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## Weekly Market Flash

### Fear and Greed at Hyperspeed

*June 12, 2020*

It is always interesting to ask, after one of those days of massive price swings in the market: what exactly happened that we didn't already know? Take, oh, let's say, Thursday of this week. The major US benchmark indexes fell by around six percent over the course of the day. What did we suddenly know on Thursday that we didn't know on Wednesday? Anyone? Bueller?

#### The Army of Armchair Quarterbacks

Of course, all you have to do is flip on one of the financial news channels to be told "what happened." The go-to explanation for Thursday's mayhem was twofold: (a) Fed Chairman Jay Powell gave a speech on Wednesday afternoon in which he sounded a sober note about economic recovery; and (b) a second wave of coronavirus cases appears to be emerging in a number of areas in the South, Southwest and Midwest. It's all so clear why this happened, said the Monday morning quarterbacks on Thursday evening.

Both of those observations are true. Also, though, neither of them suddenly burst into the public discourse on Wednesday. For weeks now Powell has been telling anyone listening to him (which is a whole lot of people, given that he's the head of arguably the most powerful institution of any kind anywhere in the world) that the economy is on weak footing. In diverse speeches he has emphasized the danger of allowing temporary problems – lost jobs and shuttered businesses – to become permanent. He has pleaded with Congress to extend and expand fiscal relief efforts to sustain the economy through this period. The pleas have largely fallen on deaf ears, though, as the Senate punts any discussion of further programs down to late July at the earliest.

Nor have the new Covid-19 cases just sprung out of nowhere. We all saw those pictures of jam-packed swimming pools and lakeside bars over Memorial Day weekend. We know that many states have bent over backwards to reopen a wide swath of facilities. We fear that those bravely marching for racial justice in cities and towns recently will be at increased risk in the coming weeks. Covid-19 may have disappeared from news headlines as the attention span-deficient media move on – but the virus is anything but gone. If markets are supposed to be forward-looking, then the probability of a second wave should have been at least partially baked into the pricing for some time now.

#### The Market as Risk Amplifier

In the larger picture, of course, Thursday's big move was little more than a blip of reversal in the go-go rally that started on March 24 with barely a pause in momentum. It is hard to emphasize clearly enough how bizarre this rally has been in historical context. Consider the past two bear markets. In March 2000 the S&P 500 hit a then-record high right before the wheels came off the tech bubble. It took more than seven years for the index to recover all the lost ground and reclaim that high. That happened in July 2007. Three months later the S&P 500 posted another record high even as the financial crisis was gaining speed. That 2007 high was not recaptured until April 2013.

Now think about this year. It took less than one month for the S&P 500 to hit the March 23 low from its record high, representing a 34 percent drop. Four months later, the index looked like it was just about to get back to the February 19 high before the reversal on Thursday. Four months – not four years or seven

years but four months. That is record speed. Even after Black Monday 1987 – an event that occurred in the absence of any economic recession or other societal crisis and quickly reverted to a bull market – it took two years to get back to the previous August 1987 high point.

Today's market is different from those of 2008 or 2000, let alone 1987, in some particular ways, primarily having to do with technology and ease of entry. Algorithm-driven computer programs power about 70 percent of the daily volume of share trading on US exchanges. Much of that is entirely short-term in nature; machine learning programs set up to literally read news headlines and Twitter threads, and react to pre-programmed key words.

Now, on a typical day (e.g. one in which a virulent pandemic is not raging around the globe) these programs are sort of like waves buffeted by random trade winds, going this way and that, crashing into each other and cancelling each other out. Not much happens as a result. But sometimes all the mechanized triggers do the same thing. The waves all move in one direction and form a tsunami. There is no particular reason why these events happen on one specific day versus another. This week it just happened to be Thursday.

In the long run the basics still matter – sales and cash flow growth, margins and asset quality. In the short term, though, fear and greed dominate. Those twin emotions have always been there. The difference now is one of decibel levels: much louder and nervier than before – and much quicker to oscillate between the extremes of panic and gluttony.

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