# Economic Resilience and Vulnerability: Divisive Effects of Coping with the Coronavirus Threat

*presented by*
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*Swiss CFA Society*

*5:00 PM CET, September 30, 2020*

**Exhibits and related written materials are available upon request from*
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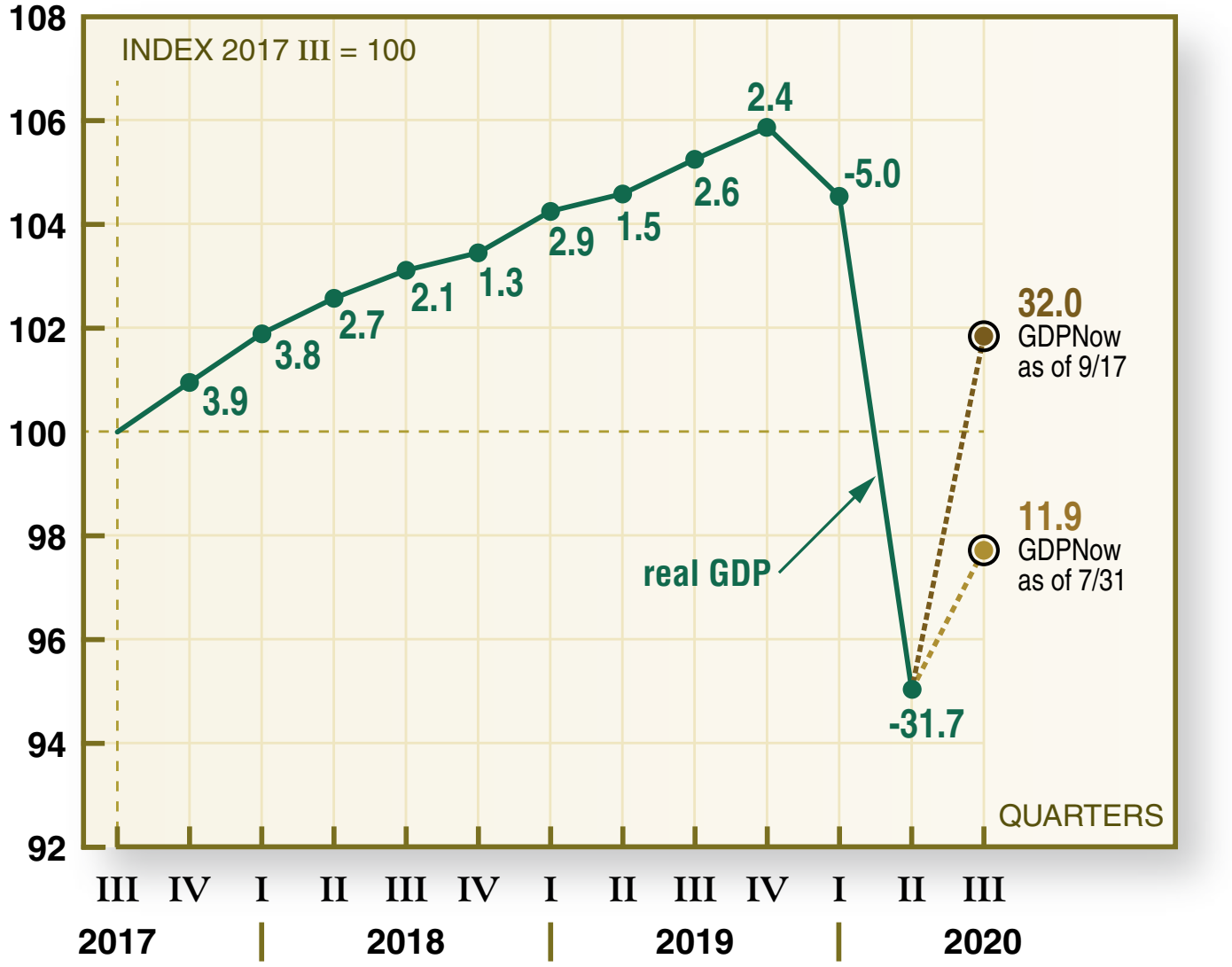
# Opening Points

- Resilience is as much a key to economic success as it is in personal life
- Although this is no secret, consensus opinion on the economy places greater emphasis on economic vulnerability to shocks and challenges – and constant need for artificial stimulation
- Resilience is neglected as a factor in government policy and forecasting
- If markets and the economy perform well it's attributed to "stimulus" from government policies; if they perform poorly, it's because Washington hasn't been generous enough
- This is a "Catch 22" keeping us from asking how much inherent resilience the economy possesses
- But whether "stimulus" adds to resilience, or subtracts from it, is an open question
- We can use stock market data to infer something about resilience
- It varies widely among economies as well as between different sectors of an economy – even among different segments of the workforce

# Recent Growth of GDP

## from the third quarter of 2017

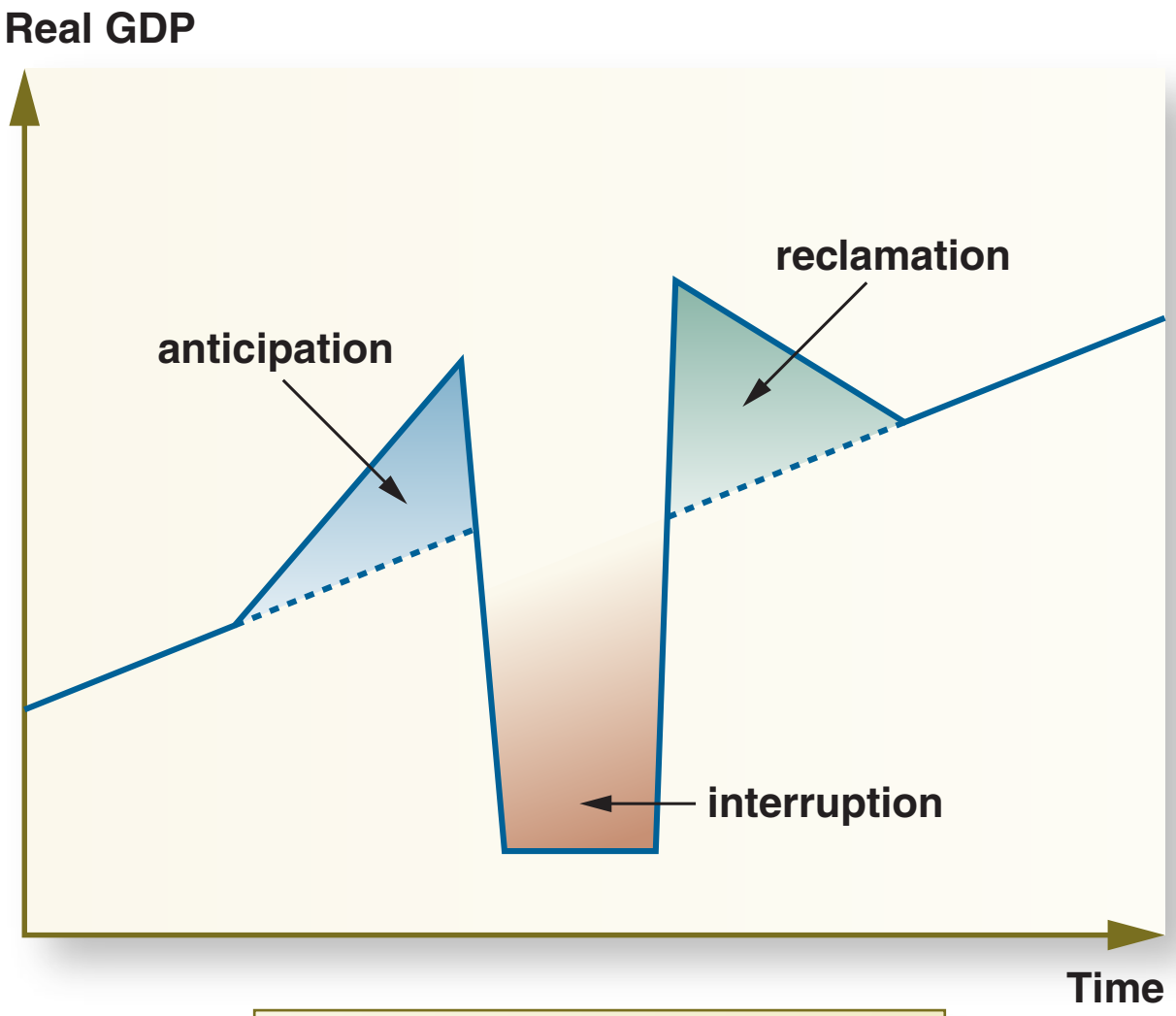



**Data:** Quarterly chain-type quantity indexes. See Interactive data/Industry Data/GDP-by-industry/Gross Output by industry (Bureau of Economic Analysis). Real GDP labels show quarterly growth re-expressed as seasonally adjusted annual rates.



