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## Weekly Market Flash

### What Comes Next

*March 13, 2020*

As time goes on, most weeks in a person's life will fade into the fog of obscurity, but a small few will stand the test of time with piercing clarity. The week of March 9-13, 2020 is likely to qualify as one of those few. In the course of one week American sports fans lost virtually all of their much-anticipated forthcoming showdowns on the parquet, the ice and the diamond. Runners who are near the peak of their pre-Boston Marathon training programs now have to bide their time for the marquee event until some undetermined time in the fall. Disneyland is closing for a few weeks, as are schools, universities and practically the entire event-planning industry. And yes, in the middle of these life-changing events the US stock market experienced its worst single day, in percentage terms, since October 1987. In uncertain times like these the question on the minds of many of us is: what comes next?

#### Policymakers and Stock Markets

The US healthcare system has many shortcomings that have been debated for many years in political, academic and economic circles. But debate is one thing, action is another. And if there is one cardinal rule about institutional policymaking it is this: nothing, literally nothing, concentrates the mind quite like the sharp immediacy of a plunge in the stock market. Think about it: when was the last time that almost every institution with some tangible connection to economic policymaking came together to throw the kitchen sink at a problem? It was 2008. A different problem, to be sure, with different implications. But the common thread between the collapse in overleveraged mortgage-backed derivatives and a global health pandemic is that they both threaten the economy and financial markets. There can be no doubt in anyone's mind that throwing everything they have at this problem is what all institutions from the Fed to the Center for Disease Control to Congress – and their respective counterparts in other parts of the world – are going to – have in fact already started doing.

Again, to be clear, the global spread of Covid-19 is a health crisis, and a health crisis demands a health solution. The fact that a health crisis was severe enough to bring a record-high stock market into bear market territory in a span of just three weeks, as happened Thursday, means that the full muscle of every institution involved will be spent in fixing it. This may sound cynical, but it is how the world works. The good news, potentially, is that a failing health system may get some genuine fixes along with the hopeful stabilizing and recovery in markets.

#### The Economy: Baseline and Distortions

Those of us who spend way too much time analyzing every economic data release can expect to see something completely different in the coming weeks: numbers that look nothing like numbers we are used to seeing. Economic life is coming to a temporary halt, and that halt will show up for, we imagine, at least the next couple quarters. When activity resumes, though, it is likely to resume with a surge. Those Disneyland vacations and concerts and conferences are in most cases postponed, not cancelled forever. There will likely be a surge of activity, again most likely for a couple quarters or so, at levels above the economy's baseline growth capability.

And then? We expect that some aspects of the post-crisis economy will look a bit different from the one we had going into this event. But the baseline case we had then – low but positive GDP growth, moderate

inflation, a steady month-to-month job market – seems like a reasonable expectation going forward. It may take some time for consumer and business confidence to get back to the elevated levels that have persisted for much of the past two years. And there may be new areas of activity that emerge directly from the crisis, though it is probably too early to speculate as to what they may be. For now, we believe that a period of down-then-up distortions followed by a subsiding to some kind of “baseline-normal” is a reasonable case to make.

### **Covid-19: Remaining Questions**

Covid-19, the current manifestation of the coronavirus, has been with us now for nearly three months and there are still many things health experts do not fully understand about the disease. What is the actual mortality rate? Is it a seasonal affliction that will subside in the warmer months and come back when the weather turns cooler? What is a realistic time frame for a vaccine that will work and be readily available? It is likely that we will learn much more about this over the coming weeks and months (see our point above about the urgency brought to the situation by plunging financial markets). One way or another, societies will adapt to the new world implied by the presence of this disease. From everything we know now, we believe the most likely scenario is that the health situation will be manageable. As we noted above, there may even be a beneficial upside in tangible improvements to the flaws in our healthcare system laid bare by the rapid onset of the disease.

We expect the immediate weeks ahead to contain some ongoing surprises and challenges as policymakers, financial market participants, healthcare providers and ordinary citizens try to adapt to the curve balls the past couple weeks have thrown and come up with the right solutions. It will be a time when calm, patience and, yes, a working sense of humor will be important ingredients for keeping one’s sanity. A good time to remember what our grandmothers always told us – this, too, will pass. And, we firmly believe, it will.

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