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Market Update: April 5, 2020

Global stock markets were down about two percent for the week … an amount that seems rather modest compared to the results for the first three months of 2020. Global equities, reflecting the economic shutdown to combat the coronavirus, declined nearly 14% in March alone and more than 21% for the quarter. Through Friday, all three major stock indexes were down more than 24% from their highs reached on February 19.

The Dow Industrials dropped 23% during the first quarter … the worst first quarter ever in the Dow's 135-year history. It was the greatest quarterly loss since the fourth quarter of 1987, which included the Black Monday crash. The yield on the 10-year U.S. Treasury note ended March at 0.691% after dropping 1.218 percentage points since the beginning of the year.

> **Investors can survive a bear market the same way hikers survive an encounter with a bear: Remain calm and don't make sudden moves.**
>
> **Jason Zweig – WSJ 3/4/20**

Oil prices surged, as President Trump indicated the potential for an agreement between Saudi Arabia and Russia to cut oil production. U.S. oil prices jumped 25% on Thursday … their biggest one-day rally on record.

> **This is a positive surprise for the market, but we're still a long way off from seeing actual material cuts. Demand is still being devastated.**
>
> **Gary Ross, Black Gold Investors – WSJ 4/2/20**

On Friday, the Labor Department reported a payroll decline of 701,000 jobs. The drop was the largest since the loss of 800,000 jobs in March 2009 … that was near the end of the Great Recession, while this economic decline is only just getting started.

> **I don't think anybody's surprised that it was a terrible month. We know it's going to be brutal. These are hard times.**
>
> **JJ Kinahan, TD Ameritrade – WSJ 4/3/20**

The unemployment rate for March rose to 4.4% from 3.5% … the largest one month increase in 45 years. More than half the jobs lost were at restaurants and bars. Due to the timing of the jobs report, the payroll losses do not reflect activity during the last two weeks of the month … therefore, April's job losses could prove to be even worse.

> **There's no comparison to this shock. The sudden drop in economic activity is like what you'd see in an area after a natural disaster or a terrorist attack, but it's occurring across the entire country.**
>
> **Gregory Daco, Oxford Economics – WSJ 4/3/20**

A record 6.6 million Americans filed for unemployment during the week ended March 28, doubling the 3.3 million who sought benefits two weeks ago and bringing the two-week total to 10 million. The two-week total represents 6% of the U.S. labor force. The trend is the same in Europe, with France reporting that 4 million citizens have applied for benefits over the past two weeks.

> **That's a devastating and shocking data point, but it wasn't necessarily surprising. The majority of the country is under some level of lockdown, with businesses from micro to massive closed and laying off their employees.**
>
> **Nicholas Jasinski – Barron's 4/2/20**

On Thursday, the Congressional Budget Office (CBO) said it expects U.S. unemployment to exceed 10% and gross domestic product to fall by more than 7% during the second quarter. The CBO acknowledges that its estimates are *highly uncertain at this time*.

It's not just the extent of the damage, but the prevailing uncertainty. (Uncertainty … how many times have you heard that word over the past few weeks.) Everyone is trying to digest at least four sources of uncertainty: the severity of the pandemic, the duration of social-distancing measures, the economic impact of those measures, and the policy response.

> **Moreover, they all interact: the more infectious the disease proves to be, the tougher social-distancing measures must be and the greater the economic fallout and the more aggressive a policy response is needed.**
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> **Humans hate uncertainty and gravitate to those with the most confidence in their predictions, but these days, excessive confidence should be greeted with skepticism.**
>
> **Greg Ip – WSJ 4/3/20**

China's economy began growing again in March. Still, economists believe the Chinese economy contracted about 10% in the first quarter. Falling demand overseas and cautious consumers will almost certainly hinder near-term growth. A recent Morgan Stanley survey of Chinese consumers found that while most (86%) of respondents were leaving home for work, most were still reluctant to go out to shop, eat, or socialize.

> **What you have is a catastrophic fall in February followed by a very modest rebound from the trough in March. China is back to work, but without a real end to the epidemic, both at home and abroad, a return to normalcy may remain elusive.**
>
> **Nathaniel Taplin – WSJ 4/2/20**

Italy was the first Western country to get hit hard by the coronavirus. Italian authorities now believe the epidemic is losing steam, as hospital admissions across Italy finally start to slow. Even after its lockdown ends, Italy expects to be fighting the virus with ongoing testing and containment measures.

> **Maybe we are going to win the first battle, but the war will be long. And we lost many people in the field.**
>
> **Giovanni Rezza, National Health Institute - WSJ 3/31/20**

A few short months ago, continued economic growth seemed like a slam-dunk. Trade progress, strong employment, and low interest rates … what could go wrong? Then came the coronavirus. Initially, it seemed like China's problem alone. Then, in the blink of an eye, the longest bull market in U.S. history came to an end.

This century, investors have had to navigate through the technology crash of 2000, the Great Recession of 2008-2009, and now the coronavirus pandemic. Believe it or not, returns on U.S. stocks and bonds since the turn of the century are practically in a dead heat. This can happen during times of deep stock declines. Also, bond yields, which move inversely to prices, have plummeted to record lows.

We have gone from a healthy economy to one that is at a relative standstill in record time. With all this fiscal and monetary stimulus, along with historically low interest rates, and pent-up-demand, there is a good chance that the bounce back will also be relatively fast … and strong.

There is also quite a bit of talk about a $2 trillion infrastructure stimulus package. This would be part of a fourth congressional coronavirus relief package. Infrastructure investment has had bipartisan support for some time … let's hope they can get something done.

> **We expect the global economy and financial markets to transition from intense near-term pain to gradual healing over the next six to 12 months.**
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> **Cyclical Outlook – PIMCO April 2020**

The markets are up from their more recent lows because governments and central banks have stepped up to the plate in a big way. Investors, however, shouldn't be surprised if stocks retest those lows at some point.

The next couple of weeks will be rough. Just try to keep in mind that two things are *certain*. The virus is *certain* to recede, and the economy is *certain* to recover. Hang in there … and as always, let us know if we can help.

Daniel G. Corrigan, CPA/PFS, CFP®