*prod:* GDP-LeadInd-Syn *prog:* 13 QUARTER 2.7 XQGROWTH 283 and 1.3 XQGROWTH 283

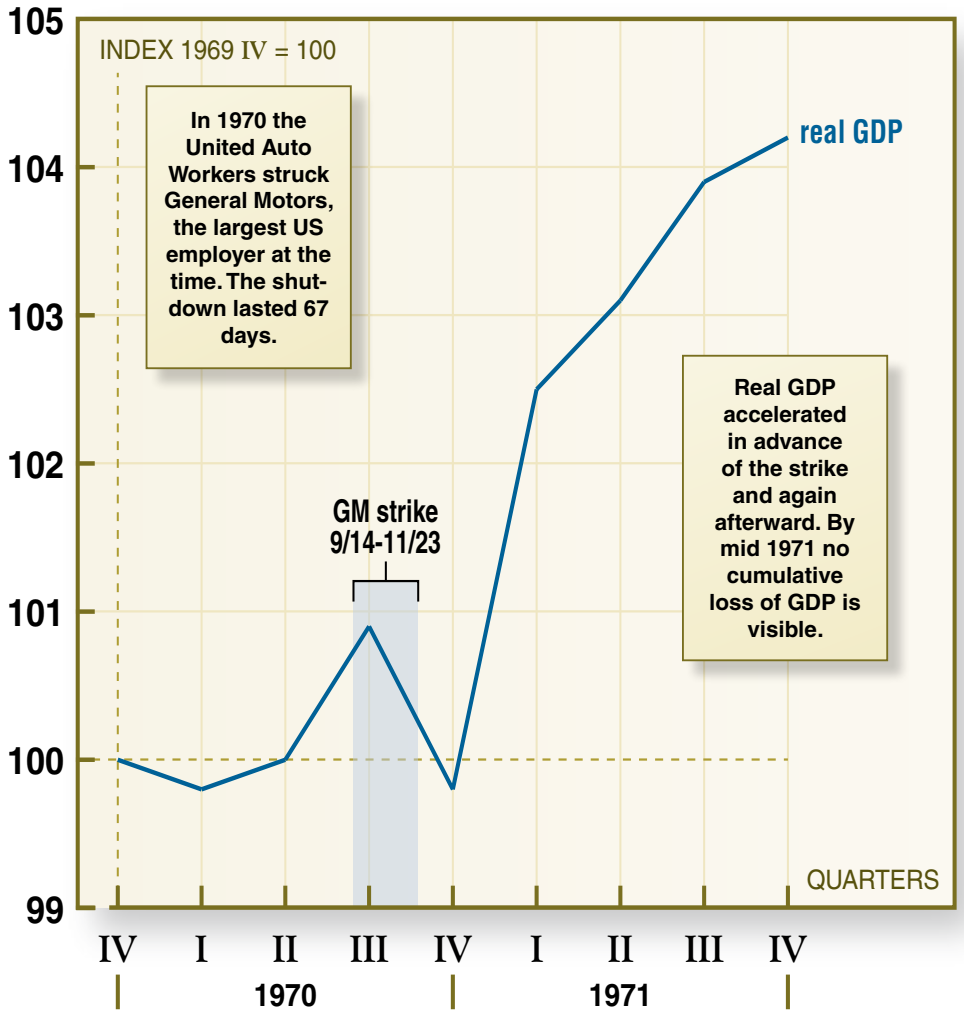
# Stylized Profile of a Hiatus in Economic Activity



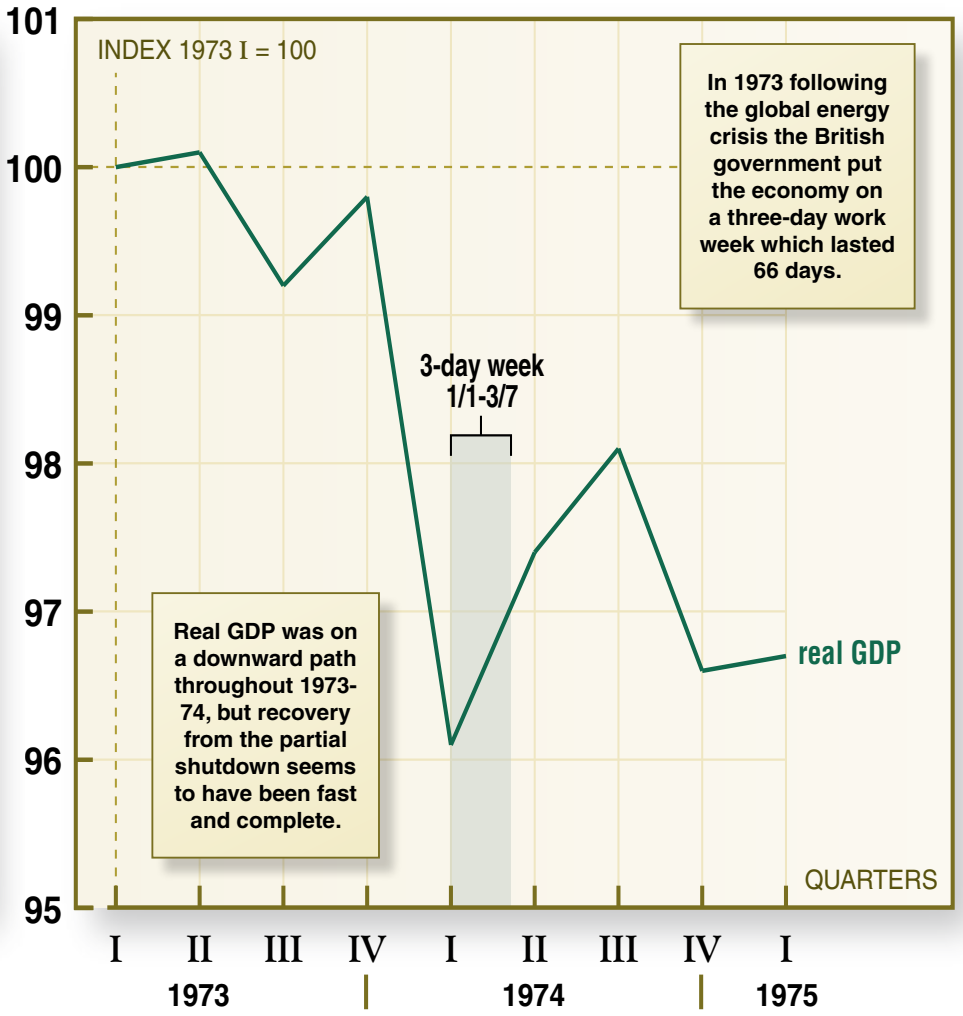

**After the economy hits an interruption such a major snow storm or natural disaster, it bounces back very nearly to its prior output growth path. Coronavirus shutdowns should not be different.**

