Is this a time to panic or a time to buy?

All data Bloomberg as at March 20, 2020.
“There are two pandemics in play at the moment. The first is, of course, the spread of Covid-19 which is having such an enormous impact on the way we live, work and play. The second is a pandemic of fear that is most evident in empty supermarket shelves and in financial markets. The first pandemic is awful, but will ultimately pass. The second has ‘gone viral’ too and is, in some ways, the more dangerous since it risks turning a massive but ultimately temporary shock to the economy into something more long-lasting and damaging.

I’m often asked whether there are any close parallels to the current situation. The honest answer is probably no, but the Spanish influenza pandemic of 1918-19 rhymes a little. I won’t labor the detail here, but it was probably a bigger contributor to the global recession of the early 1920s than most economists have hitherto acknowledged. It was undoubtedly a more severe strain than the current coronavirus – more than 25 million prime-age workers died and upwards of 500 million people might have been infected. Coming at the end of the First World War, it spread quickly as troops demobilized to their home countries – a public health policy error (if an understandable one). But it was compounded by monetary and fiscal policy errors – the primary fears being wartime inflationary pressure and the huge rise in government debt. An undoubtedly complex situation was handled badly both from a public health and macroeconomic policy point of view. I don’t get the sense we’re making similar mistakes this time around.

I can only conclude that there are huge buying opportunities out there. Do we have to wait for markets to rediscover their collective minds and for the second pandemic to start to recede? For the bravest, possibly not.”

Shamik Dhar, chief economist BNY Mellon Investment Management
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