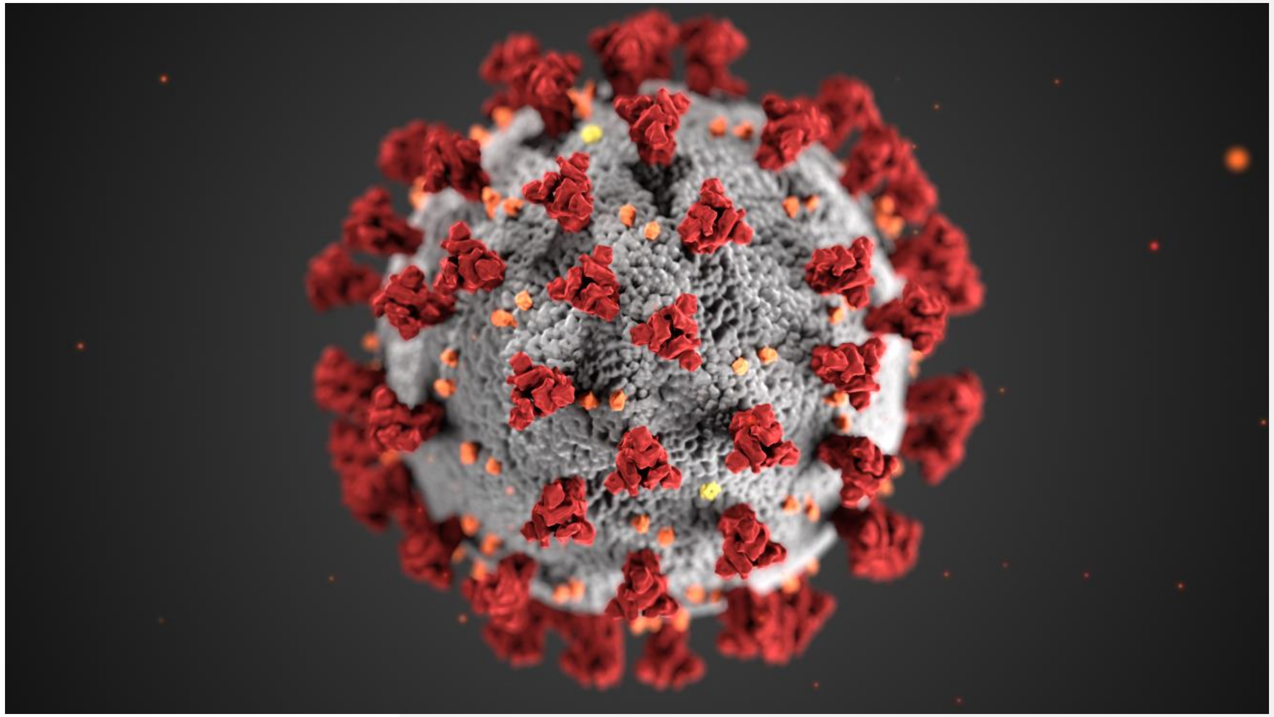

Market Update Summary

A look back at the rippling effects of the Great Health Crisis

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The Fall

Markets and economies were overwhelmed by fears over the COVID-19 pandemic that has rapidly spread across the globe and, in the process, brought an abrupt end to the longest U.S. expansion on record.

Snap

Recessions typically follow from economic and/or financial imbalances or overly tight monetary policy.

34% drop in the US stock market – fastest drop on record (22 days).

Deliberate Shutdown

But this time, none of those characteristics are present. Instead, economic activity has been deliberately shut down by the government seeking to curtail the spread of the highly contagious C0VID-19 and to avoid a large-scale public health crisis that could potentially overwhelm state and local healthcare systems.

Stepping In

In response to this threat, the Federal Reserve intervened massively to prevent a liquidity crisis from turning into a credit crisis.

Taking Action

Policymakers cut rates to effectively zero, committed trillions of U.S. dollars to support cash markets, pledged an unlimited amount of QE, and launched numerous new credit facilities to backstop bank balance sheets and to support money market funds.

Rates were cut 150 bps to zero.

Lending a Hand

Lawmakers passed the CARES Act, a $2.3 trillion stimulus package designed to soften the severity of the recession, effectively putting much of the economy on the government’s payroll for a few months.