# National Output during Historical Economic Shutdowns

## a) the General Motors strike of 1970



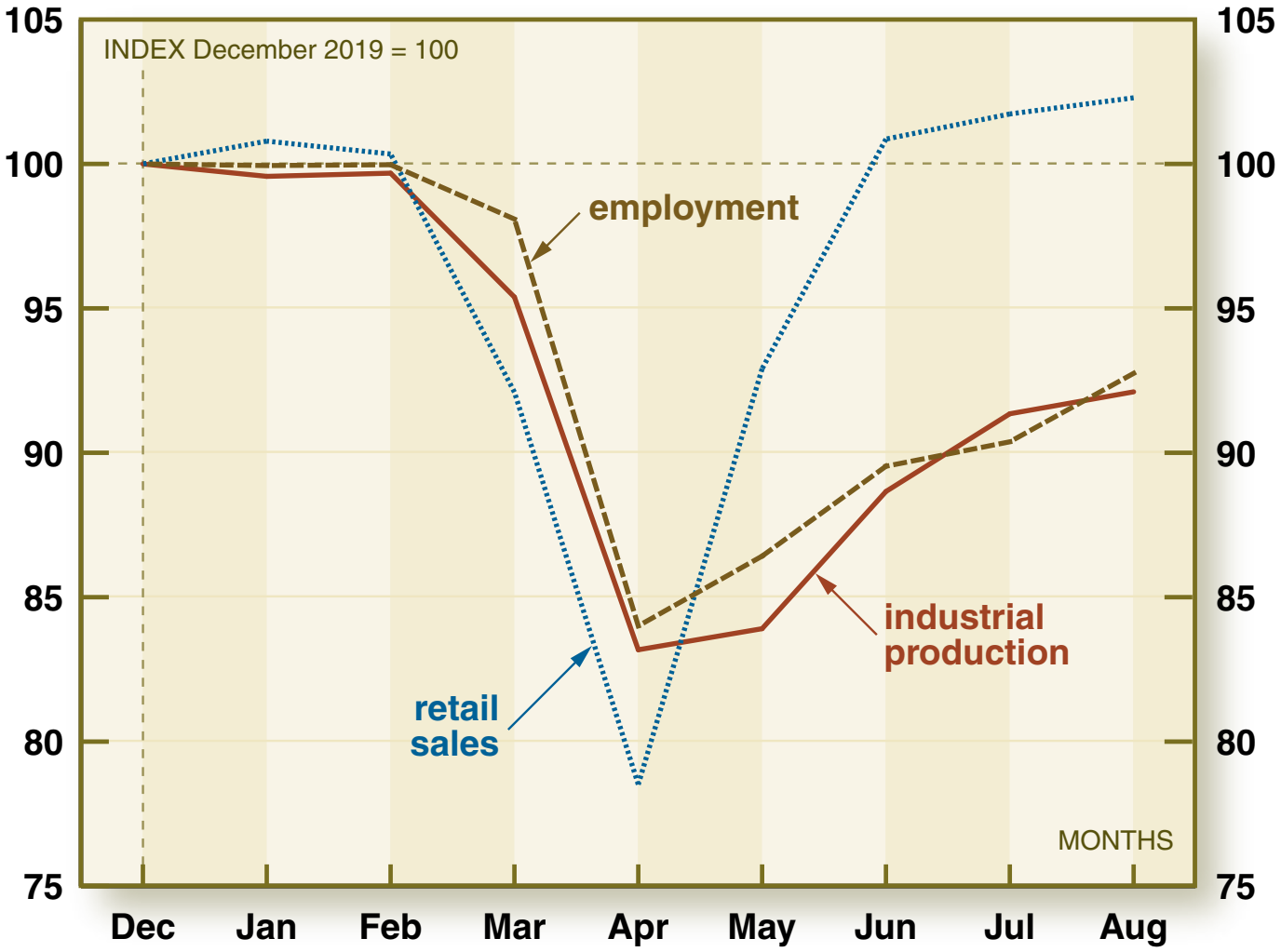

## b) Britain's three-day week of 1974




**Data:** : Bureau of Labor Statistics.

# US Economic Activity During the Pandemic

## monthly data, year to date



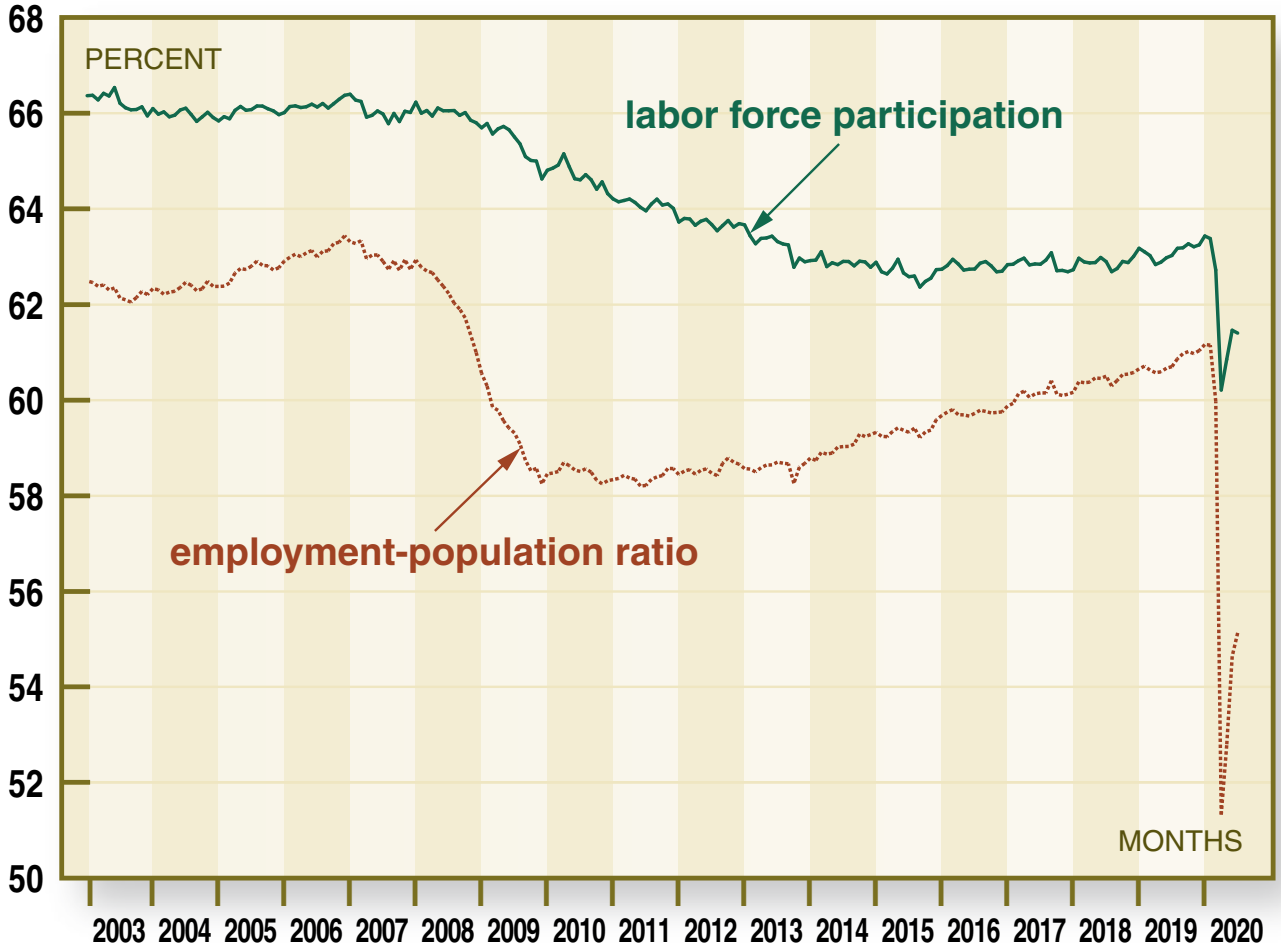

**Data:** Advance retail sales including food services (Bureau of the Census) and civilian employment (Bureau of Labor Statistics household survey), seasonally adjusted.



*prod:* Pandemic-US-Econ *prog:* 13 REVERSE REVERSE-f2

# US Labor Force and Employment as a Percentage of Working-Age Population

## from the beginning of 2003




**Data:** Monthly civilian population, 16 years and over, not seasonally adjusted, and civilian labor force and employment, 16 years and older, seasonally adjusted (Bureau of Labor Statistics Current Population Survey).

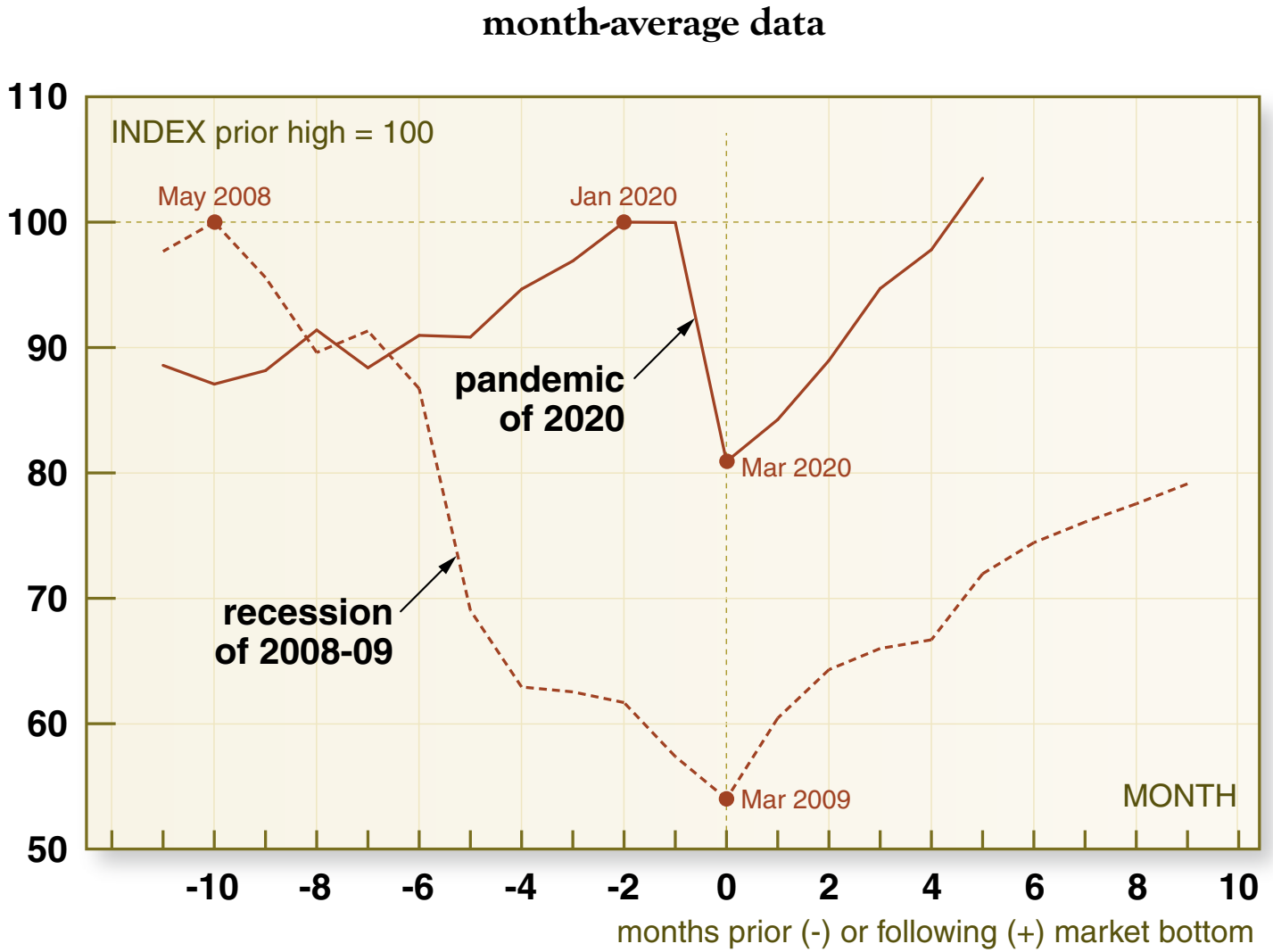


*prod:* PercentWorkAge *prog:* 13 WEBCAST WC0313 and 13 RESIL SHUTDOWNS

# What Have We Further Concluded?

- The US economy as a whole has high resilience
- The economy's behavior so far suggests no disconnect with the stock market
- The third-quarter GDP rebound will be far the most vigorous on record
- But the economy will have a different constitution after the pandemic than before
- This change in shape is exactly what resilience is all about
- Parts of the economy that are not resilient include large-scale production and employment
- Twelve years after 2008, for example, employment had grown only halfway back to its previous ratio to population!

