



ON THE
ECONOMIC FRONTIER

**CORONAVIRUS &
THE U.S.
ECONOMY**

DEC. 3

Chinese authorities treated dozens of cases of pneumonia of unknown cause.

JAN. 30

The W.H.O. declared a global health emergency.

FEB. 11

The disease the virus causes was officially named: Covid-19.

JAN. 20

Other countries, including the United States, confirmed cases.

FEB. 2

The first coronavirus death was reported outside China.

WHAT A DIFFERENCE A MONTH MAKES

The month of March dawned with the U.S. economy still humming along nicely and the stock market, though wobbling after a late-February drop-off from recent highs, still up slightly for the year. March ended with the nation's economy in limbo as huge swaths of the economy have been shut down due to the coronavirus pandemic.

In mid-February, the Dow Jones Industrial Average was on the cusp of reaching the 30,000 mark. Just over a month later, the Dow had plunged below 18,600 — a breathtaking fall into bear territory in so short a period of time. Fears about the coronavirus pandemic knocked 37% off the Dow in just one month.

The S&P 500's fall was similarly spectacular: Just six days after setting a new record of 3,386 on February 19, the S&P fell below 3,000. This was the fastest slide from a record close into correction territory in market history. The S&P 500 was still a long way from the bottom, though, which it wouldn't hit until March 23 when it dropped all the way to 2,237. This was more than 1,100 points lower than its record close just over a month earlier, representing a total loss of value of 34%.

Illustrating the extreme volatility that has become common, the stock market came roaring back soon after hitting these bottoms. After three days of spectacular gains, the Dow technically entered a new bull market on March 26 when it rose more than 20% from the recent low. The S&P 500, meanwhile, rose more than 17% from the low it reached on March 23.

Some economists point out that bull markets aren't usually recognized until indices have sustained gains for at least six months. During the financial crisis, for example, the Dow rallied more than 20% from its November lows in December only to fall to a new low the following March. And even with these bouncebacks, the Dow and the S&P 500 remain far below their record closes.

For the quarter, the Dow Jones Industrial Average was down 23%, its worst quarterly performance since 1987, while the S&P 500 was down 20%, its biggest quarterly decline since 2008. The Nasdaq didn't fare quite as poorly, finishing the quarter down 14%.

LONG-RUNNING ECONOMIC EXPANSION ENDS

The coronavirus pandemic has brought the longest economic expansion in U.S. history to

FEB. 14

France announced the first coronavirus death in Europe.

FEB. 26

Latin America reported its first case.

FEB. 29

The United States reported its first death.

FEB. 24

Iran emerged as a second focus point.

FEB. 28

Sub-Saharan Africa recorded its first infection.

a screeching halt. The nation’s gross domestic product (GDP) fell by 4.8% during the first quarter, the worst performance since the Great Recession. Economic forecasters expect an even larger contraction in the second quarter, which would trigger an official recession.

The first indication that a recession (or worse) appears imminent was the March employment

report which showed that private payrolls fell by 701,000 jobs — the biggest monthly drop since the Great Recession. More than 26 million Americans have filed jobless claims since mid-March and the unemployment rate rose from 3.5% in February to 4.4% in March. Many analysts expect the next employment report to indicate a double-digit unemployment rate in April for the first time in more than a decade.

This stunning turnaround in the labor market has brought to an abrupt end a decade-long run of steady job growth that started in late 2010. Before March, jobs were added to the U.S. economy for 113 straight months in a row, which more than doubled the previous record.

A MarketWatch.com article* published on April 6 summed things up this way: “In short, the U.S. economy in just the last two weeks was in a free fall with no end in sight. We have never seen business conditions disintegrate with such speed.”

THE FED, CONGRESS AND PRESIDENT TAKE ACTION

The Federal Reserve was quick to take action once the economic damage from the coronavirus pandemic became clear, cutting the federal funds

BY THE NUMBERS: COVID-19

1.16M

US Confirmed Cases*

180K

US Recovered Cases*

68K

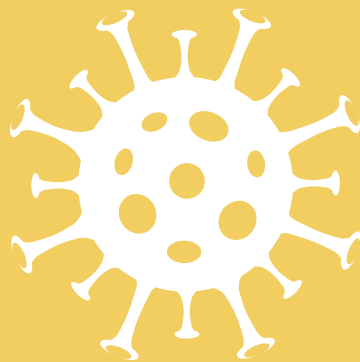
US Deaths*

30.3 MILLION

People have requested unemployment benefits since the outbreak of the coronavirus pandemic.**

89.5 MILLION

Stimulus payments have been sent to taxpayers across the nation. More payments are continuing to be delivered each week.***



*According to Johns Hopkins University of Medicine - Coronavirus Resource Center, as of 5/3/20

**U.S. Department of labor, as of 5/3/20

***IRS, as of 5/3/20

MARCH 15

The C.D.C. recommended no gatherings of 50 or more people in the U.S.

