An Important Message for Investors: Don’t Panic Even If Stocks Fall Further

Description

Despite recent stimulus, including Trump’s massive US$2 trillion package and rate cuts, stocks remain on a downward trajectory. The **Dow Jones Industrial Average** recently suffered its largest single day drop ever, down by 19% over the past month. The **S&PT/TSX Composite Index** (TSX:^OSPTX) followed it lower, losing 22%.

A painful short-term outlook

Despite recent rallies, however, there are signs of further short-term pain for stocks. Many economists are now recognizing that the recession triggered by the coronavirus will be deeper than the 2008 Great Recession. There have even been some claims that it could mirror the Great Depression, which would ravage stocks.

Measures being employed to control the pandemic including travels bans, social distancing, curfews and other restrictions on movement will sharply impact the economy. Consumption and business activity are expected to decline substantially.

It’s estimated that the global economy could contract by up to 1%. The International Monetary Fund (IMF) has warned that 2020 global growth will be negative. The Fund believes that the recession sparked by the pandemic will be severe and will be on par with the Great Recession of 2008 — or even worse.

That doesn’t bode well for financial markets and stocks. During the Great Recession, the **TSX** lost around 50% from peak to trough, and the ensuing bear market lasted for almost 18 months.

Since peaking at a record high of almost 18,000 points, the **S&P/TSX Composite Index** has lost 30%. If the recession triggered by coronavirus is as bad — or even worse — than the financial crisis of 2008, stocks will fall further. That means the market could fall by up to another 20% over the coming months.

Negative catalysts abound

There are many potential triggers for the next market decline. Sadly, key is the potential for a surge in coronavirus cases that will shake an already distressed Wall Street.

There are also growing concerns that China's volume of coronavirus cases may have been far greater than Beijing disclosed. For that reason, the impact on the world's second-largest economy could be worse than originally anticipated.

That will impact demand for commodities, as China is the world's single largest consumer of metals, coal and many other basic materials.

If energy markets are indication, there's worse ahead for stocks. The international Brent benchmark has plunged 62% since the start of 2020 — and has further to fall.

A combination of a looming demand shock triggered by a weaker global economy and rising supply because of the oil price war between Saudi Arabia and Russia will push prices lower.

Another significant event to monitor closely is earnings. Earnings season is upon us, and pundits are anticipating that many companies will have experienced sharp declines. That will only worsen over coming months as the fallout from the coronavirus and emerging global recession harshly impacts the performance of many businesses.

There will be coronavirus-induced bankruptcies during 2020 primarily be among bricks and mortar retailers, airlines, hotels, cinemas, airplane manufacturers and producers of consumer discretionary products. As those bankruptcies mount, it will spook already nervous markets, causing them to fall further.

This is important to remember

One thing is clear: Stocks are poised to fall further and the bear market could be deeper than the one that emerged in 2008.

What's vital for investors to understand is this: *Do not panic.*

We know that the economy and stocks will eventually recover. After the 2008 Great Recession, the global economy returned to growth. Between the end of 2008 and 2019, global GDP grew 38% and the **Dow Jones Industrial Average** surged by 225%, while the S&P/TSX Composite gained 90%.

The sooner the coronavirus is brought under control, the sooner recovery can begin. This emphasizes why adhering to social distancing requirements, travel bans and other strategies implemented to contain the pandemic are crucial.

This was reiterated by the IMF Managing Director Kristalina Georgieva, who stated: “The economic impact is and will be severe, but the faster the virus stops, the quicker and stronger the recovery willbe.”

That emphasizes why it’s important not to panic, focus on your reasons for investing and maintain a long-term perspective.

CATEGORY

1. Coronavirus
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/07/19
Date Created
2020/03/30
Author
mattdsmith