# Stock-Market Vulnerability and Resilience in 2008-09 and 2019-20

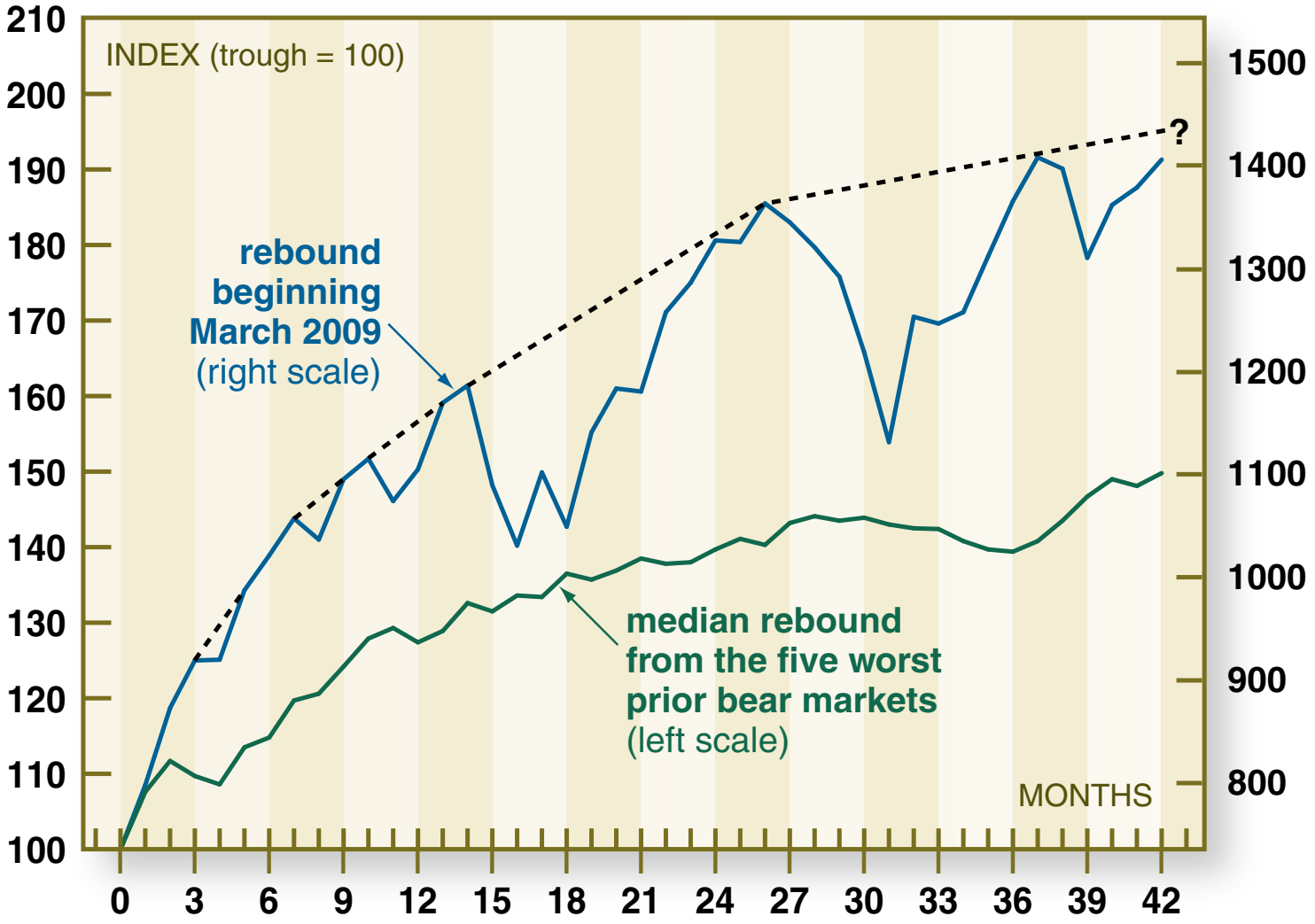



**Data:** Month-average price index for the S&P 500 companies (Standard & Poor's).

# How the Market's Course since 2009 Compares with Past Rebounds from Historic Market Declines

## from month-end price data since 1949

***cumulative change in the S&P 500 price index from the beginning of the rebound***

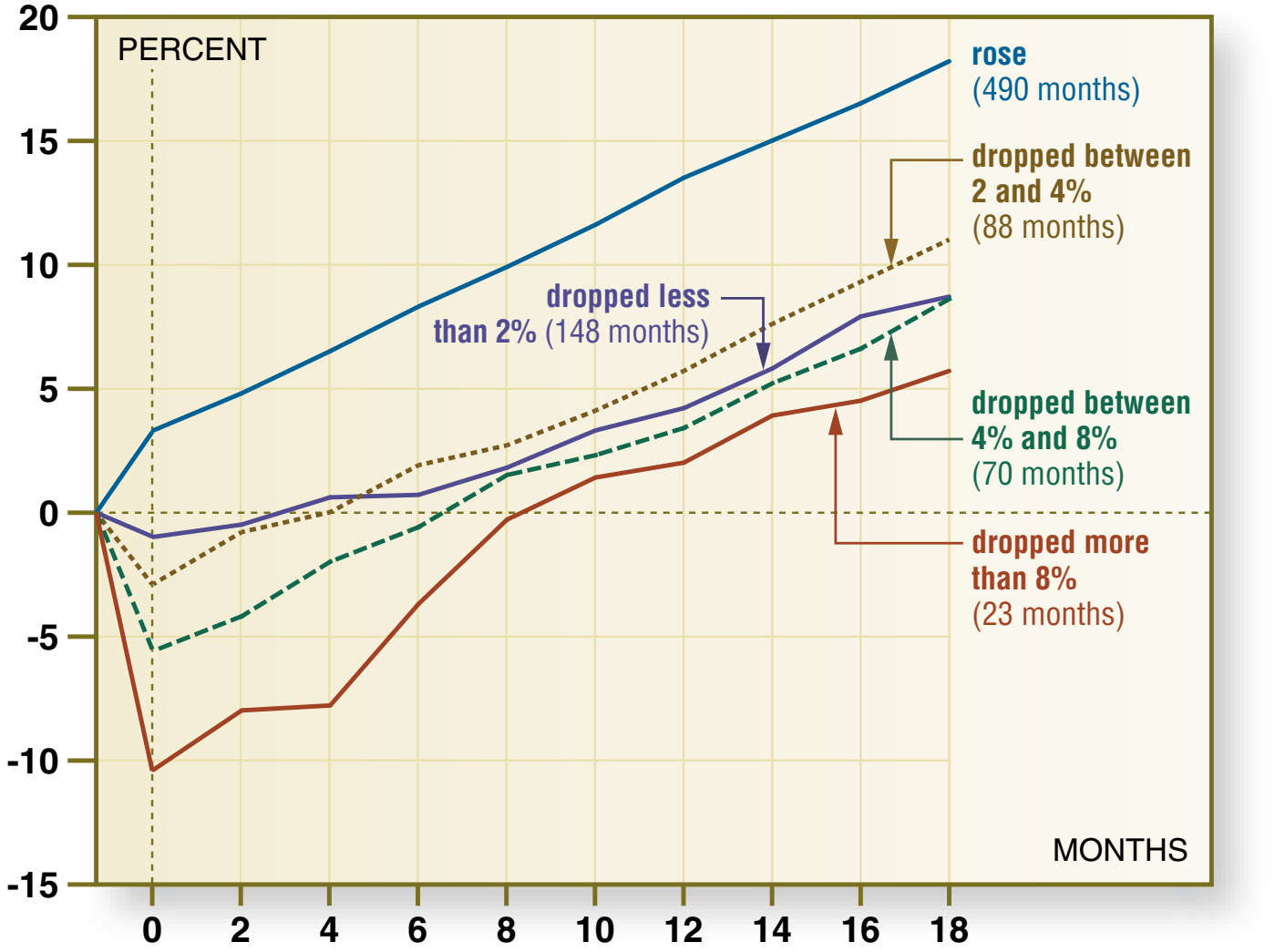



Data: End-of-month prices for the Standard & Poor's 500 (University of Chicago/Dimensional Fund Advisors).

