

## The Market and Economic Impact of COVID-19

Despite the Fed's second emergency rate cut, U.S. stock markets plunged 12 percent on Monday as corona virus-related business shutdowns triggered more selling. All major market indexes fell, with the S&P 500 Index down 27 percent from its February 19 all-time high. Despite the Fed's aggressively cutting interest rates and pumping liquidity into the fixed-income markets, equity markets sold off due to uncertainty about the virus' impact on economic growth.

Although the economic outlook remains uncertain, baseline forecasts show the U.S. economy is likely to avoid a deep recession. GDP growth is expected to fall about 3 percent in the second quarter, before recovering in the year's second half. If the recovery is delayed due to a prolonged coronavirus impact, however, the U.S. could fall into a brief recession before rebounding in the fourth quarter. Corporate earnings for the S&P 500 Index are expected to drop 15 percent in the second quarter, before recovering strongly in the year's second half. If the economic recovery is delayed, however, the earnings rebound may not occur until the fourth quarter.

The drop in equity valuations may be creating attractive buying opportunities in the hardest-hit markets, including U.S. small-cap, international developed and emerging markets, which are all trading below fair market value.

What we are seeing is a public health crisis caused by a pandemic — not a financial crisis threatening the economy's foundations. As a result, we expect the effects will be transitory with an economic and market recovery starting in the third or fourth quarter. History shows that investors have been wise to remain invested and ride out the volatility, so they don't miss the strong recoveries that followed past bear markets.

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GDP data are Glenmede's proprietary estimates for the economic impact on economic growth from the coronavirus and oil shock in the U.S. in excess of inflation. These figures are projections which, though arrived at in good faith, are not guaranteed.