It's Always Darkest Before The Dawn

Like the saying goes, it is always darkest before the dawn and while it is the case that there is some sunlight creeping out from beyond the horizon, we are still at least a few hours before daybreak.

The number of confirmed cases of COVID-19 in North America is going to continue to rise sharply in the coming days, as the symptoms begin to show in those unknowingly already afflicted by the coronavirus and, more importantly, testing becomes more widespread. While this may seem to suggest that the efforts to self-isolate and effectively close down substantial chunks of the economy are not successful, they in fact do no such thing. The fruits of these measures will not start to bear for a couple of weeks, as the incubation period passes and those who have been socially distancing themselves know whether they are in the clear. As we have seen in the likes of China, South Korea, and even regions of Italy, they have proven effective.

The economic data is going to get markedly worse as well. We have started to see the early signs of the hit to activity in the government-produced and private-compiled statistics. As the reference periods of the data move forward, the magnitude of the impact of businesses idling production and finding themselves having to either aggressively scale back employees' hours or lay off staff to weather the complete plunge in demand will be more understood. Given the unprecedented size and scale of the shutdowns, we are likely to see weakness in the official growth tallies and employment figures that would have previously been inconceivable by analysts. However, once again, the current experience in Asia suggests that such weak outturns may not be long-lived.

A direct offshoot of all of this is that our anxieties are likely to get worse as well. While technology can try and help fill the gaps, social isolation is tough on our mental health. The extraordinary and uncertain nature of this situation is undeniably stress-inducing – and that is compounded by the added tension felt by those that have suddenly found their income streams either reduced or eliminated entirely. As difficult as it can be to look ahead to the future when there is so much to manage in the present, and the outlook is unmistakably clouded, it is always a worthwhile endeavor to try to put things in perspective.

The one important thing to not lose sight of is that it is a certainty that this will pass – the timing is up in the air at the moment, but whether it is a matter of weeks or months, we will eventually come out of the other side. The signs of success of societal shutdowns in Asia in arresting the spread of COVID-19 provide optimism that the extreme measures we are now taking in this part of the world can result in a return to normal sooner rather than later.

In the meantime, policymakers worldwide are pulling out all the stops in efforts to support their communities and economies. Policies are being proposed that would see direct cash payments to people in order to lessen the financial stress of the shutdowns, while moratoriums on payments for mortgages, rents, utilities and taxes are becoming increasingly widespread, as are freezes on evictions and foreclosures. While clearly not an economic panacea, such measures will undoubtedly help blunt somewhat the hardships faced by households.

Governments and monetary authorities are also making efforts to provide support to businesses with an abundance of cheap money being provided to help tide these enterprises over until they are able to return to something akin to business as usual. These bodies are also taking significant steps to provide a backstop to the financial system in an effort to ensure that this healthcare (and economic) crisis does not morph into a financial one as well.

The big push toward fiscal stimulus – something that many have been calling for in the last few years in order to help get the global economic expansion into a higher gear – and the substantial infusion of monetary stimulus would seem to leave many segments of the economy spring-loaded once they are given the go-ahead. The type of quick turnaround that this could suggest would be consistent with the experience of previous periods of pandemic – though, again, we are likely to see a far larger and broader drop in activity this go-around than we have ever seen before.

There may well be scope for the market sell-off – which has brought a staggeringly quick end to the more than decade-long global bull market and caused dislocations and disruptions within credit markets – to intensify. But there are some nascent signs that these recent initiatives are helping to mitigate pessimism on the outlook, with volatility across asset classes thankfully showing indications of ebbing from near-all-time peaks.

Of course, there is no reason to anticipate that volatility is set to fully subside in the near-term and we could well test new lows as sentiment swings. But history shows us that each and every time we have previously experienced dramatic surges of volatility and rapid market declines, this has been followed by a broadly strong 12-months for financial markets – and there is nothing to suggest that this time should be materially different.

The bottom line is that the situation right now is clearly less than ideal, with the vast majority of us now locked away in our homes for an as of yet indeterminate amount of time. But this is not a life sentence of "imprisonment", just a temporary hardship to be endured for now.