MARCH 26

The United States lead the world in confirmed cases.

MARCH 13

President Trump declared a national emergency.

MARCH 24

The Tokyo Olympics delayed until 2021.

MARCH 27

Trump signed a stimulus bill into law.

rate on March 14 by 100 basis points to essentially 0%. The Fed also resumed its bond-buying program, or quantitative easing, committing to purchase \$700 billion in Treasury and mortgage securities while taking other actions designed to boost liquidity in the financial markets.

And on March 27, President Trump signed the Coronavirus Aid, Relief and Economic Security (CARES) Act. The legislation contains a wide range of initiatives designed to stem the economic damage caused by the crisis.

One of these, the Paycheck Protection Program (PPP), provides \$349 billion in federally guaranteed loans to small businesses through the U.S. Small Business Administration. The portion of these loans that goes to meeting payroll and paying for business rent and utilities will be converted to grants that don't have to be repaid if the business doesn't lay off its employees for the duration of the crisis. Most businesses with 500 or fewer workers qualify for these loans, including self-employed independent contractors.

The initial \$349 billion allocation was exhausted quickly so Congress passed new legislation — the Interim Stimulus Plan — on April 24 to provide another \$320 billion in PPP funds. The CARES Act also extends the duration

of unemployment benefits from 26 weeks to 39 weeks and increases benefits by \$600 per week until July 31. Contract workers, freelancers, independent contractors and other nontraditional workers impacted by the coronavirus are now eligible to receive unemployment.

Perhaps the signature component of the CARES Act is more than \$300 billion in direct payments that are being made to taxpayers. Qualifying individuals are receiving up to \$1,200 — or \$2,400 for married couples — and an additional \$500 for each child who is under age 17. Payments begin phasing out once adjusted gross income exceeds \$75,000 for individuals and \$150,000 for married couples. Married couples earning \$198,000 or more and singles earning \$99,000 or more will be ineligible to receive a payment.

TURMOIL IN THE ENERGY MARKETS

With all the attention being paid to the coronavirus, it's easy to forget that a collapse in oil prices was a big factor in the initial market selloff. On March 9, oil prices fell by the most in one day (22%) since the Gulf War in 1991. The oil price collapse started when Saudi Arabia, which

MARCH 30

More states issued stay-at-home directives. As many as 256 million Americans were ordered to stay home.

APRIL 10

Cases surged in Russia.

APRIL 26

The global death toll surpassed 200,000. By April 26, the coronavirus pandemic had killed more than 200,000 people and sickened more than 2.8 million worldwide.

APRIL 2

Cases topped one million, and millions lost their jobs.

APRIL 14

The global economy slid toward contraction.

is still the world's top oil exporter, initiated a price war after the alliance between the OPEC cartel and Russia fell apart.

Since joining together in 2016, the OPEC+ alliance has orchestrated 2.1 million barrels of supply cuts per day. Saudi Arabia wanted to increase supply cuts to 3.6 million barrels through the end of this year but Russia balked. The Saudis responded by slashing oil prices further and boosting production, indicating that they will supply a record 12.3 million barrels of oil per day in April, which is 25% higher than they supplied in February. In effect, the Saudis are dumping as much crude oil on the market as they can in an effort to protect their market share.

Russia and other OPEC members, including Iraq and Nigeria, quickly boosted their own oil production in response. Meanwhile, the coronavirus pandemic has drastically cut the demand for energy (and thus oil) worldwide, especially in China. The International Energy Agency forecasts that global demand for oil will contract this year for the first time since the Great Recession.

For U.S. consumers, the result of all this is lower energy prices, especially gasoline. The price of regular unleaded gasoline is now below \$2 per gallon in many areas of the country, which is helping offset some of the economic pain being felt elsewhere. In a survey** conducted by CNBC in early April, energy strategists, analysts and traders forecasted that oil prices will average \$20 per barrel during the second quarter of this year.

UNCERTAINTY AND VOLATILITY: THE NEW NORMAL

The past couple of months have been the most difficult that many investors have ever faced. Given all the unknowns associated with the coronavirus pandemic, it's likely that economic uncertainty and market volatility will continue for the foreseeable future.

It's especially important during times like this to stay in regular contact with your financial advisor. Please don't hesitate to contact us if you have questions about the impact of the coronavirus pandemic on your portfolio and investing strategies. ►

^{*}<https://www.marketwatch.com/story/us-oil-heads-7-lower-as-monday-meeting-of-major-producers-gets-delayed-2020-04-05>

^{**}<https://www.cnbc.com/2020/04/06/oil-prices-could-plunge-below-20-a-barrel-in-q2-as-demand-craters-cnbc-survey.html>