# The Further the Market Drops, the Higher it Bounces

## month-end S&P price index from the end of 1948

**AVERAGE cumulative price-index change following months in which the index:**

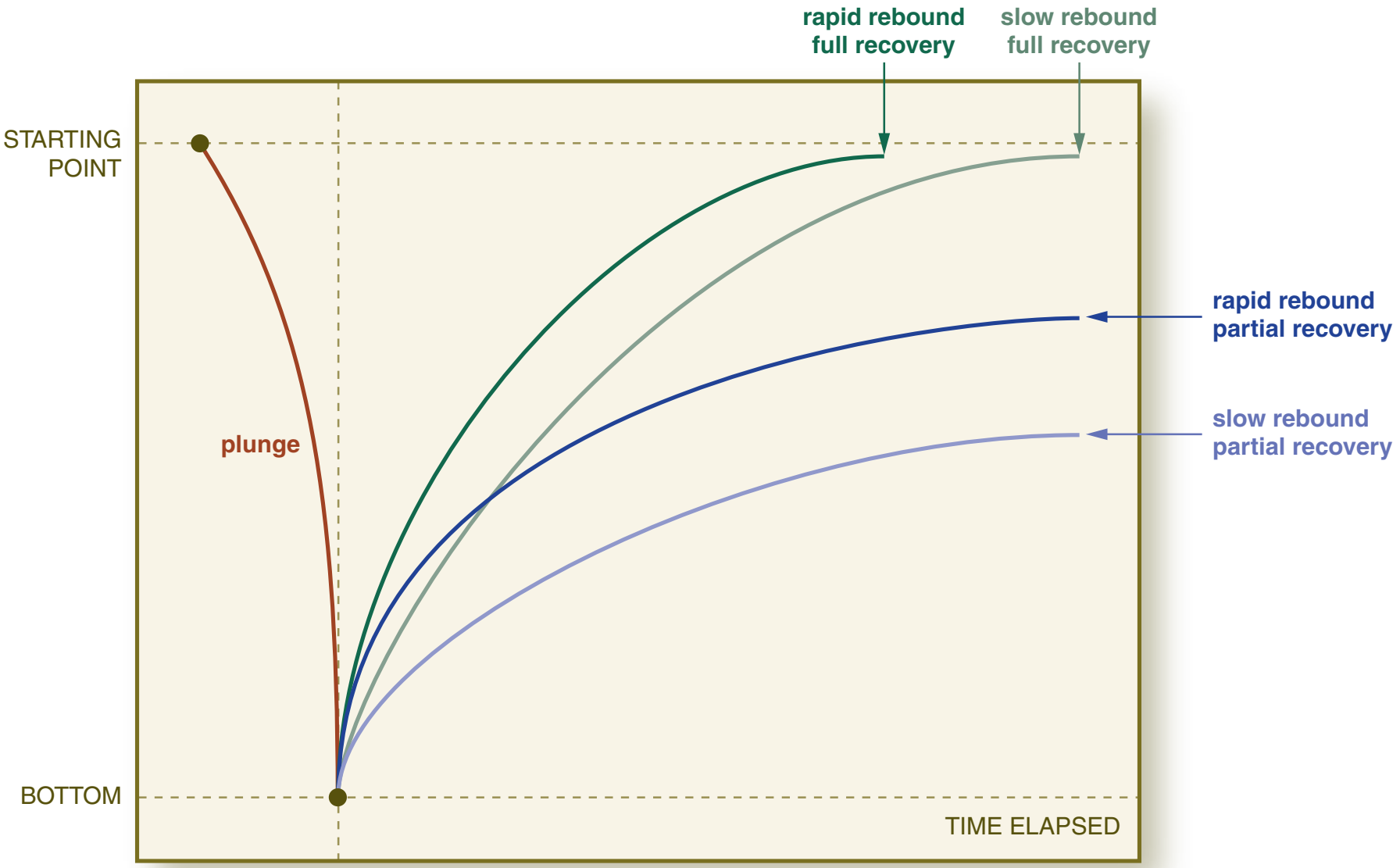



**Data:** S&P price index (Standard & Poor's).

# What are We to Conclude from the Stock-Market Experience?

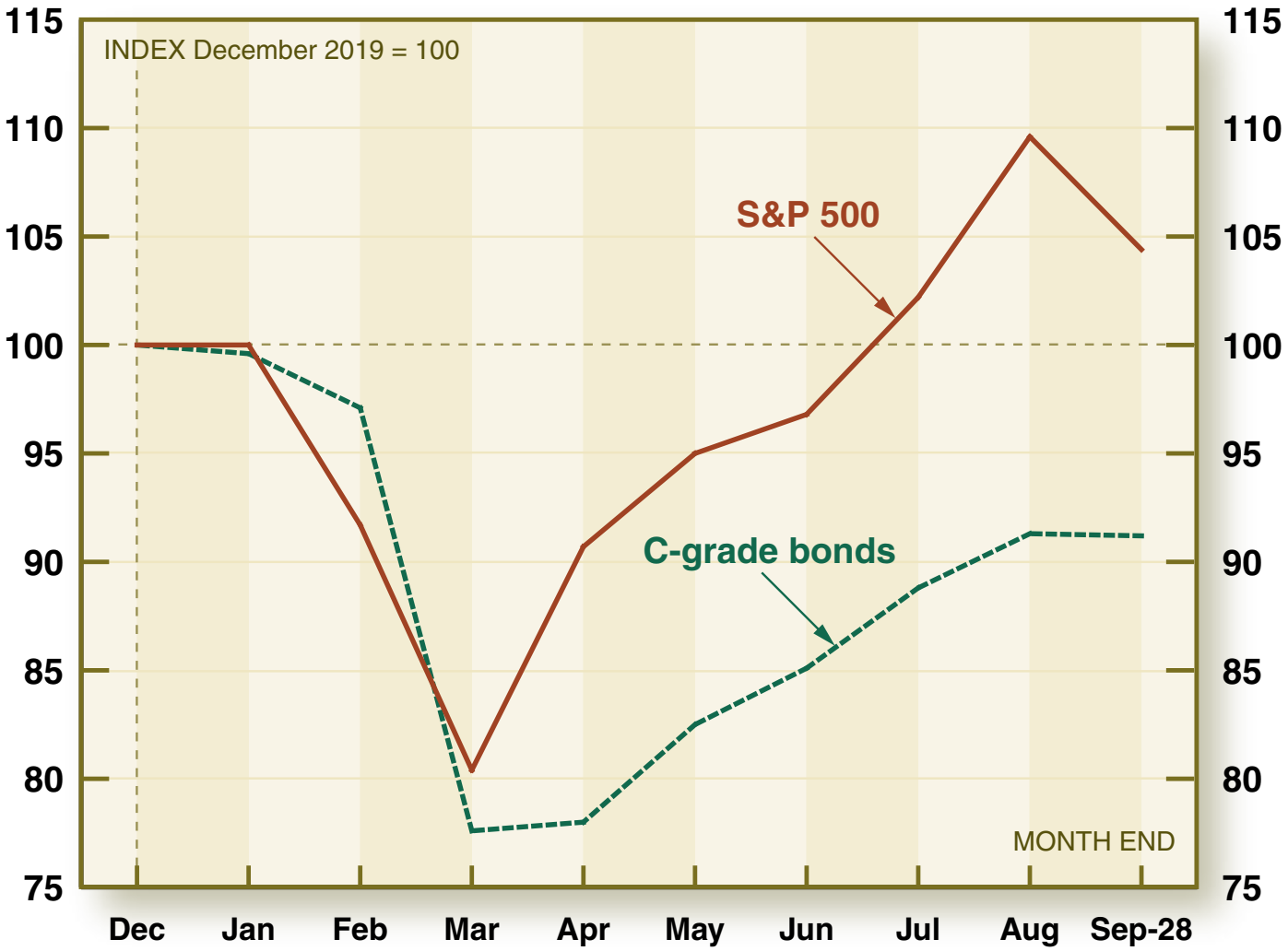
- Over time, the level of stock prices moves with some regularity as well as with randomness
- Lengthy periods of advancing prices are interrupted by periods of downturn and turbulence that are usually brief
- Miniature instances of setbacks and rebounds are visible over shorter time frames
- When the market drops, it typically follows a rebound trajectory along a reverse-exponential curve, as lost ground is recovered

# Stylized Profiles of Stock-Market Rebounds



# Upside Potential in Junk Bonds?

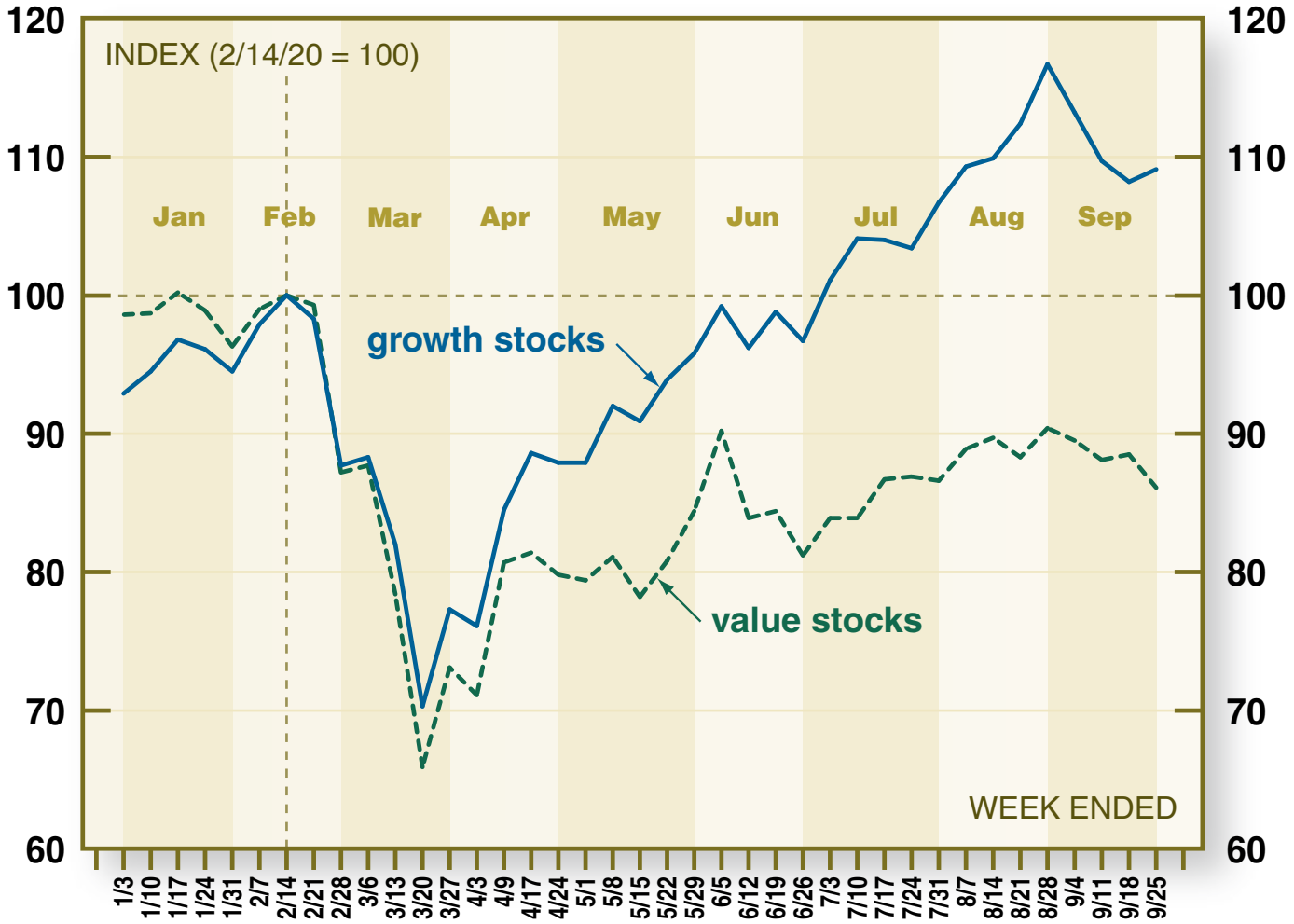
## monthly returns from the end of 2019




**Data:** Month-end total-return indices for the S&P 500 (University of Chicago) and C-grade high-yield corporate bonds (ECU Merrill Lynch).

