



## **THE CORONAVIRUS PANDEMIC AND THE US RECESSION AREN'T YET PRICED INTO MARKETS**

### **Key points:**

The Dow Jones was resurgent on Monday (March 2, 2020), soaring 5.1% to post its largest daily percentage gain since March 2009, on the back of investor hopes for policy action by the U.S. Federal Reserve and other central banks around the world.

Despite taking a beating last week as cases of the new coronavirus spread rapidly around the world, U.S. markets have yet to price in a full-scale pandemic and subsequent recession.

The market is pricing in 0% earnings growth for 2020, “rightly so”, with a return to around 8% in 2021.

According to CNBC commentary, « That’s what the market is pricing in, that’s what the base case scenario also is. The markets are not washed; markets haven’t panicked, and so in terms of finding great ideas, investors haven’t had enough of a sell-off for that.

The worst-case scenario of the virus becoming a pandemic with a recessionary impact on the U.S. economy was « not priced in at all by the market right now. » »

### **Impact of containment measures**

Containment measures like those exercised in China, involving the widespread shutdown of manufacturing facilities, schools and businesses, could see worst-case scenario play out.

It could be possible to see a proper contraction of activity and that would be consistent with an average earnings downgrade of about 13% during recession time; that would be consistent with an S&P 500 some 20% lower than where we are today.

In the event of a resumption of activity within 12 to 18 months, however, this would provide a “pretty nice entry point” and that current investors with a long-term horizon would be better off riding out the market volatility and remaining invested.

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