A Siege on the Economy

The total number of Americans applying for unemployment benefits climbed to above 30 million since the coronavirus pandemic laid siege to the U.S. economy six weeks ago.

Economists estimate that the spike in unemployment has likely pushed the jobless rate to between 15% and 20%. The only other time in American history when unemployment was that high was in the early stages of the Great Depression almost a century ago.

Familiar Feeling

Market conditions brought back memories of 2008-2009 as risk assets fell sharply, and investors sought the safety of Treasury and government-backed debt.

Crude Reality

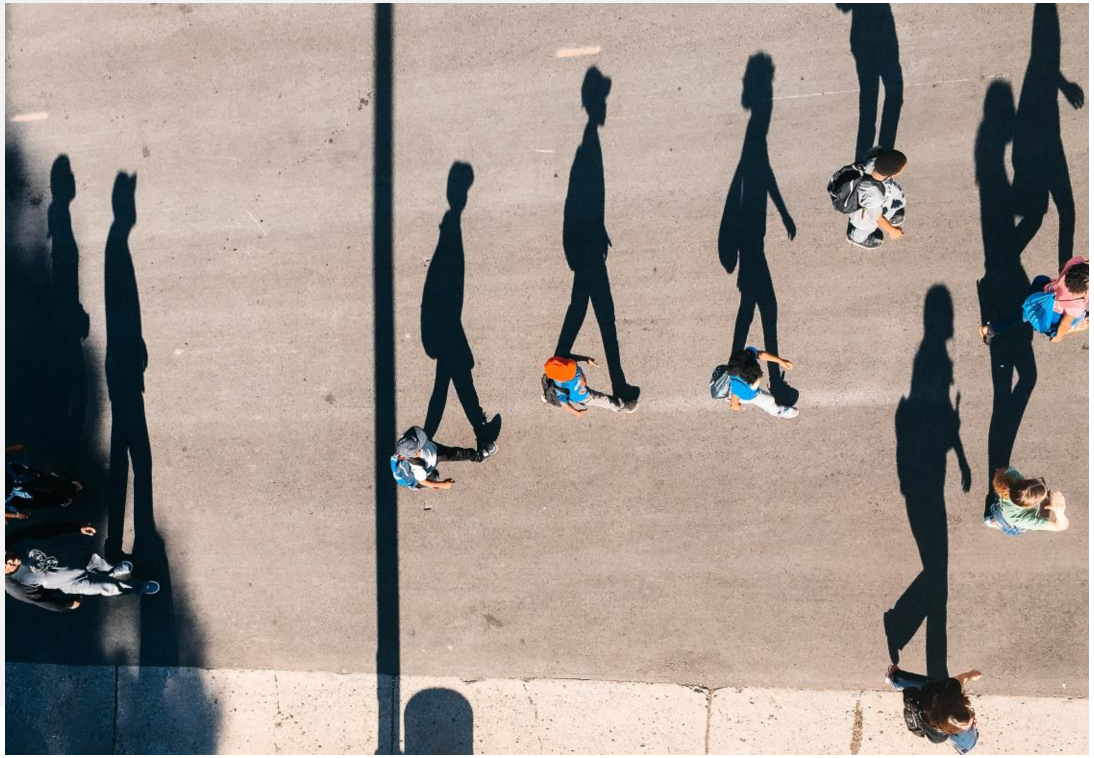
U.S. crude oil was crushed from both the demand shock from COVID-19 and supply shock resulting from the disagreement among OPEC+ members. On April 20, the U.S. oil's May contract plunged to negative, meaning that you would have to pay to get someone to take a barrel of oil off your hands. It was the biggest one-day fall on record.

The Future

The timetable for reopening the U.S. economy hinges on many essential milestones such as increased testing, contact tracing, breakthroughs on treatment, and a vaccine. Major economies are not well prepared to reopen and handle the potential of a second wave.

Watch & Wait

The government's quick monetary policies have been beneficial so far. But many risks remain. For instance, the current fiscal stimulus does not adequately address the need, and new waves of COVID-19 can easily overwhelm fiscal support. But if the economy recovers in the second half of the year, the unprecedented levels of fiscal stimulus can structurally shift to inflation from deflation.



Take a deeper dive

For an in-depth analysis of the first quarter,
explore the full Market Report,
straight from the IRON Investment Team.