# Pandemic-related Stock-Market Plunges and Rebounds: Value *versus* Growth

## weekly data from the beginning of 2020



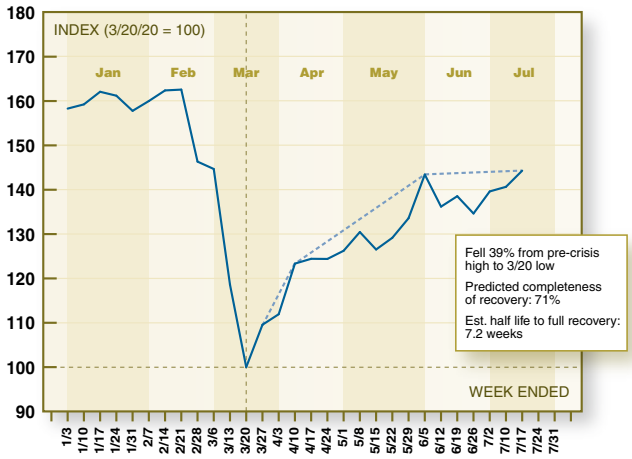

Data: Week-end prices of exchange-traded funds for the S&P 500 value and growth stock indices (iShares)

exhibit: 12

# Resilience Statistics for Foreign Stock Markets

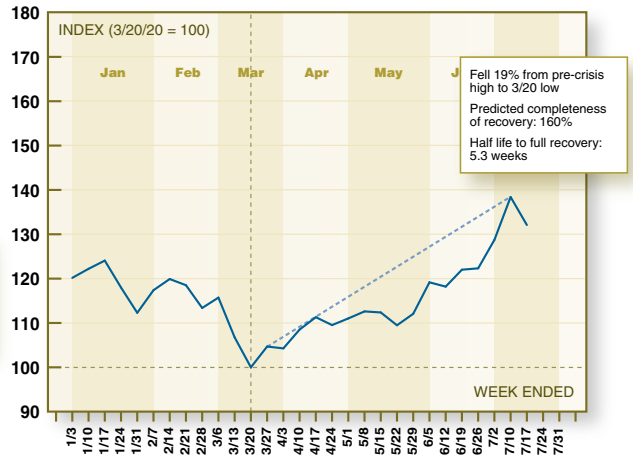
## the Canadian Stock Market

### 2020 pandemic crisis through mid-year



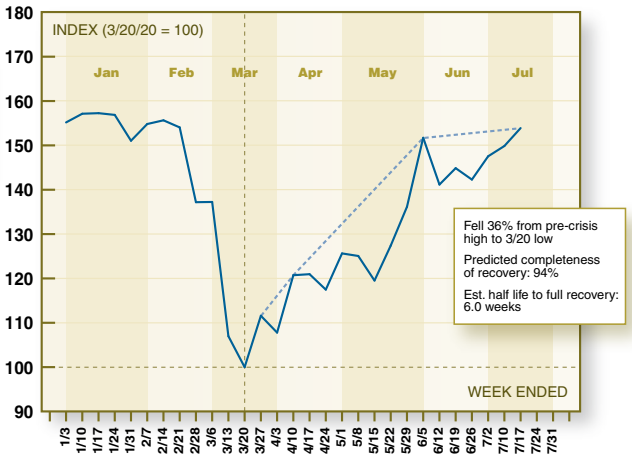

## the Chinese Stock Market

### 2020 pandemic crisis through mid-year



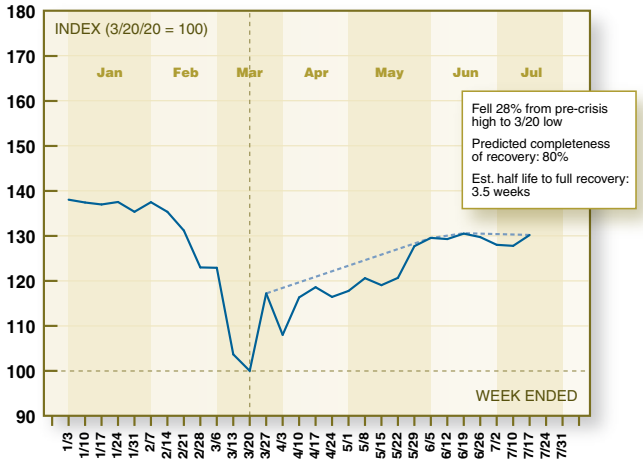

## the German Stock Market

### 2020 pandemic crisis through mid-year



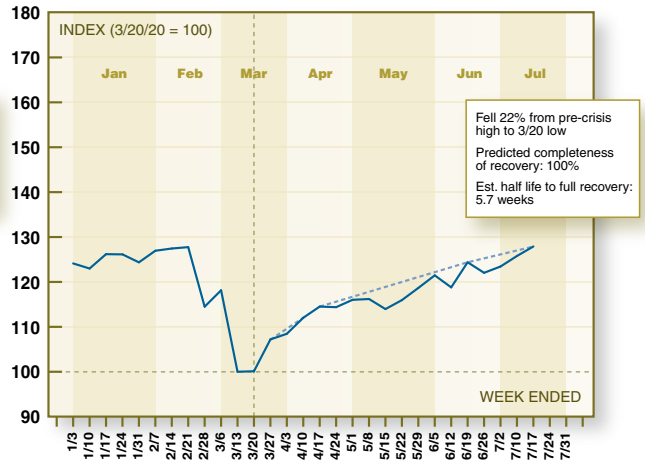

## the Japanese Stock Market

### 2020 pandemic crisis through mid-year



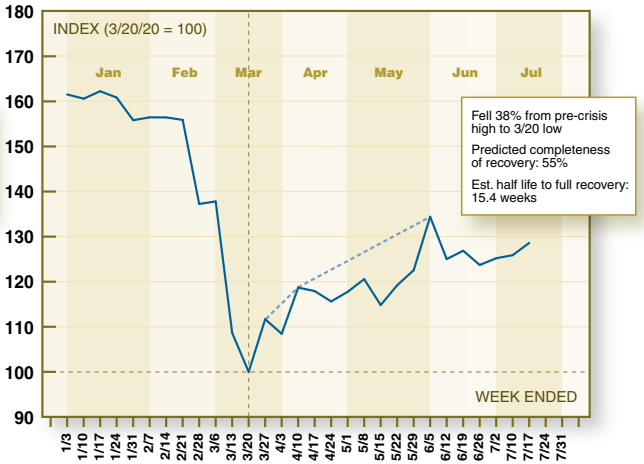

