Basis Points – March 10, 2020

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Above the Fold

Crude Oil Markets Trigger Another Unexpected Jolt

As global markets struggle to get a grip on the spread and effects of COVID-19, investors were spooked by yet another anomaly in the crude oil markets. The price of black gold accelerated quickly lower over the weekend and into Monday as OPEC and Russia failed to reach a production deal. As a response, Saudi Arabia took dramatic action by not only cutting the price it sells oil for, but also ramping up production at the same time. Factor in decreased consumption due to COVID-19 fears with existing fears of the unknown, and a perfect bearish storm was created. The shocking news triggered an initial 30% selloff in the price of oil, which regained some ground during Monday's session, but still ended as one of the biggest one-day drops in history.

Saudi Arabia can take this scorched earth approach as their cost of production is the lowest in the world. By violently slashing prices, they create an unprofitable marketplace for competitors — especially those unwilling to work in unison to control supply. And while falling prices in all types of fuels and even electricity prices might seem beneficial, ultra-low oil prices can severely impede U.S. producers, especially shale, as their costs are much higher. That could spell lower earnings, the potential for industry-wide layoffs and reduced corporate spending — all of which could negatively impact economic health. West Texas Crude traded as low at $27.34 Monday, but settled the regular session closer to $31 a barrel.

The crude rout amplified ongoing COVID-19 concerns and triggered yet another day of panic-selling that started the day with the Dow Jones and S&P 500 dropping more than 7%, triggering "circuit breakers" to slow selling. Many stocks struggled to regain ground, but did close slightly off the lows, down more than 7.5%. With crude adding yet another unpredicted element of risk, expect market volatility to continue.

Three Things

1. *A Social Experiment in Italy* – What started as a regional quarantine in Northern Italy expanded last night to include restrictions across the entire nation of roughly 60 million. In an effort to contain COVID-19, employees are urged to take vacation time, while bars and restaurants must close by 6 p.m. And while the emergency decree allows the army and police to arrest and even punish violators with up to three months of jail time, several media outlets are reporting little police presence in many parts of the nation. The government is hoping that the quarantine will have a similar, infection-reducing outcome to Wuhan, but unlike communist China, Italy is a democratic republic with a very different social fabric.
2. *Don't Worry, Be Happy (At Work)* – Companies across the U.S. are starting to measure, and take notice, of just how happy workers really are. Mood barometers can be hidden as algorithms scan your email or work chats or as daily surveys sent using those smiley-face charts where you "click" on your current state of mind. Corporations say they will use the data to help improve employees' work lives; skeptics believe it is just another way for big brother to pry.
3. *Remote Providers Could See Boom* – Telemedicine has been slowly gaining acceptance among consumers who still believe that a video chat might not be as effective as a medical provider seeing them face-to-face. But as coronavirus fears mount, the "worried well" patients might find a 15-minute video "checkup" with a provider effective. Experts say that a large number of patients who discover telemedicine during the outbreak may continue to use it for minor issues long after the panic is over.

Did You Know?

Dealing With Market Volatility

In early 2018, stocks lost about 12% in less than two weeks' time, and remained quite volatile for the next few months. In October of that year, with little warning, the S&P 500 began another sharp, violent selloff over a two-month period that resulted in a correction of roughly 20%, mainly because market participants didn't agree with the rate trajectory of the Federal Reserve. Just a few months later, stocks had recouped their losses and marched on to new highs.

The current correction, which is occurring in concert with an unexpected viral outbreak and oil market selloff, can certainly feel scary. The effects may also be exaggerated as traditional and digital media outlets pump out continuous, sensational headlines, egging on the pessimist in all of us. But global panics are a part of the risks we must contend with (and yes, part of a healthy marketplace). Just as past slumps were sparked by everything from Greek government bailouts and Savings and Loan crisis to mortgage-backed securities defaults and even massive bank meltdowns, the market had recovered after these past crises and we believe this one will as well.
