Mitch on the Markets

Portfolio Manager Investing Insights

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Could an Economic Revival Follow the Pandemic?

The combined impact of the 1918 Spanish flu and World War I took a devastating toll on society and the global economy. It is said that more people died of the Spanish flu than total casualties from the war, with the numbers possibly between 50 million and 100 million.[1] Take a moment and try to imagine how challenging of a period that must have been for people around the world. How impossible it must have felt to be optimistic about a brighter economic future, and better public health, in such a dark period.

But what happened next was not an extension of a dark time, it was an all-out revival of the culture and the economy. What came next was the Roaring Twenties.

In the decade that followed the Spanish flu pandemic and the World War, the U.S. economy is estimated to have grown over 40%, with mass production leading to more goods and more jobs, and with the auto and aviation industries seeing rapid growth. Women were given the right to vote. The stock market surged. And the U.S. cemented its place as a global power.[2]

Not long after, the U.S. was faced with a new set of monumental challenges – the arrival of World War II and concurrent waves of polio outbreaks. The war boosted production but was a major drag on sentiment and trade, and it took years after the war to see price controls and rationing go away.

Then in 1949, the new polio epidemic appeared and ravaged several population centers. The nation was confronted with devastating images of children in wheelchairs, crutches, and leg braces. In the 1952 polio outbreak 'season,' there were 57,628 cases, 3,145 deaths, and an astounding 21,269 who experienced paralysis.[3]

Even still, as the crisis blunted sentiment and had many Americans worried about the future, the steel mills were booming, the nascent oil industry was expanding at a rapid clip, the civil rights movement was born, and the "golden age of American capitalism" took hold. The stock market, ever on cue, continued to rise.

Then there was the 1957-1958 H2N2 pandemic, which over time led to an estimated 1.1 million deaths worldwide. Some 20 million Americans were infected, and 116,000 died. Yet, the period that followed was one of the best economic stretches in U.S. history. During the 1960s, it is estimated that real GDP growth averaged 5%, with growth as high as 8.5% in two quarters. Payrolls in the U.S. also increased by 32% over the course of the decade, which shattered records for job growth. A pandemic gave way to a 'great economic revival.'[4]

Bottom Line for Investors

I realize that for many readers, the ongoing Covid-19 pandemic – coupled with relentless news coverage and a general aura that the situation is worsening – may make it seem like the outlook for growth in the coming years or decade is tenuous at best. For some, there may even be the feeling that the economy and the culture may never recover. I strongly disagree.

I will be the first to admit that the path to growth following the pandemic may be uneven and will almost certainly take time. But I believe in the ingenuity of innovators and entrepreneurs in the American economy, and I have been fascinated to watch as technological changes, systems, and inventions are reshaping business in new ways. The transition will take time, but I think we will see a strong economic revival when the crises fades.

ABOUT MITCH ZACKS

Mitch is the CEO & Senior Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

[1] The New Yorker, April 6, 2020. https://www.newyorker.com/magazine/2020/04/06/pandemics-and-the-shape-of-human-history

[2] The Balance, April 13, 2020. https://www.thebalance.com/roaring-twenties-4060511

[3] American Institute for Economic Research, May 10, 2020. https://www.aier.org/article/no-lockdowns-the-terrifying-polio-pandemic-of-1949-52/

[4] AEI, August 17, 2020. https://www.aei.org/carpe-diem/lets-not-forget-the-decade-the-liberals-love-to-hate-the-1960s-and-president-kennedys-successful-supply-side-tax-cuts/

4 Factors That May Move the Market in the Second Half of the Year

IN FOCUS THIS WEEK

- Timing on a Vaccine
- Election Uncertainty
- Further Escalation Between the U.S. and China
- A Google Antitrust Lawsuit

Timing on a Vaccine

As we write this, there are a handful of hopeful vaccine candidates now in Phase III trials, and many have promising early results. At this stage, a vaccine is the only path forward in the U.S. to eliminate or perhaps even contain Covid-19. Many economic and earnings forecasts are relying on a vaccine being approved perhaps by the end of the year, and the market appears to be pricing-in a return to economic normalcy in the next six to twelve months. But what if a vaccine is not approved by the end of the year, or the rollout is messy and chaotic? In our view, the timing and efficacy of the vaccine is poised for a negative surprise, as the positive outcomes from a vaccine breakthrough are already baked into stock prices.

Election Uncertainty

Many investors may assume that a Biden or a Trump victory in November may move the markets in one way or another. But in our view, the markets care less about the actual winner and more about how smoothly and peacefully the election goes. By now, we think the market has largely priced-in both Trump and Biden's plans for four years in the White House, with the bottom line usually being that a politician may announce big plans but follow through only partially – if at all. What we believe will impact markets more is whether the election is carried out smoothly, and whether the results are accepted by the winning and losing party without major conflict. With Covid-19 and the current state of political affairs, a seamless election in November is far from assured.

Further Escalation Between the U.S. and China

Things are not going well between the world's two largest economies. A couple of weeks ago, the U.S. shut down the Chinese consulate in Houston, Texas after accusing Chinese diplomats there of espionage and intellectual property theft. In response, China expelled all U.S. diplomats from an embassy in Chengdu, and both sides are accusing the other of acting out of line. These spats only add the long list of tensions between the two nations, which now includes trade, accusations of espionage, the novel coronavirus, China's strong-arming of Hong Kong, intellectual property theft, and more. With tensions rising and China well behind on their end of the trade deal, there is a distinct possibility that economic relations could worsen in the coming months, with a cold war brewing.

A Google Antitrust Lawsuit

The U.S. Justice Department may be positioned to bring an antitrust lawsuit against Google in the coming weeks or months, which could rival the biggest antitrust lawsuit in U.S. history – the

U.S. vs. Microsoft in 2001. The government has been investigating a potential antitrust case against Google since 2019, as an increasing number of competitors have been complaining about stifled competition in areas of search, advertising technology, and news publishing. If the Justice Department successfully brings a case against Google, it could have downstream effects for other major tech companies and have investment implications for the sector-at-large.

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