## the Swiss Stock Market

### 2020 pandemic crisis through mid-year




## the UK Stock Market

### 2020 pandemic crisis through mid-year



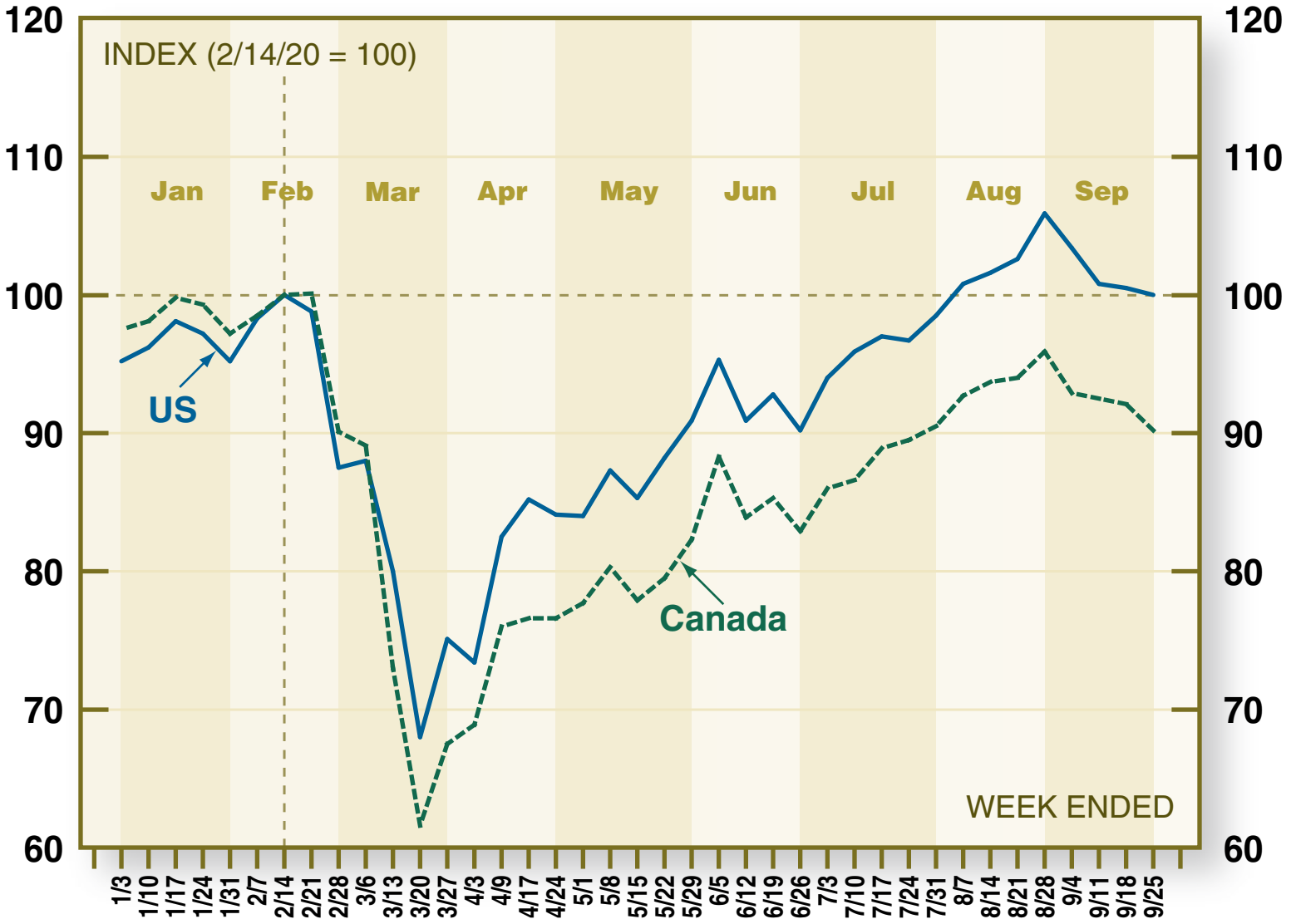

**Data:** Morgan Stanley Capital International.



*prod:* IFr-0720-P2 *prog:* 8 PLUNGE DRIRES HALFLIFEXX MAT

# US and Foreign Stock-Market Vulnerability and Resilience

## (1) Canada, weekly data from the beginning of 2020



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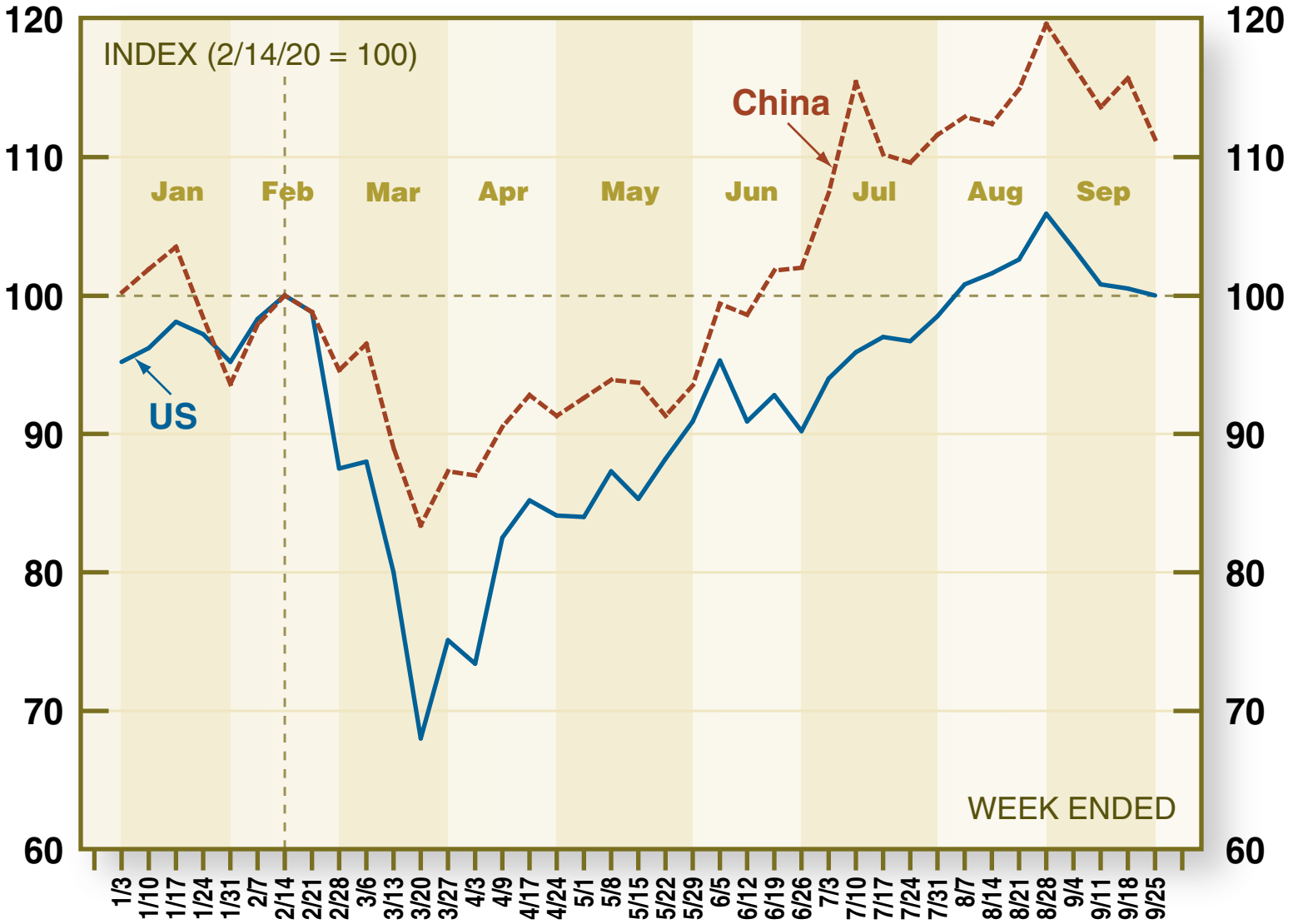
# US and Foreign Stock-Market Vulnerability and Resilience

## (2) China, weekly data from the beginning of 2020



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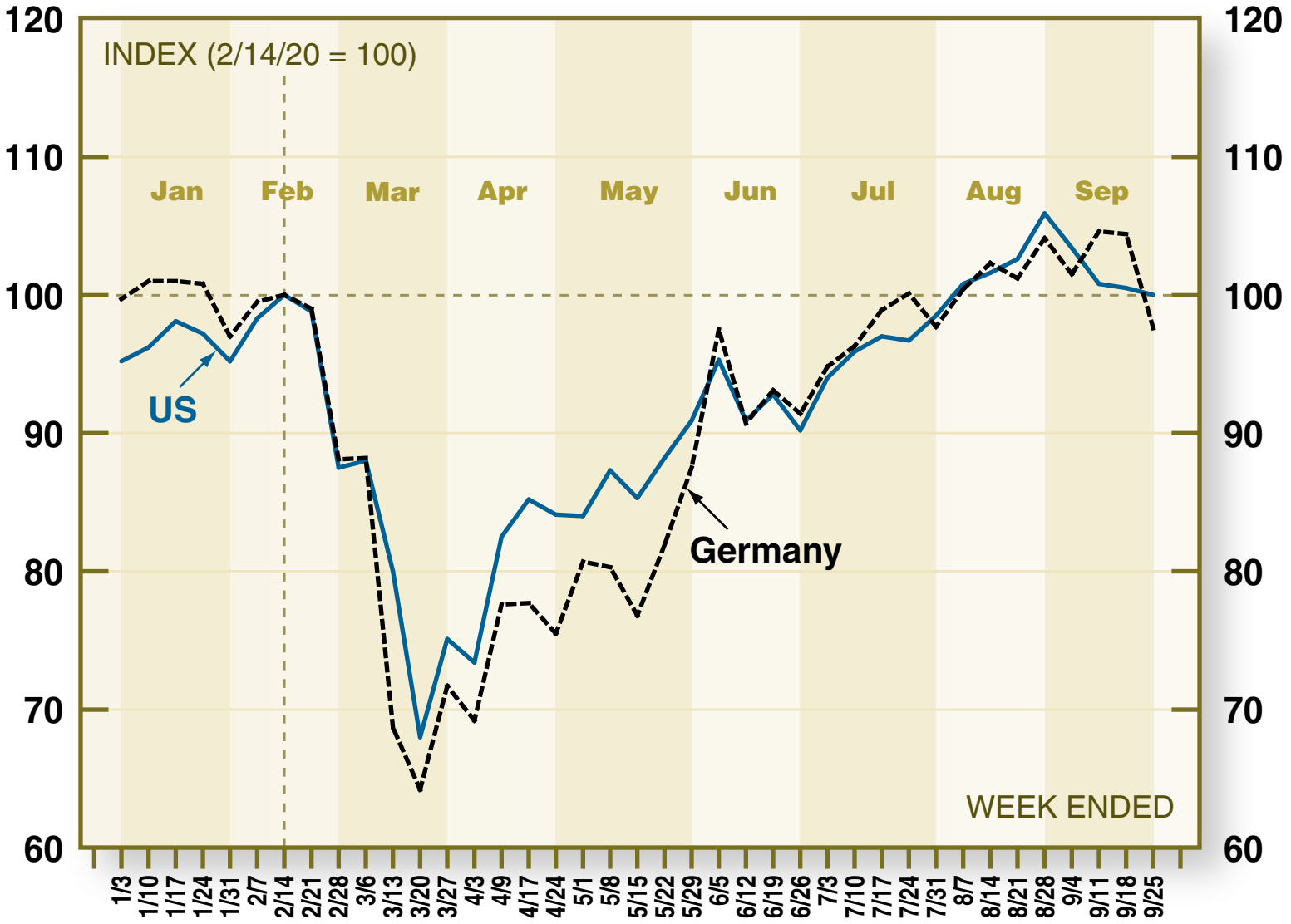
# US and Foreign Stock-Market Vulnerability and Resilience

## (3) Germany, weekly data from the beginning of 2020



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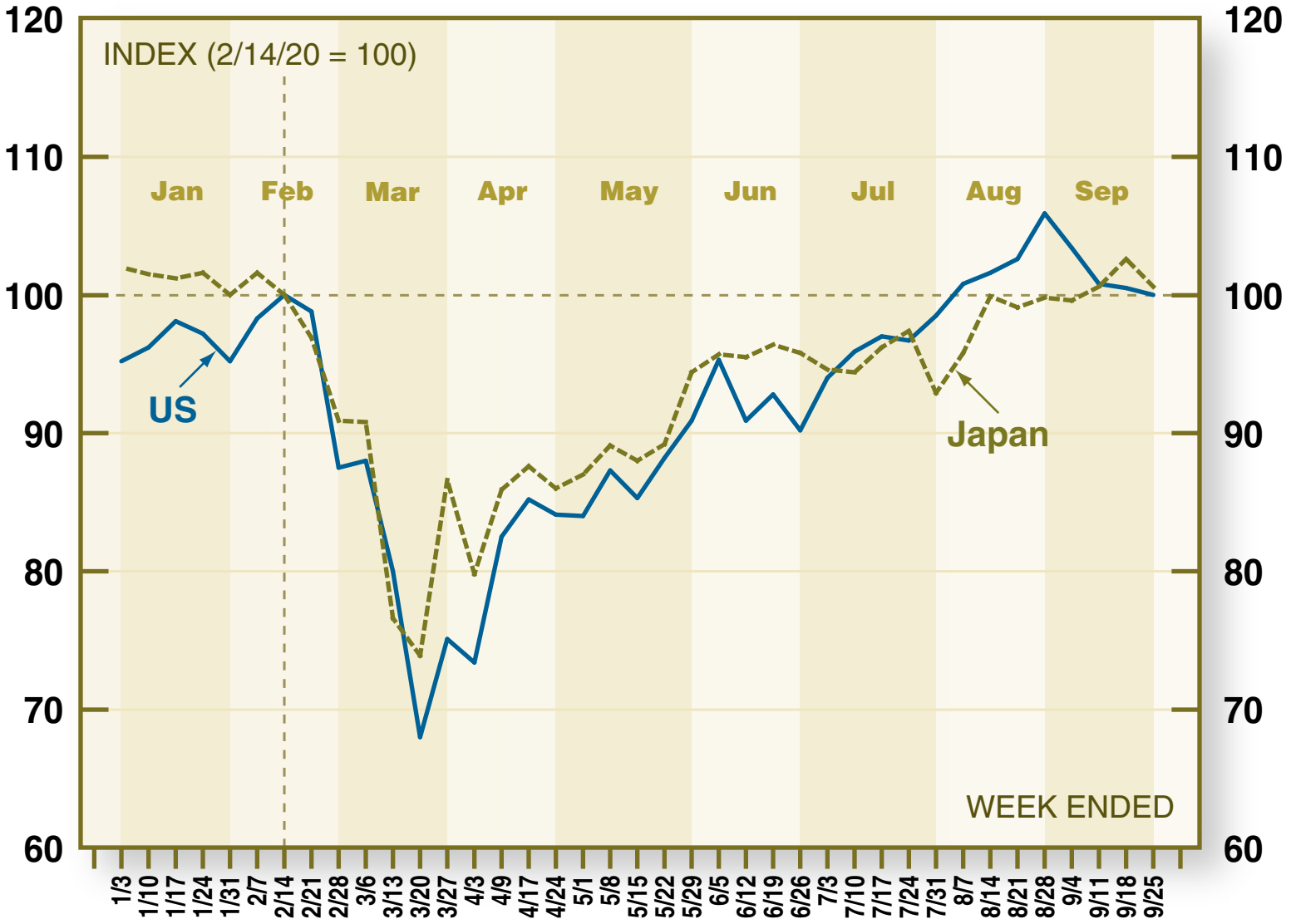
# US and Foreign Stock-Market Vulnerability and Resilience

