What will bring buyers in?

A peak in virus cases outside of China, more stimulus and a lot of test kits.

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I was there in 1987 only, of course, much younger. I can't remember what I had for dinner last night, but can remember vividly driving into work on Black Monday thinking, "Oh my God, what are we going to do?" Yesterday was a "Sell everything!" day—even gold sold off. And it was the sixth day in three weeks in which down volume exceeded 90% of total volume. That didn't happen in 2008, or with 1998's Long-Term Capital Management collapse, or the first Gulf War or the Crash of 1987. While there are differences between today's stock market and the 1987 panic, in both cases, the economy was at or near full employment and generally healthy. Both suffered severe and amazingly quick collapses and, from a trading perspective, behaved similarly up to and during the crash. As now, there were widespread predictions of imminent recession then. So what happened? There was no recession and the market recovered by almost 30% from its low within the next year, reaching a new high in 18 months. JP Morgan thinks this week's worsening is less about investors taking a fundamental view on the economy or responding to virus news, but about responding to the biggest value-at-risk shock since Lehman. Liquidity is being

challenged as market makers step back from their market-making role and instead raise bid-offer spreads that induce low market depth. I keep thinking back to that interview Michael Burry—immortalized in the movie "The Big Short" for betting big against mortgage securities before the 2008 crisis—gave to Bloomberg News last year. He warned passive index funds and their massive trades have become such a big part of the market that, once the S&P 500 starts going the other way, look out! The danger of everyone wanting out could make it hard to stop. Is that what we're seeing now?

Market events do seem to be taking on a life of their own. Investors are looking for someone, anyone, to be a leader. Indeed, Strategas Research believes Thursday's worst down day since Black Monday was sparked by the weakness of the White House's virus-remediation plan as laid out by President Trump's uninspiring address Wednesday night. Congress isn't helping. It reportedly placed a repeal of the Hyde Amendment into an already watered-down version of what many think should be an overwhelming response to deal with a pandemic event that heretofore had been the stuff of science fiction. The stock market again may have to be the vigilante that forces appropriate action, much as it did during the global financial crisis when the Troubled Asset Relief Program failed twice before passage. The downside risk may be inflation later in the year, but so what? The Fed's been trying achieve that for 11 years. The upside is a short recession and bear market that people will forget about by Election Day. That's not to say that economic planning will lessen the human tragedy of a serious health crisis. But there also are real human consequences to a recession and a market crash. Money may not count for much in the next life, but as Strategas puts it, "it comes in real handy down here on planet Earth, bub." The quicker policymakers flood the zone, the more likely there'll be a V-shaped bottom and recovery from this crisis.

With the proviso that the world is not ending, what's next? We're all staying away from each other. I'm running out of people to have lunch with me. All the

universities and schools are closing. No NBA, no NHL, no MLB and no March Madness could lead to a March madness. The U.S. is a consumer-oriented economy and now the consumer is being shut out of all manner of experiences where people gather. The massive millennial generation as well as Gen Z feel healthy and they're going to get very bored. My millennial daughter Anne, who's holed in after a day working from home on the computer, called to say she's taken up cross-stitching. What??? Cross-stitching?! She's in a philosophical mood, "There's nothing like cross-stitching to make you realize that life is pointless." It will be fascinating to watch how long this calm boredom can go on.... What will bring buyers back in? A peak in confirmed virus cases outside of China, particularly the U.S. (As my Australian friend reminds me, Americans aren't concerned until the trouble comes here!) Impressive fiscal stimulus and lots of test kits. Excluding the financial crisis, recession-related declines in corporate profits historically have averaged between -15% and -20%. The market is pricing near that range now. Forward multiples on the S&P have collapsed from about 19.5 at year-end 2010 to 15 today, below their historical average. JP Morgan's calculations of equity vs. bond positions for longer-term investors is now at lows seen during 2011's euro-debt crisis and approaching the record low seen during the Lehman crisis. Back in 1987, I was shell-shocked when for sure I had very little in savings to lose and a whole future ahead of me. My new husband, the Mister, said to me back then, "I can't see how the companies in the U.S. are worth 20% less in one day." After an historic Thursday, my daughter is taking this way better than I did back in the day. "Looks like a buying opportunity for little orphan Annie!"

