

The Outlook: March 16, 2020

It's All About 2 Simple Words: "Panic" and "Temporary."

Pardon us, clients and friends, for beating on the same drum again . . . but another 3,000 points of market cliff-dive does call for it. This is all about two simple words: "panic" and "temporary." Understanding those words, and choosing to act upon the right one, will make the whole difference between success and failure for every investor.

Let's glance at a long-term picture of the market.

30 Years. 3 Recessions. 3 "Bear Markets." Number 4 at the Door . . . Maybe.

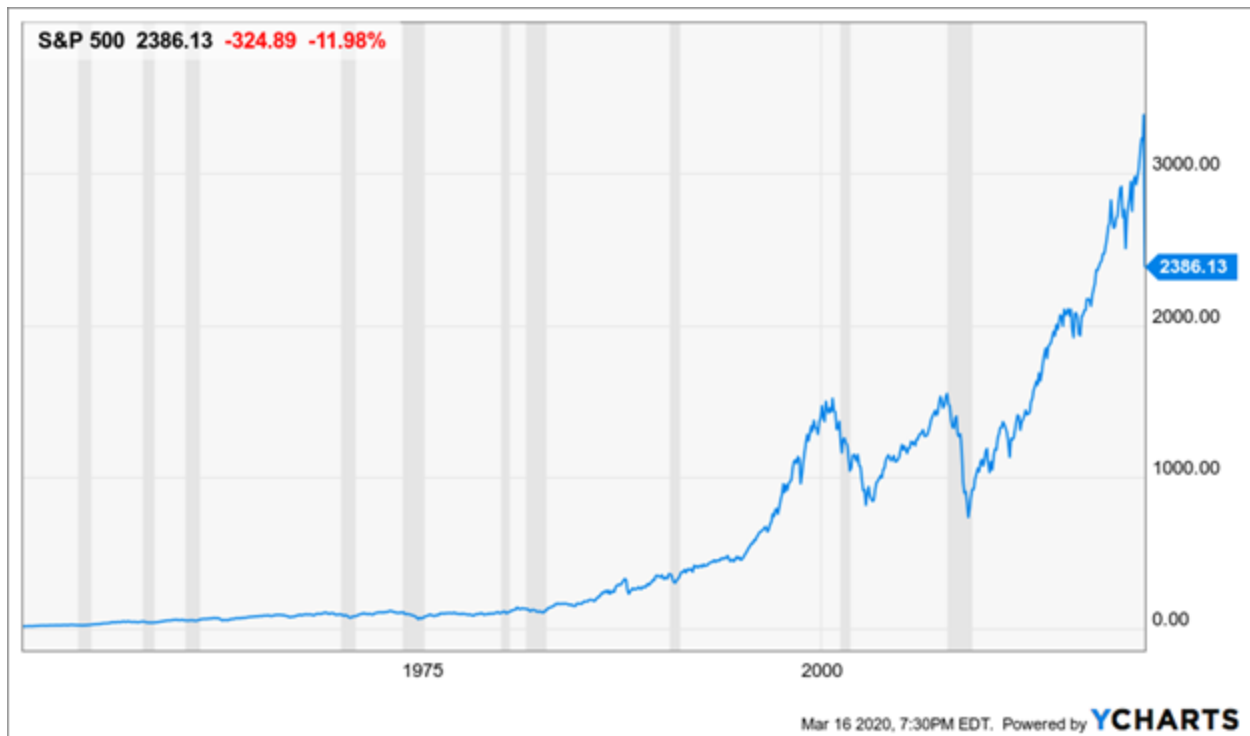


The shaded areas are recessions, the circles are bear markets . . . and the arrows are "Panics!" By "panic" we mean times when the market and media behaved as if the U.S. and global economy were plunging into black holes from which there was simply no easy or near-term escape—because the Big Problems of the day were too massive or too unprecedented to conquer.

Counting today, two of the four bear markets since 1990 have been based on "Panics!" If we studied 70 years of history instead of 30, we'd find that 50% batting average is about right: about half the recessions and bear markets in modern history have included today's kind of fun, courtesy of the market and media.

But neither "Panic!" nor "Bear Market!" nor "Recession!" have ever been permanent, have they? They have been "Temporary!" They've been emphatically "Temporary!", in fact, as we can see below.

70 Years. 10 Bear Markets. 10 Recessions. Number 11 at the Door . . . Maybe.



It's genuinely tough for investors who haven't spent decades studying and living with the market's behavior to feel, when the latest "Panic!" arrives, that whatever "Big Problem" is driving the Panic this time is essentially no different than all the other "Big Problems" in the past. The latest Big Problem is always sort of "new." That makes it very easy for the screamers in the media and the investment world to persuade themselves that "This time it's different. This time the Problem is so bad it's permanent, and we can't get out of the hole."

They are always wrong, because they don't grasp why every Big Problem has always been temporary, never permanent. They're always temporary because free markets and free people never stay panicked very long; and they always find the energy and innovation needed to get out of the hole, no matter how deep. They do not wait for government to solve the problem for them. There is no plainer way to explain the really amazing performance of the U.S. economy (dragging the market along with it) through all those decades and all those giant problems.

"Americans Hit Pause Button on Life!" was the headline in today's Wall Street Journal, and this time the headline nailed it, didn't it? (It would be a little more accurate to say, "America's Political Leaders Hit Pause Button on Americans' Lives!" but it doesn't really matter for what lies ahead.) Economist Brian Wesbury, this morning, forecasted "what lies ahead," and at Outlook we strongly suspect he is right, as usual.

The deep and pervasive health measures (economic slowdowns) to stem the spread of the Coronavirus will have a major economic impact regardless of how widespread the illness becomes. As a result, we now think the economy will take a huge hit in the second quarter, contracting at an annual rate of around 10% (like in the first quarter of 1958, during the Asian Flu) with growth returning to a 4.5% to 5.0% average rate in the second half of 2020 and all of 2021. That's only one quarter of negative growth, but it's a doozy. Look for the jobless rate to hit 4.5% by year end, returning to 3.5% by the end of 2021.

A Coronavirus Recession may sound like a reason to sell, but it's not. Stocks typically rise starting 3 - 6 months before a recovery. We're already in that window. Those who sell now are likely to regret it.

A 10% plunge in the economy is a “doozy” all right, especially packed into 2 or 3 months. If it happens, there won't have been many like it in modern economic history. That, of course, is exactly why “Panic!” is running the market show right now. The Virus “feels” like something new and basically unpredictable. It's not really new and it's not unpredictable, of course—but for a little while “impressions” and “feelings” are running the show, as they always do at such times. But “Panic” is never permanent. The only word that is permanent is “temporary,” when it comes to understanding recessions, bear markets and panics. We saw what 3,000 points down looks like, today. We're going to see what it looks like in the other direction and, as Mr. Wesbury reminded us, we probably won't have to wait very long.

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