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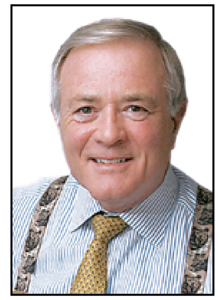
William Rutherford

OP-ED: Stock market fights off coronavirus

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From its all-time high on Feb. 12, the S&P 500 hit a bottom of 2,237 on March 23. But will it still go lower this year? After the longest bull market in stock market history, the coronavirus dealt a body blow to the market. The market drop was the most precipitous in history. History tells us that the market will recover, but over what time period? Will it be a V-shaped or U-shaped or L-shaped recovery?

Since 1929, the S&P has suffered 14 bear markets, defined as peak-to-trough losses of 20 percent or more. That being said, bear markets result in declines of 39 percent on average, and last about 19 months. If this one feels particularly bad, it's because it is. We've had a decline almost on a par with a typical full bear market cycle in just about three weeks.

Over the past 25 years, there have been seven virus-related market episodes. While there were market dislocations during these episodes, none of the infections were as contagious as the current coronavirus. While the Ebola virus outbreak in West Africa was potentially more problematic, it was contained quite quickly and a wider contagion was avoided. With this history as background, it's easy to see why governments globally were perhaps lulled into a state of relative complacency.

The litany of records broken is long, but that is history. Central banks around the world have reacted to the challenge. The U.S. and other governments have launched massive stimulus packages. Help is on the way, but will that help cause more problems?

The massive stimulus packages will be inflationary. Money will become less valuable and things more dear. That is a classic recipe for inflation. A modest amount of inflation is not bad for the economy and, indeed, can be good. Runaway inflation is bad and can be very bad: think 1920 Germany. One has to have confidence that our leaders know what they are doing. Do we?

Right now we are probably already in a recession. A depression could follow, but is not a foregone conclusion. Carefully calculated policies of fiscal and economic support could pull us through.

The economy will change at a more rapid pace than it would have without this massive disruption, as people and businesses adjust the way they interact.
We will no doubt see fewer storefronts and banks. Business communication will be tighter and more virtual. Supply chains will be reconfigured. It is possible that the U.S. economy will come out better and stronger. But the passage will be difficult – particularly for low-skilled workers.

Businesses will look to capitalize on the downturn. Some businesses will find new opportunities or new ways to be efficient. Investors should look to those companies that can best serve enterprises and consumers, and thrive in these new environments. Also, investors should select companies with strong balance sheet metrics: those with cash and those generating cash. The market is already showing resilience.

Whether the recovery is V-shaped, U-shaped or L-shaped, betting on the U.S. economy is a good thing to do. We will get through this. Patience and resilience are called for and should be rewarded.

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