POSITIVES

- **How do we avoid outright recession?** Ramped-up fiscal stimulus out of Washington—a deal of some sorts, anyway—and another big near-term Fed cut, perhaps 100 basis points to zero-bound, along with a possible

new round of QE. Policymakers, who meet next week, on Thursday took a meaningful step to boost liquidity, expanding its repo operations by more than $1 trillion.

- **This is when high-quality dividend stocks shine** Treasury yields are hovering near all-time lows, signaling a scarcity of income, and credit spreads and the VIX are signaling heightened risk aversion. High-quality dividend stocks tend to be the best hedge against volatility, with positive returns over every rolling 10-year period according to Bank of America's historical database.
- **Consumer tailwinds ahead** The plunge in rates has refis surging—up 70% this week—and could pump $42 billion into the economy if an estimated 13 million borrowers take advantage of the lower rates, according to estimates by mortgage analytics firm Black Knight. Gasoline prices also have plunged on the Saudi-Russia price war and virus-related drop in demand, with some predicting $2 gas in coming weeks.

NEGATIVES

- **Looking for the whale** A true credit event remains the biggest downside risk, and credit bond spreads widened Thursday but generally remained well below crisis levels. Several asset classes also appeared to be having liquidity issues, including off-the-run Treasuries, corporate credit fixed-income ETFs and small-cap stocks. A true credit event remains the biggest downside risk.
- **Bottoming is a process** While Thursday's steep sell-off showed signs of capitulation that typically occurs at price extremes, every recovery attempt so far has failed to clear technical retracement levels. This suggests downward bias will remain until the market breaks and holds above these levels.

- **This could have lasting effects** Never in history have we evidenced the simultaneous quarantine of so many millions of people outside the envelope of war.

WHAT ELSE

How does President Biden sound? Trump beat the Russia-concern scandal, Ukrainian scandal, impeachment scandal. But no president gets re-elected in a recession. Meanwhile, the delegate math—and March geography—continues to favor Biden. Next Tuesday could be the final contest as the pressure on Bernie to drop out will reach its zenith.

It was a great run As painful as the past few days have been—the longest bull market in history ended as Thursday's steep plunge, one of the worst in history, pushed the S&P down 27%—the S&P's best days generally follow its worst days. Since the 1930s, if an investor sat out the 10 best return days per decade, his/her returns would be just 91% compared to 14,962% returns since then.

Time is on the equity investor's side For equity investors, the best recipe for loss avoidance is time: as time horizons lengthen, the probability of losing money in stocks has decreased. Other asset classes (e.g. commodities) do not sport such characteristics, but since 1929, instances of 10-year negative returns for stocks has been just 4% vs. 40% for commodities.

TAGS

CORONAVIRUS EQUITY MARKETS/ECONOMY VOLATILITY

DISCLOSURES

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Bond prices are sensitive to changes in interest rates, and a rise in interest rates can cause a decline in their prices.

Downside Risk measures the negative risk incurred by the investor. The statistic is calculated exactly like conventional standard deviation, except the population or sample is restricted to those returns falling below the mean return of the benchmark.

ETF is short for Exchange-Traded Fund.

Price-earnings multiples (P/E) reflect the ratio of stock prices to per-share common earnings. The lower the number, the lower the price of stocks relative to earnings.

S&P 500 Index: An unmanaged capitalization-weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Indexes are unmanaged and investments cannot be made in an index.

Stocks are subject to risks and fluctuate in value.

There are no guarantees that dividend-paying stocks will continue to pay dividends. In addition, dividend-paying stocks may not experience the same capital appreciation potential as non-dividend-paying stocks.

VIX: The ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility.

Volatility is a statistical measurement of the frequency and level of changes in the value of an asset, index or instrument without regard to the direction of those changes. Volatility may result from rapid and dramatic price swings.

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