The Stock Market Hasn't Bottomed, But Don't Panic

Description

The Great Recession, which emerged after the U.S. housing bubble burst in 2007, was the worst financial crisis since the Great Depression. Many major financial institutions collapsed or were on the brink of bankruptcy, as credit markets dried up overnight and economies around the world entered recession. That triggered a bear market, which was the worst since the Great Depression, lasted 17 months, and caused U.S. stocks to lose around 50%.

The latest market cash, which saw the **Dow Jones Industrial Average** suffer its worst one-day loss ever, will trigger a bear market of epic proportions that could be worse than the Great Depression. The Dow and the **S&P/TSX Composite** have lost a stunning 25% since the start of 2020 and are officially in bear markets. There are signs of worse ahead, despite the latest round of interest rate cuts and Trump's US$2 trillion stimulus package.

Coronavirus cases will expand

Unfortunately, the coronavirus will have a sharp impact on the United States. It now has the largest number of known cases of any country. Sadly, this indicates that the U.S. could suffer the largest volume of deaths. That — along with measures to contain the spread of the virus — will substantially disrupt the economy. As the volume of U.S. cases increases, stricter measures will be introduced and enforced to contain the virus, further impacting a troubled economy.

There are travel bans and restrictions on movement across the globe, with some countries having closed their borders entirely and locked down their populations. Social distancing and restricted population movement have become important strategies in the fight against the coronavirus. Curfews, travel restrictions, and the closure of non-essential businesses has become the norm in affected nations across the globe. Many U.S. states are even talking about sealing borders and preventing non-residents from entering.

A recent report claims that coronavirus will impact every city in the U.S., underscoring the scale of the catastrophe.

The stimulus won't be enough

As the death toll rises, an extremely nervous Wall Street will overreact, triggering another sell-off and causing stocks to decline further. If the experience of energy markets is an indicator, stocks have far further to slide. Economic stimulus measures have done little to boost oil prices, and a demand shock is looming.

Recent stimulus, including Trump's much-vaunted package, which is the largest economic stimulus plan in U.S. history, will do little over the short term. This will be a significant blow for economic activity, leading to a sharp decline in consumption and business activity. That will have a devastating impact on businesses, causing those that were already struggling to fail.

The sectors among the worst affected are airlines, brick-and-mortar retailers, restaurants, cinemas, and hotels. This will also trigger considerable fallout for many real estate investment trusts (REITs), particularly those owning office properties, shopping malls, and hotels.

The latest U.S. jobs report was the worst ever. That indicates the economic fallout from the coronavirus pandemic will be far more severe than anticipated. The economic slump will last longer than many pundits had originally predicted. Stocks will fall lower as weaker economic data is reported.

This decline will be amplified by the next round of earnings reports. Stocks could fall by up to another 20% or possibly more as the economic fallout from the pandemic bites. Coronavirus bankruptcies will start emerging during the second quarter and increase over the remainder of 2020, further impacting stocks.

Don't panic

There are signs that the bear market for stocks will be worse than the one which emerged during the Great Recession. The S&P/TSX Composite has lost 29% from its February 2020 record, officially entering a bear market. It isn't difficult to see it lose another 20% over coming months.

During difficult and uncertain times, it is important not to panic. Also resist getting swept up in the emotion surrounding markets and sensational headlines. In such a crisis, it is essential to focus on your reasons for investing and maintain a long-term perspective. One thing we do know is that economies will eventually recover and return to growth. As gross domestic product expands, stocks will rally and increase in value over the long term.

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