Stock Scenarios Amidst the Coronavirus

Stocks finally bounced 1,167 Dow points on Tuesday, but already gave back 750 points on the open today. I'll give two preliminary scenarios today, but let's review some key facts first.

The CV-19 virus continues to explode outside of China, especially in Italy. Why Italy? Look at their customary greeting: not a handshake, or one peck on the cheek. No, it's one peck on each cheek and then often a kiss on the lips. Highest contact possible.

Italy's infection rates have soared from just over 7,200 on Monday to 10,149 today, with 631 deaths. That's now a 6.2% death rate, much higher than China's 3.8% or the 3.6% figure globally. This is getting scary, and Angela Merkel now fears that Germany will see 60% to 70% of its population infected.

Worldwide, it's now at just over 118,000 and 4,262 deaths, or 3.6%. In the U.S., which is still in its early stage, it's 805 infections with 28 deaths, or 3.5%.

Italy's statistics show how it really does almost only hit older people, with 59% of its deaths 80 or older. The full stats are 14% over 90; 45% between 80 and 89; 32% between 70 and 79; 8% between 60 and 69; and 2% between 50 and 59… none under 50!

Despite this grim potential crisis, it will clearly have the lowest impact on future demographic trends.

And of course, central banks are stepping up rate cuts. The Fed looks do another 50-75 bps cut on top of the recent 50 bps, bringing us down to either a 0.25-0.50% or 0.50 – 0.75% range for short-term rates. The 10-year Treasury has already been down as low as 0.37% and is at around 0.71% today. The Fed added $75 billion to its balance sheet last week and will certainly add a lot more this week.

Trump is floating a zero payroll tax through the end of the year… oh, just long enough to get re-elected! That could add up to $3,000+ to the typical $60,000 household income in the next 9 months. That's direct to the consumer, or the beginning of helicopter money. Does it go to the business and self-employed side, as well? Then that would double the impact.

So, the markets come down to the simple reality: a virus that could continue to explode at least for months and disrupt business and spending versus "a lot more crack." And the markets love money printing and tax cuts the most.

I still think the market reacts for a while to the rising stimulus packages and at least attempt to make one more new high on the Nasdaq.

There are two past scenarios that could be similar:

1) In the 2000 tech/Nasdaq top, it first peaked on March 10 at 5,132, then crashed 13% to 4,455 on March 16, then rebounded to near a new high into March 24. Then it crashed 41% into May 24 – my typical 41% crash in 2.5 months from the March 10 top. This correction is taking about twice the time, but we could

see a run to near the 9,838 high of February 19 or even a slight new high to 10,000 or so into late March and hit my top trendline that was not quite hit on February 19. Then we see that first 40% or so crash into around early June.

2) The market has a more extended and muted rally that takes it to a new high well above 10,000 by late April or early May. This would follow the topping scenario between late July and early October of 2007, likely with many major stock indices not making new highs, creating important divergences that signal a top. Then we get that first 40%+ crash that bottoms between mid-June and early July, followed by a rally into the election that does not come close to new highs… then the long crash into late 2022 or so.

If stocks cannot rally meaningfully in the next week or two and start to crash again, then the top is likely already in on February 19 and we're back at the December 2018 lows or lower by May. Then we bounce into the election or so.

As in the sharp crashes of early 2018 and late 2018, I will be tracking this crash with those two past scenarios to see whether this crash will see a new high, or near new high first, or whether stocks will start failing by late March or early April as in the first crash in 1929 and in 2000.

I'll keep you updated and will report the Fed balance sheet rise from Thursday late afternoon in Friday's rant… the more, the better for stocks near term.

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