Perspective amid the coronavirus outbreak

Commentary by Joe Davis, Vanguard Global Chief Economist

At a time such as this, with double or even triple doses of concerning news daily, a little perspective can go a long way.

As troubling as the rapid descent of stocks into a bear market has been, and as much as it can preoccupy investors, we all need to think first about our health and the health of our loved ones. Covid-19, the disease caused by the coronavirus that emerged in China late last year, has been declared a pandemic. The speed at which the disease is spreading has led authorities to take strong measures, including school closures and cancellations of sporting events, on national and community levels.

The disruption to daily lives could be substantial all around the globe. Many in Asia have lived with such disruption, and heightened virus concerns, for several weeks already. It hasn't been and it won't be easy, but it's necessary.

A new, short-term reality

Financial markets clearly are reflecting our new reality, recognizing that the strong medicine required to thwart Covid-19's spread is also likely to blunt short-term economic growth. The result may be a mild U.S. recession, although if it ensues we believe it could be short. We also believe that recession risk is heightened in other developed markets.

In China, where activity is slowly getting back to normal, we expect GDP growth of around 5% in 2020, compared with a reported 6.1% for 2019, with risks to the downside as the coronavirus outbreak plays out among China's global trading partners.

This is where a few points of perspective specific to economics and markets may be valuable:

- **We expect markets to reach this point from time to time.** Global equity markets have experienced eight bear markets over the last 40 years, or one roughly every five years.[1] Put simply, a significant market pullback was inevitable.
- **We remain optimistic about the prospects for economic and market recovery.** The last global recession, the global financial crisis of 2008 and 2009, was deep and long. We don't view our latest challenge in the same light. The global financial crisis was a house of cards falling down, a crisis of excessive leverage, with the financial system itself in jeopardy. The system is sounder now. And although we do expect that global economies will contract in the second quarter, we believe that most will be in a position to rebound strongly later this year and early next year when the virus-related shock subsides and pent-up demand emerges.
- **Global policy makers' response will be key.** Swift, decisive action is required to mitigate the virus itself and its economic effects. Because interest rates are hovering near and even below zero, policy makers can give themselves a truly low-interest loan. We believe that bold, appropriately targeted fiscal stimulus can help individuals and economies get beyond what should be a temporary setback. We believe such measures should be front-loaded, and should target immediate virus containment and eradication efforts, as well as support small and medium-size businesses and households that may need cash temporarily to stay afloat. Markets have responded to stimulus proposals lately to the extent that they believe the proposals can be effective.

Navigating the uncertainty of the coronavirus outbreak is a matter of balancing what we know with what we don't know. Some of what we learn in the weeks ahead may set the markets back temporarily. Making impulsive investment portfolio moves in a time of turbulence is never a wise move. We believe that, in the end, securities markets and broader economies will be resilient.

[1] Source: Vanguard analysis based on the MSCI World Index from January 1, 1980, through December 31, 1987, and the MSCI AC World Index thereafter, indexed to 100 as of December 31, 1979. Both indexes are denominated in U.S. dollars.