52 million and a geographic footprint the size of Indiana, it is the home of conglomerates Samsung, LG, and Hyundai. Still, after turning the corner against the coronavirus, South Korea is having a hard time jump-starting its economy.

South Korea's economic paralysis shows how elusive a swift recovery may be even after a public health victory. It suggests a lengthy path back to normalcy for the U.S., Europe, and other countries where the Covid-19 pandemic's worst days have yet to pass.

Andrew Jeong – WSJ 4/6/20

Because of declining exports and weak domestic demand, job losses in China could reach four to six million. Chinese households have much more debt now than they did during the Great Recession. Household debt, which was 56% of disposable income in 2009, reached 124% in 2019, according to the Institute for Advanced Research at the Shanghai University of Finance and Economics.

Investors currently have limited economic visibility. For now, the markets appear to be driven more by the emotions of daily traders. With all our global challenges and incredible market swings, it's nothing short of amazing that the S&P 500 has been basically flat over the past 30 days.

That's a remarkable feat considering all that's happening in the economy and the world since the second week of March – and what still lies ahead.

Nicholas Jasinski – Barron's 4/8/20

The recent market advances are not necessarily buying signals. They could be just *head fakes* … brief movements in a much longer period of decline. Traders refer to these upward spurts as *dead cat bounces*.

During the Great Recession, the markets tanked when Lehman Brothers collapsed. They soon rallied after stimulus measures were announced … only to fall again when the economic news became clear.

I expect the market to follow that playbook again. I've been working under the assumption that there will be a retest of the (March) lows. I hope I'm wrong … But I'm afraid I'm not.

Ben Levisohn – Barron's 4/8/20

Losses hurt twice as much as gains … at least that's what behavioral research tells us. This *loss aversion* causes investors to be nearsighted, focusing on recent events instead of longer-term opportunities.

Frame the market decline as an opportunity, rather than a challenge. It's not a crash – it's a sale. I surely don't have a crystal ball. But the mere act of rebalancing portfolios amounts to a concrete plan to buy more stocks "on sale" as markets keep declining.

Shlomo Benartzi, UCLA Anderson School – WSJ 4/5/20

Equity valuations are far more attractive today than they were to start the year. After the decline of stock prices, and with interest rates at historical lows, the stock market looks like a better place to be than the bond market.

These are the times that can produce life-changing investment blunders as well as unique opportunities.

Burton G. Malkiel, Author – WSJ 4/7/20

Imagine trying to time the market during the last couple of months. From mid-February through mid-March, domestic stocks lost one-third of their value. If you threw in the towel at that point, you would have missed the 21% advance over the past three weeks.

The last three weeks have been a nice reprieve, but we still have a long way to go. We should continue to expect significant volatility. The lows from last month could still be revisited, but don't let that distract you from the bigger picture. Successful investors keep their discipline and remain humble during times of extreme volatility and uncertainty.

I hope everyone enjoyed the Easter weekend. Stay safe.

Daniel G. Corrigan, CPA/PFS, CFP®