



THE ECONOMIC MONTH IN REVIEW AND OUTLOOK – MARCH

U.S. Markets and Economy

The COVID-19 pandemic has forced much of the world's populations to "shelter in place," which has had a dramatic effect on both production and personal consumption expenditures (comprising 70% of GDP in the U.S). Economists estimate that business shutdowns in 82% of U.S. counties affect 96% of national output, causing daily output to drop 29% in just three weeks. The U.S. economy has clearly entered a sharp recession, as weekly unemployment claims numbers show 10 million Americans filing for unemployment in the last two weeks. While the unemployment rate for March only ticked up to about 4.5%, this data is based on a survey taken March 12. Economists estimate that the actual unemployment rate at the beginning of April is 10%–15%, which would be the highest since the 1930s.

This economic decline may be partially offset by monetary policy and fiscal policy. The Federal Open Market Committee (FOMC) has unveiled a long list of measures to pump massive amounts of liquidity into the economy while also arranging for loans to most businesses to enable them to keep operating. Congress has passed a \$2 trillion bill that will also help individuals and firms survive the economic decline. What remains unknown is how long the virus will continue to spread and how effective social distancing will be in slowing its spread. The economy will not be able to recover until the rate of infections is reduced. The question is when and how quickly it can restart once the pandemic passes.

World Markets and Economy

In March, world markets tumbled along with the United States. Chinese stocks fell less than most, as, according to official data, the worst of the pandemic seems to have passed there. Yet economic growth in China has probably dropped to the lowest level in decades, in spite of easy money policies and more fiscal spending. Japan's stock market was down by a third at its low point in March, and the Japanese economy was already headed back into recession even before the spread of COVID-19. Europe fared no better, with countries like Italy and Spain hit very hard by the virus. European blue-chip stocks, as measured by the EUROSTOXX Index, fell almost 40% from their February peak to their March low before rallying a bit at the end of the month.

The European economy, which was already growing slowly, has almost certainly fallen into recession too.

Outlook

During the painful decline in March, there were few places to hide: stocks fell sharply around the world; many commodities, like oil, also fell; and only U.S. Treasuries and other very high-quality bonds were spared. With infections and deaths still rising sharply in the U.S. and no vaccine in sight until next year, both stocks and the economy face a rocky road until there is more clarity. What has been true for decades is that stocks hit bottom months *before* the economy begins to recover. Stocks, which were fully valued in early February, are now cheap by many valuation measures. Investors need to stiffen their resolve to hold onto their stock portfolios, and those with extra cash should consider acquiring shares of high-quality companies at bargain prices.