

## Will “April Showers Bring May Flowers?”

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Showers in April were more like a tsunami in economic terms as the coronavirus coupled with the abrupt drop in oil prices crashed the global economy — “the twin evils”. The federal government mandated a country-wide shutdown beginning in March that triggered large numbers of dismissals and furloughs amounting to millions of job losses. Additionally, in early March, Saudi Arabia initiated a price war with Russia, facilitating a 65% fall in the price of oil. In the first few weeks of March, U.S. oil prices fell by 34%, crude oil fell by 26%, and Brent oil fell by 24%. The Federal Reserve acted quickly and decisively by almost doubling the supply of excess reserves and by lowering the fed funds rate to zero. Essentially, the Fed bought massive amounts of bonds and notes in addition to other assets that may come under pressure as the economy enters recession. Investors were comforted by Chairman Powell’s assurances that the central bank intends to maintain efforts to boost the economy until officials are “quite confident that the economy is well on the road to recovery.” Additionally, Congress approved over \$3 trillion in loans and grants to businesses and consumers to get money to people who need it the most.

Despite recent gloomy economic data (with worse to come), investors are choosing to see the glass half full. The stock market as measure by the S&P 500 dropped 34% between February 19th and March 23rd and has rebounded 31% since then, cutting its decline to 9% so far this year. At this writing, there appears to be light at the end of the tunnel as the worst of the shutdown appears to be over. The growth of deaths from coronavirus has slowed dramatically, which proves that the virus is no longer spreading at dangerous geometric rates. Looking at Sweden, which has not resorted to the use of mandatory lockdowns, we find that their situation is substantially like that of other European countries and to the United States. The virus is running its course, with or without government shutdown help. As a result, governors in several states — including Alabama, Maine, Tennessee and Texas — plan to allow stay-at-home orders to expire, paving the way for certain businesses to reopen and marking the end of an unparalleled month in which an astonishing nine in 10 residents in the United States were told to stay home to help stop the spread of the virus. More importantly, federal guidelines encouraging people to curtail nearly all public activities expired April 30th after President Trump indicated he did not intend to extend them. Will this action contribute to “May Flowers”?

Probably not yet. The collapse in oil prices has seriously damaged not only the oil industry but many in the supply-chain. A solution for the energy industry is not as clear. The coronavirus has undermined energy demand worldwide. Factories have been idled and thousands of flights canceled around the world. The International Energy Agency expects demand to contract this year for the first time since the recession in 2009. But not all is gloom and doom: Americans won’t be paying as much to fill up their car as they venture out of their homes. Now that’s a “May Flower.”

The good news is that the stock market tends to be a leading indicator of economic activity. If the magnitude of the current rally can be trusted as in the past, then the fourth quarter of this year ought to result in a strong rebound from the damage caused by the “the twin evils.”