Looking Back at the Markets in March and Ahead to April 2020

April 3, 2020

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March was a really tough month. After a terrible February, all major stock indices were down by double digits, leading to significant declines for the quarter as a whole. All of the major indices ended the month and quarter below their 200-day moving averages, often a sign of more trouble ahead. Plus, even the safe asset classes (fixed income and gold), which often benefit from these sorts of declines, had troubles of their own in March. Like I said, it was a really tough month.

A look back

Coronavirus hit U.S. hard. Given the backdrop of the expanding coronavirus pandemic, these declines are not much of a surprise. If February was the month the virus spread around the world, March was the month it really hit here in the U.S. With cases exploding in New York City and starting to spread elsewhere in the country away from the coasts, preventive lockdowns spread as well. At the end of the month, well over a majority of the country's population was under some form of restriction, shutting down businesses left and right.

A sea change for the economy. Those shutdowns led to the economic news of the month. The first week of substantive restrictions, more than 3 million people lost their jobs and filed for unemployment. This past week, an additional 6 million did the same. For March as a whole, more than 10 million people lost their jobs. These losses are a sea change for the economy, as well as for those individuals. The layoffs resulted from the mass closure of small businesses, which are also at risk. As the damage mounted, the possibility of a depression became very real—and that is what drove the initial declines in the markets.

Fed and the government stepped in. There was, however, some good news during the month. Both the Fed and the federal government stepped in to help keep the economy alive. The Fed cut rates to zero and started a new round of quantitative easing. The federal government put a $2 trillion stimulus plan in place to support worker incomes and small businesses. In addition, another stimulus bill is already underway that would provide relief for states and individuals, as well as targeted support for the mortgage and travel industries. The policy response to the coronavirus crisis in March is unprecedented in both magnitude and speed, and it looks likely to keep the economy on life support until the country opens again.

Partial recovery for markets. The financial markets seem to agree with this take, as the policy actions led to a partial recovery toward the end of the month. The initial decline looked like it was pricing in a depression. But the fast and meaningful federal response with economic life support took most of that risk away, leaving "only" the almost certain prospect of a recession. Markets recovered based on recession not depression, but they are now wrestling with the question of how deep that recession will be—and how much of the sell-off was justified.

A look ahead

Expect more scary headlines. As we start April, the pandemic continues to expand, and it is likely to keep doing so at least through the next month. The economic damage is just starting, and it will become more visible through the month. April is going to be a tough one, with lots of real—and very scary—headlines. The market will certainly respond to those headlines, so we should expect more volatility and quite possibly a retest of the March lows. Expect to see things visibly getting worse and for markets to respond.

Some signs of progress. Even as things get worse through the month, the underlying trends continue to look somewhat better. Signs are that social distancing is working. The growth rate of new cases has dropped by more than half in the past couple of weeks. Although the number is still too high, it is headed in the right direction. Testing availability and treatment research are also improving, which should further help during April. Meaningful progress on controlling the virus during April looks likely.

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Cash flowing into the economy. Similarly, once the Fed programs get running, cash will be flowing into the economy, which should help alleviate panic on all levels. Once people and businesses have assurance that their incomes will be supported, attitudes are likely to improve. That improvement will take a couple of weeks, but it is likely to be in place by the end of April. Things will get better.

A tough road ahead

Even so, April is likely to be even more difficult than March, on every front. The pandemic will keep spreading, the economic damage will hit even harder, and markets will keep reacting to that damage. This may well be the toughest month of this crisis. Expect it. At the same time, even as the news gets worse, the underlying reality is likely to keep improving.

The question will be whether that scenario actually happens. So far, the signs are good. Looking abroad, the U.S. has been about two weeks behind Italy. If that pattern holds, we will see substantial improvement in the viral front. But that outcome is not guaranteed. The federal programs will kick in, but how quickly (and smoothly) they do so remains to be seen. Things are likely to improve. By how much? We don’t know.

March was a tough month. April may be even harder. In the end, it will all come down to the virus. Signs of improvement are real, but this improvement might take longer than we think. Regardless, the positive trends are real and will show up eventually. We just need to hold on and get through it—and get through it we will.

Brad McMillan is the chief investment officer at Commonwealth Financial Network, the nation’s largest privately held Registered Investment Adviser-broker/dealer. He is the primary spokesperson for Commonwealth’s investment divisions. He is also the author of Crash-Test Investing, a must-read primer for Main Street investors seeking to help insulate their portfolios against a market crash. This post originally appeared on The Independent Market Observer, a daily blog authored by Brad McMillan. Forward-looking statements are based on our reasonable expectations and are not guaranteed. Diversification does not assure a profit or protect against loss in declining markets. There is no guarantee that any objective or goal will be achieved. All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance is not indicative of future results.

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