

Market Volatility Pandemics and Stock Markets COVID-19 / Spanish Flu Comparison

Unfortunately, the news reminds us 50 times a day that we have a pandemic, people are hoarding cleaning supplies and toilet paper, and the market plunged into bear territory and continues to bounce around mostly much lower than where it was a few weeks ago.

When markets fall rapidly, we tend to worry about what seems an unprecedented situation, especially when areas of the country are locking down to slow the spread of COVID-19. It may seem like everything is screeching to a halt.

Please do not panic. We have experienced pandemics before. We have also weathered quick, deep market dips. And we've recovered each time.

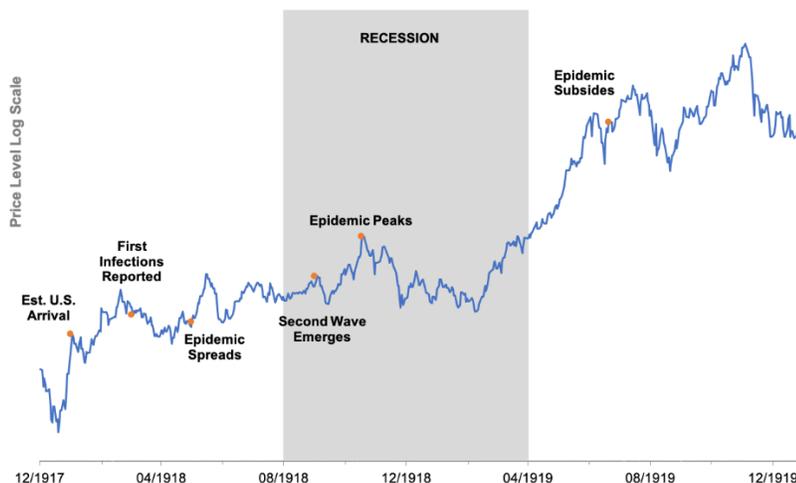
The last viral pandemic was the H1N1 virus, or swine flu, which arrived on U.S. shores in April 2009.¹ You may not remember because markets were in the midst of significant upward movement after having bottomed out in March 2009. Wall Street broadly ignored the Swine Flu pandemic although it had serious human consequences.

However, some people say the COVID-19 situation is unique. Perhaps it is. Comparison between H1N1 and COVID-19 does not work well, nor do comparisons to other pandemics. Hopefully, we will not have to compare COVID-19 to one of history's worst pandemics, the 1918 Spanish Flu.

Nearly one-third of the world's population contracted the virus and more than 50 million died in just 15 months.²

Incredibly, the Dow actually rose during the 1918 Spanish Flu pandemic.

The Dow During the 1918 Spanish Flu



Sources: MacroTrends, CDC, NIH, NBER

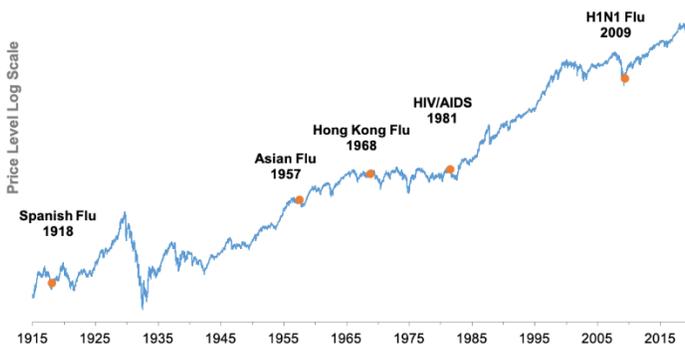
The Spanish Flu included quarantines, labor shortages, and contributed to a brief recession in the aftermath of WWI.³ But, while markets were extremely volatile during 1918, they reestablished an upward trajectory in early 1919 before the pandemic was officially over.

Despite the massive human toll and huge business interruptions, the Spanish Flu only resulted in an estimated 0.5% loss in annual U.S. GDP.⁴

When we look at history, pandemics are actually not that uncommon, and their market effect has typically been relatively brief.

Dow During Historic Pandemics 1915-2019

Estimated First U.S. Occurrence or Report



Sources: MacroTrends, CDC

Pandemics have been observed in the U.S. five times over the last 100 years. COVID-19 becomes number six. Outbreaks sometimes precipitated or accompanied market declines, but not always. Either way, stocks typically regained ground rather quickly as the health crisis subsided.

Although history does tend to repeat itself, the past cannot reliably predict future events...and certainly not their timing. Likewise, investors should never consider past performance a reliable indicator of future returns. However, our present challenges should remind us that healthcare crises, such as pandemics, are not an isolated, major driver of market change. Economic fundamentals, business health, and future earnings, among other factors, all drive long-term market trends.

We are not in any way downplaying the seriousness of the COVID-19 pandemic. Families are experiencing tragedies around the world. One only needs to watch the news from Italy to see their pain. In the U.S., the growth period of the virus is upon us. It may become exponential. And it's not going away quickly.

All that said, we believe markets are reacting on emotion, fear, and uncertainty more than rational assessments of the future.

A reasonable strategy we recommend.

1. Don't buy or sell based on news or daily market movement. Fear, speculation, and uncertainty feed market volatility.
2. Focus on staying healthy and taking precautions to keep yourself and your family safe, especially if you have loved ones who are at higher risk of complications from the virus. Those appear to be individuals who are immunocompromised and older people.

3. Extend extra kindnesses to others in these anxious days, especially those in most need.
4. Show your gratefulness for the medical personnel and first responders on the front lines, the researchers plowing forward as quickly as possible, and the hard-working truckers and grocers stocking store shelves. Your thank you goes a long way toward keeping all of them energized.
5. Remember that our country has faced many crises before, and we will get through this together.

Market monitoring is our job.

When markets seem to fall off a cliff and economic upheaval appears on the horizon, professional financial advice is one of the best tools you can use to cancel the noise and make rational decisions.

My team and I are closely monitoring leading indicators, research releases, and market movement. We are managing your portfolio, looking for opportunities, and preparing strategies for multiple possible scenarios. We are keeping your investment time horizon, goals and objectives, and appetite for risk in mind.

We'll be in touch if updates are needed to your plan. If you need to talk or discuss your plan and your goals, please call us at «representativephone» or reply to this email. We are here for you and happy to talk.

---Chuck

P.S. If someone you care about is worrying about markets right now, please reach out and let me know. **I'll be happy to speak with them. This is a time when people need professional financial advice.** Just call us at 248-680-4622. We'll take care of them for you.

¹ <https://www.cdc.gov/flu/pandemic-resources/2009-h1n1-pandemic.html>

² <https://www.smithsonianmag.com/history/journal-plague-year-180965222/>

³ <https://www.smithsonianmag.com/history/how-1918-flu-pandemic-helped-advance-womens-rights-180968311/>

⁴ <https://finance.yahoo.com/news/information-past-pandemics-learn-literature-222750122.html>

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