The Washington Post

Recession fears grow as Wall Street investors brace for a wild week for stocks

Americans are on edge from the first U.S. deaths and rapid stock market drop. Economists are watching closely for signs that consumers will pull back and companies will stop hiring.

By Heather Long and Jena McGregor
March 1, 2020

Paul Shank lost about $20,000 last week after coronavirus fears caused the biggest weekly decline for U.S. stocks since the financial crisis. His wife Susan asked him multiple times a day if it was wise to keep any of their money in equities.

“To watch 10 percent of your stock portfolio disappear in a week is pretty scary,” said Paul Shank, a retiree in Albuquerque. “To us, it’s a lot of money.”

The last time Americans saw such sweeping and shockingly fast market losses was during the financial crisis, and those memories are still fresh in many people’s minds. Last week, the Dow Jones industrial average plunged 12.4 percent, or 3,583 points, as investors’ fears and uncertainty about the potential economic fallout from the coronavirus became increasingly intense.

There’s growing concern that the steep market losses and mounting death toll will trigger broader alarm, prompting American consumers to rein in their spending beyond canceling vacations and cruises. For a decade, consumer spending propped up not just the U.S. economy but the global economy, keeping factories around the world humming and giving U.S. business owners optimism.

But the momentum of fear is a powerful force — in the markets and the broader economy. About half of Americans have money invested in the stock market, often in a retirement plan that baby boomers are now tapping, and even those without market exposure are often influenced by big drops.

Coronavirus has also caused significant supply chain disruptions of toys, medical equipment, auto parts and smartphones from China, none of which will be easy to smooth out, even if the virus ebbs within a month or two. The twin blows to consumer confidence and supply chains have significantly raised the chance of a recession, according to economists.

“The odds of a recession are roughly a coin toss, and that’s exceptionally high,” said Edward Al-Hussainy, an analyst at Columbia Threadneedle Investments. “Conferences are getting canceled. Corporations are asking people to work from home. Schools are getting closed. That is a massive hit to demand."

In discussions with a dozen families and financial advisers around the country, nearly all said nerves were high but most of the fear is concentrated in the markets.

Calls to Schwab Intelligent Portfolios service team were up all week, spiking more than 115 percent on Thursday and Friday compared to a typical day. Schwab declined to say how many investors were selling stocks.

Some financial advisers said their clients were inquiring about whether they should think about buying stocks, which were widely viewed as overpriced at the start of 2020. More often, callers were looking for reassurance.

After many dinner table discussions, the Shanks are staying in the market for now. The couple has a modest amount of their portfolio in stocks with the rest in bonds and other lower risk investments. But, like many Americans, they are watching the situation closely.

“It’s just a scary time. At some point it will scare me enough that I’ll pull out,” Paul said.

Financial adviser Jamie Cox of Richmond was flooded with calls and said nearly everyone had the same question: Is this a repeat of the financial crisis?

It’s a delicate question to answer. One likely scenario is that the coronavirus will be a short-lived crisis with a health impact similar to the flu and an economic impact that slows growth for the first half of the year and then rebounds in the latter half.

“History has to provide some guidance,” said **Bernard Baumohl, chief global economist at The Economic Outlook Group.** “We’ve gone through influenza and other diseases that involved thousands of people in the United States. They have never reached a level of magnitude where it precipitated a recession.”

J.P. Morgan has been telling clients growth will slow to 1.25 percent in the first half of 2020, but most of the depressed sales will be made up later on. Cox has a similar view.

“I’m telling people that this is not anywhere close to being indicative of a 2008 scenario. This is a demand and supply shock that is very temporary in a very strong economy,” said Cox, a financial adviser at the Harris Financial Group.

There is a chance the coronavirus spirals into something sinister and long-lasting. The coronavirus, which first emerged in China, has spread to 60 countries at a rapid clip. With many parts of China, South Korea, Japan and Italy in a virtual standstill, the public health crisis is increasingly hurting the global economy, which could make it harder to recover. That’s why experts like analyst Al-Hussainy and economist Sung Won Sohn of SS Economics say the chance of a recession is growing.

Like many in the financial industry, Al-Hussainy is watching consumer confidence, key to figuring out whether fear and uncertainty will lead to an economic downturn. The widely watched University of Michigan Survey of Consumers released Friday showed that many Americans still feel positively about the economy, but nearly 20 percent of those surveyed Monday and Tuesday mentioned concerns about the coronavirus and the steep drop in the stock market.

“The virus is in the U.S. now. What happens to the number of cases and fatalities from here is likely to drive sentiment as Main Street grapples with what it all means,” said Peter Atwater, president of Financial Insyghts. Consumer confidence has wavered in past stock market declines, such as the end of 2018 when the market fell nearly 20 percent. But confidence rebounded quickly as the market climbed again. Beyond stocks, another key driver of sentiment — and spending — is how secure people feel in their jobs. So far, job growth remains strong, but many are watching the travel and restaurant industries for signs of furloughs and layoffs.

The fear of infection is already spurring some families to make tough choices. Geraldine Caul has been trying to cancel a Royal Caribbean cruise for her and three family members this spring to Spain, France and Italy. A

Royal Caribbean staff member told her she would lose half her money if she canceled and insisted there “could be a cure by the end of the month.” The family is concerned about the coronavirus spread in Italy. But they’re also worried about possibly being quarantined on their return and losing a month’s pay. Caul’s brother-in-law works for a major hotel chain.

“They’ve been told a minimum of four weeks quarantine, when they come back and no pay,” said Caul, a retiree in Davenport, outside Orlando. Professional money managers said they felt like psychologists in recent days. They constantly stress to clients to get a good financial plan — often a mix of stock and bond investments and some emergency savings — and to stick with it, whether the market goes up or down. But investors still have innate human instincts to flee trouble, especially with markets swooning so sharply over the past week.

“Mike Tyson had a good quote: ‘Everyone has a plan until they get punched in the mouth,' ” said Robert DeHollander, a financial planner in Greenville, South Carolina, who lost count of how many calls he’s been getting from clients. “You can talk about risk tolerance all day long, but you don’t really know how you feel about it until moments like this."

Sixty-nine percent of Americans surveyed by Morning Consult last week said they were concerned about the impact of the coronavirus on the economy — up from 55 percent who said the same in a survey conducted Feb. 7-9.

“These things start getting you nervous, and I’m not usually a nervous guy,” said Gary Firestone, 74, of Fort Myers, Fla.

Firestone, who ran his own ad agency for four decades and still retains a few clients, said he was nervous enough, after seeing the markets tumble, that he called his financial advisers to ask if it was time to get out of any investments. He can still recall the sting of the financial crisis, especially its roughly 30 percent hit to his investments that took a long time to recover. Now, he’s got more at stake, as he’s closer to retirement.

“You see less of a distance you have for potential returns. Can I afford to lose that now when I don’t have that many years to catch up? That’s what brings on the fear,” he said.

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