

# Black Swans - Bear Markets - and the Fed lays an Egg

## March 18, 2020 UMB Investment Management Economic Call Summary

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COVID-19 and a simultaneous oil shock have increased the probability of a global recession. UMB forecast for U.S. real GDP quarter by quarter is as follows:

- 0.8% in Q1
- -2.4% in Q2
- -0.4% in Q3
- 1.8% in Q4

For the calendar year, we anticipate GDP to be positive in the 0.4 to 1.0% range.

This recession will not be caused by the typical factors: economic imbalances, excess, inflation and increasing interest rates. It will be caused by “black swans”, or shocks:

### 1. COVID -19

Based on the virus’s reproduction rate in China and Italy, the U.S. is in early stages of the number of new cases. The result: economic activity grinds to halt, corporate earnings suffer, and stock markets enter bear markets (down 20% or more).

### 2. Oil

We have experienced declines in energy sector before. In 2014 to 2016, oil prices declined by 60%. While business spending went down, consumers benefited with additional discretionary income to spend. Today, the consumer will again benefit from lower prices, yet they are told not to spend (travel, entertainment etc.).

## Financial Market

The stock market is a leading indicator in signaling a recession:

- Right now, there is unprecedented volatility. It took a mere 22 days for the S&P 500 to fall 26.7% indicating a bear market (down today 29% from highs)
- Bottom Indicators to watch:
  - A market decline of 34%
  - Extreme negative sentiment
  - Low volatility with three consecutive days of market being positive for stabilization

## The Bond Market and The Fed

The Fed is all in, attempting to stabilize economic growth by cutting rates to its crisis-era target of 0.25%. While lower interest rates are a potential remedy for fading economic

growth, we do not think this will prevent the U.S. economy from entering a technical recession. We can also expect to experience negative returns in the bond market.

### What this means for your investment strategy

Diversified portfolios do help mitigate risk. We remain optimistic with high quality equities that have attractive valuations and take into consideration limited exposure in the hospitality, energy, leisure sector. We continue to monitor the bond market for weak credit and sell the most volatile. We are also holding higher cash levels than normal during this time of uncertainty.

### Conclusion

- Shallow and swift recession mid-year 2020
- Monetary and fiscal stimulus will help and impact growth late 2020, launchpad into 2021
- Expect economic growth in the fourth quarter of 2020 in the range of 0.4-1.0% for the year

For questions, and if interested in receiving a recording of this call, please contact your UMB representative. During this uncertain time, we want to assure you that UMB remains committed to providing the customer service that you have grown to know, while helping to ensure the health and safety of our associates and clients.

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