Global Market Meltdown 2020

Contributers

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Christine Lagarde, chairman of the European Central Bank, was center stage this morning and failed to bring confidence back into the markets. The ECB is not alone, as our own U.S. Federal Reserve has also failed to inspire confidence. I am not criticizing either central bank, rather these are just the facts as I witness the markets in a global meltdown. For the second time in as many weeks, U.S. stocks triggered their circuit breakers, halting trading as the markets opened.

Let me review what I see as the relevant actions happening in real-time:

- The Coronavirus is the problem, and there is no cure at this time. It spreads very fast and experts have stated that it is 10 times more deadly than the regular flu.
- The virus initiated in the Chinese city of Wuhan, part of Hubei Province, and in January 60 million people were quarantined – simply unimaginable here in the U.S.
- With Wuhan as the manufacturing hub of the global economy, the mass quarantine created a severe supply-side shock.
- In late January the U.S. shut down travel from China to the U.S. and soon after grounded all air travel between the two countries. This was not taken seriously by the markets, but should have been.
- The Coronavirus' spread to Europe was fast and furious, hitting Italy especially hard. Italy and Europe in general were hardly ready for it.
- The demand-side shock was evident when crude oil collapsed to the low $30s, which was triggered when Saudi Arabia and Russia decided not to support prices by cutting output.
- This past Wednesday, the World Health Organization (WHO) finally categorized the Coronavirus as a pandemic. CNN reported the following:
  - "There are 118,000 cases, more than 4,000 deaths, the agency said, and the virus has found a foothold on every continent except for Antarctica."
  - "We have never before seen a pandemic sparked by a coronavirus. And we have never before seen a pandemic that can be controlled at the same time," WHO Director-General Tedros Adhanom Ghebreyesus said Wednesday.

- In his Wednesday 9 pm address, President Trump responded to the declared pandemic by, among other things, restricting all travel from Europe, which to say the least was not received well.
- Now back to the ECB. Chairman Lagarde seemed to have a Mario Draghi "whatever it takes" moment, but did not cut interest rates further. Markets greeted this with somewhat less than "Shock and Awe".
- Lagarde criticized the European Union for not yet implementing fiscal stimulus.
- Meanwhile, the Federal Reserve made a surprise Fed Funds rate cut of 50 basis points before its regularly scheduled March 18th meeting. This intra-meeting policy change has not been used since the 2008 Great Recession.
- This Federal Reserve surprise cut was initially not received well by the markets. There is high expectation of another 50 basis point cut at its March 18th meeting.
- The U.S. has effectively implemented fiscal pro-growth economic stimulus, but will also be on the hook for doing outright fiscal stimulus. If these actions are not permanent expect little impact.

Action Plan

- My anecdotal evidence is that once broad markets drop 20% or more clients will indiscriminately sell: According to Prospect Theory, "Clients hate losses twice as much as they like gains"
- Financial Advisors should expect this and plan carefully for each of their clients on how best to accommodate requests without causing long term damage to their wealth once markets recover – and markets will recover.
- Communicate with your clients proactively - do not wait for them to call you.
- Review your risk control and portfolio construction policies and make a plan for dealing with these inevitable Bear Markets.

In summary, I have managed through multiple Bear markets and I will tell you that this is not over. Please review your clients portfolios for "risky" equity and credit exposure as these will be hit the hardest. Please contact me through my webpage: https://globalperspectives.voya.com