

rate of spread slows, expanded testing will make it look like things are getting worse. Expect to see that story in the headlines.

The Economic Damage: 9/11 or 2008?

The economic damage is certainly real. But going forward, the question is whether the next year will look like it did after 9/11—or like 2008.

Right now, the resemblance to 9/11 is much greater. The pandemic is an outside shock to the economy, which has generated fear and will slow consumer and business spending, much like 9/11. As such, like 9/11, the economic impact could pass once the fear does. That is the base case: real damage, but then a recovery as confidence returns. The economic impact will, however, likely be worse than after 9/11. The slowdown in spending is very likely to be worse and longer lasting this time, which could (over time) turn the 9/11 into another 2008.

This scenario is something we must keep in mind, but whether it happens will depend on whether government policy is sufficiently supportive to both workers and businesses affected by the drop in demand. Here, the news is good. The Federal Reserve (Fed) acted fast and hard to provide monetary stimulus. Unlike 2008, the Fed has clearly stated it will do what it needs to do in order to avoid a crisis. The federal government is also in the process of responding with economic support. While that process is not yet complete, signs are that any necessary support will be available, minimizing the chances of another 2008. There will be economic damage, but with proper policy support, it is likely to be limited.

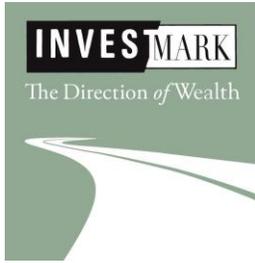
Financial Markets: What's the Damage?

Finally, when we look at the markets, we see a clear expectation that the pandemic will continue and that the economic damage will be substantial. While that still may end up being the case, policy actions both here and around the world have made that substantially less likely in the past week. Signs are that the pandemic will be brought under control and that the economy will get enough support to weather the storm. Make no mistake, there will be damage. But from a market perspective, the question will be whether the damage is greater than markets now expect, or less. Signs are that the damage will be less, which should support markets going forward and eventually enable a recovery.

A Look Ahead

The crisis is not over. We can certainly expect the headlines to keep screaming and even get worse over the next couple of weeks, which could keep markets turbulent. We know, however, what is needed to solve the problem and that those measures are largely in place. By keeping the framework discussed here in mind, we will be prepared for those headlines and able to see the gradual improvement underneath them.

This is a difficult time for everyone, and worries are surging. Although those worries have allowed for the necessary policy changes to solve the problem, worry is always difficult. As we move forward, keep in mind that while the concerns are real, so is the policy progress. In the not-too-distant future, we are likely to see the virus brought under control here just as we have seen in other countries.



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