## (4) Japan, weekly data from the beginning of 2020



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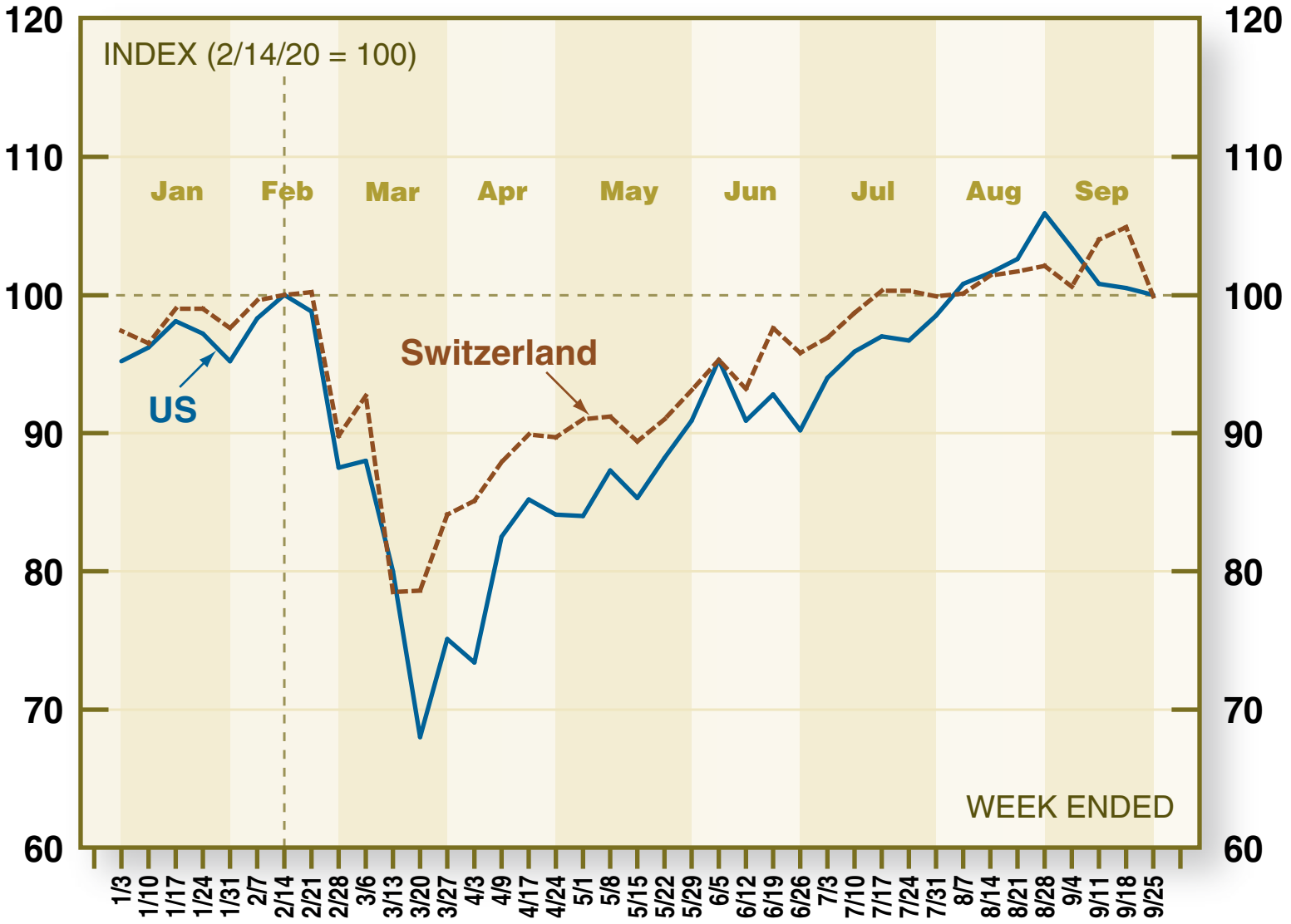
# US and Foreign Stock-Market Vulnerability and Resilience

## (5) Switzerland, weekly data from the beginning of 2020



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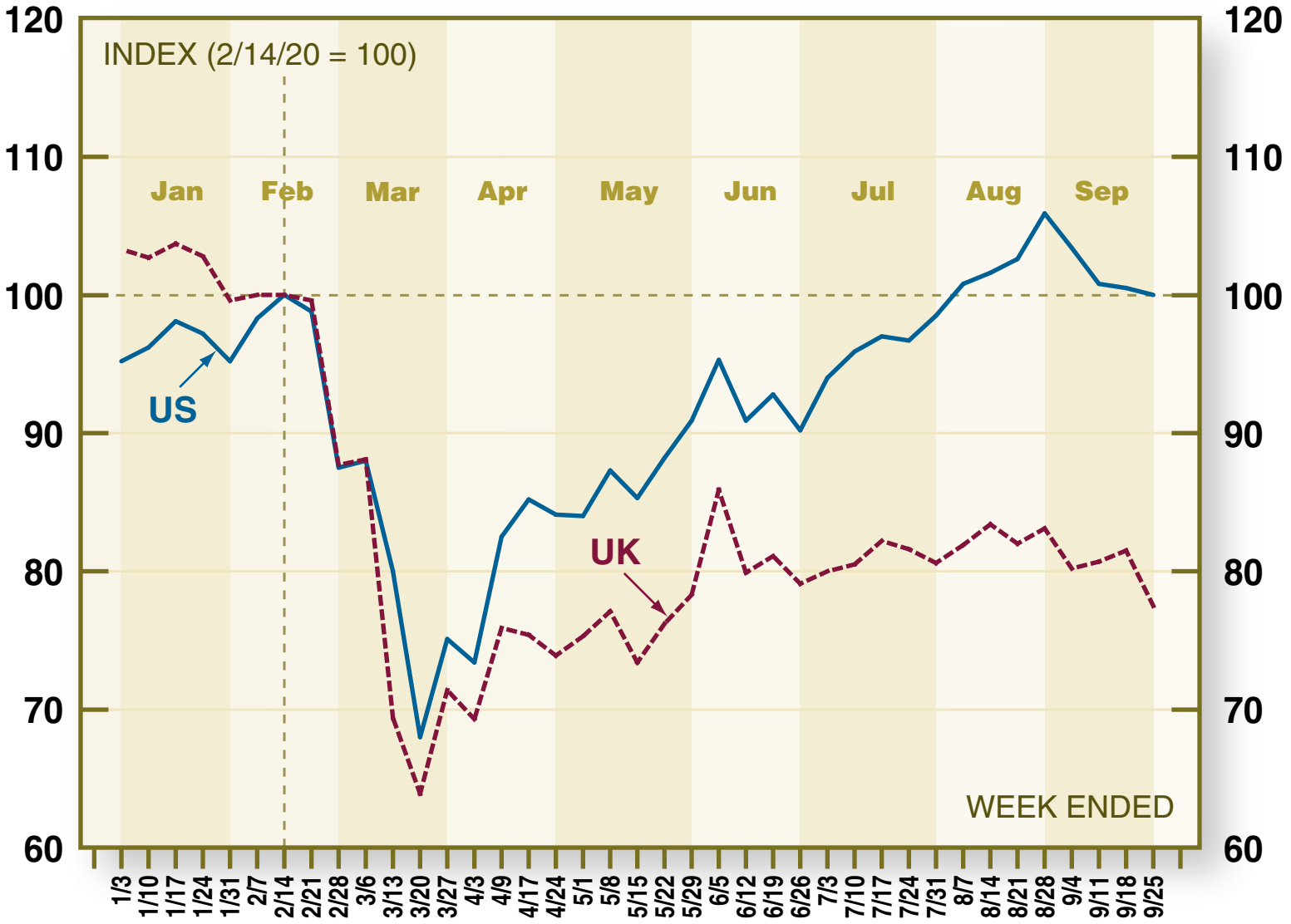
# US and Foreign Stock-Market Vulnerability and Resilience

## (6) United Kingdom, weekly data from the beginning of 2020



# Effects of Currency Performance on Economic Resilience

**first half of 2020**

| *MSCI market index* | *percentage of market's lost ground regained (%)* | *cumulative currency change in USD (%)* |
|---|---|---|
| Switzerland | 93 | 2.1 |
| Japan | 80 | 0.7 |
| Sweden | 92 | 0.5 |
| France | 67 | 0.2 |
| Germany | 90 | 0.2 |
| United States | 87 | 0 |
| EAFE | 72 | –0.9 |
| China | 160 | –1.3 |
| Australia | 67 | –1.6 |
| Canada | 69 | –4.3 |
| Emerging markets | 82 | –4.5 |
| United Kingdom | 55 | –6.5 |



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# Additional Conclusions

- Stock-market experience tells us much about economic resilience
- Most countries have shown less resilience than the US
- Economic resilience in China has proved vastly greater than elsewhere in the world
- Ex China, emerging countries have shown somewhat less economic resilience than developed countries
- Other resilient economies include Switzerland and Japan
- But currency performance is a factor in the degree of stock-market recovery
- One of the weakest recoveries is for Britain, but this may be partly attributable to the decline in the value of sterling

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