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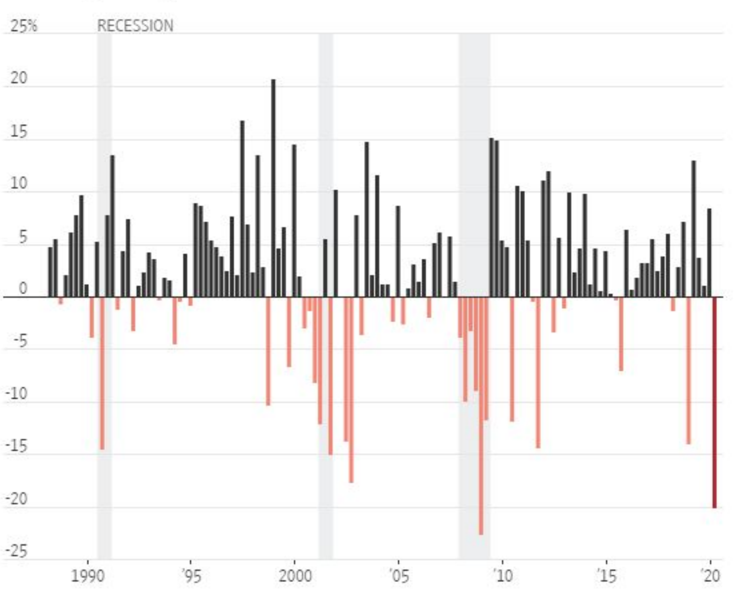
Stocks Suffer Worst Quarter Since 2008

U.S. share benchmarks fall again as S&P 500 ends the first quarter down 20%

S&P 500 quarterly performance



Source: FactSet

By *Akane Otani, Anna Isaac* and *Joanne Chiu*
Updated March 31, 2020 4:46 pm ET

PRINT TEXT 275

U.S. stocks closed out their worst quarter since the depths of the financial crisis, a stunning blow for the market that few investors could have anticipated at the start of the year.

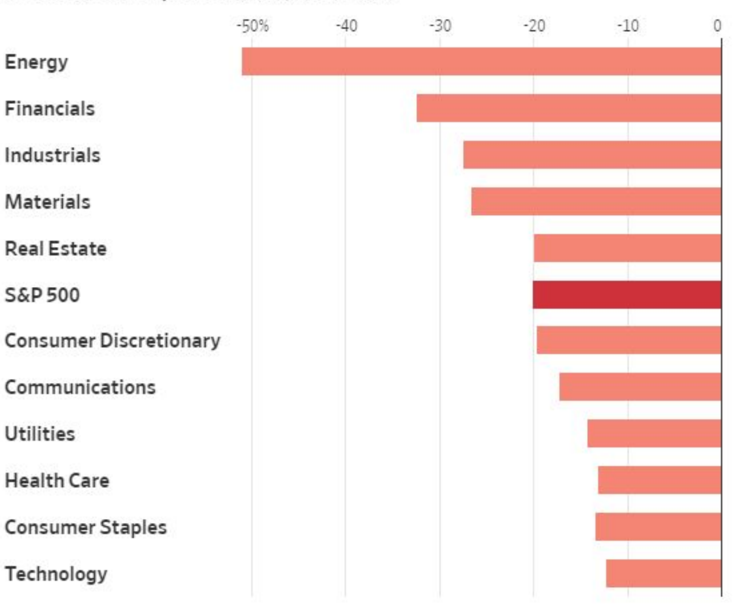
TRACK THE MARKETS: WINNERS AND LOSERS »

Just months ago, money managers were optimistic that the global economy would stage a modest rebound. The U.S. and China had appeared to make progress on a trade agreement, and central banks around the world looked poised to keep interest rates steady for the foreseeable future.

Then the coronavirus pandemic hit. What to many investors initially appeared to be an issue that would primarily affect China quickly became a force that brought business to a virtual standstill around the world.

The subsequent selling was indiscriminate. Investors scrambled to flee assets ranging from stocks to commodities to emerging market debt, betting the global economy was headed for a sharp downturn. The longest-ever bull market in U.S. history ended abruptly, with declines so sharp that rarely used mechanisms to halt trading across the entire market were activated by exchanges on multiple occasions.

Index and sectors performance, year-to-date



Source: FactSet

The S&P 500 finished Tuesday down 42.06 points, or 1.6%, to 2584.59, posting a 20% loss for the quarter—its biggest quarterly decline since 2008. The Dow Jones Industrial Average fell 410.32 points, or 1.8%, to 21917.16 and lost 23% for the quarter, its worst showing since 1987. The Nasdaq Composite slid 74.05 points, or 1%, to 7700.10 and finished the quarter down 14%.

Money managers and strategists are reluctant to call when the worst of the selling might pass.

"We're really in unprecedented territory," said Shawn Snyder, head of investment strategy at Citi Personal Wealth Management.

Over the past couple of weeks, Mr. Snyder said some clients have inquired about whether stocks may be close to bottoming out and whether it may be time to put money back into the market. It has been difficult for him and others to get a sense of the answer—especially with the number of coronavirus cases in the U.S. still rising day by day.

Related Video

New York is gearing for the pandemic peak with unconventional hospital set ups, some delivery and grocery workers are walking out over hazard pay and better safety protection, and fresh economic data show China's economy is slowly coming back to life. WSJ's Shelby Holliday has the latest on the pandemic. Photo: Spencer Platt/Getty Images

"There's still a huge amount of uncertainty right now. Is this a V-shaped recovery, or is this something that lingers and lasts longer than we thought?" he said.

Volatility has been relentless. The S&P 500's absolute average percentage change in March was 5%—surpassing a previous all-time high set during the Great Depression, according to Dow Jones Market Data.

Among the worst-hit groups in the first-quarter rout was shares of energy companies. Exxon Mobil and Chevron have tumbled 46% and 40%, respectively, for the year, hurt by expectations that disruption to business and travel will take a toll on demand for energy. Oil prices finished the quarter with their worst losses ever.

Cboe Volatility Index, quarterly

Source: FactSet

Bank stocks also reeled, with Goldman Sachs and JPMorgan Chase both down more than 30% for the year. A series of emergency interest-rate cuts by the Federal Reserve have helped stabilize the financial system but also further crimped banks' net-interest margins, a measure of lending profitability.

Elsewhere, the pan-continental Stoxx Europe 600 suffered its biggest quarterly loss since 2002. Japan's Nikkei Stock Average logged the steepest decline since 2008.

Analysts say the erosion of value in financial markets in recent weeks was exacerbated by factors including hedge funds' increased use of computer-driven trading models, investors urgently unwinding risky bets made with borrowed funds and big asset managers' push to divest even the safest assets and hold more cash.

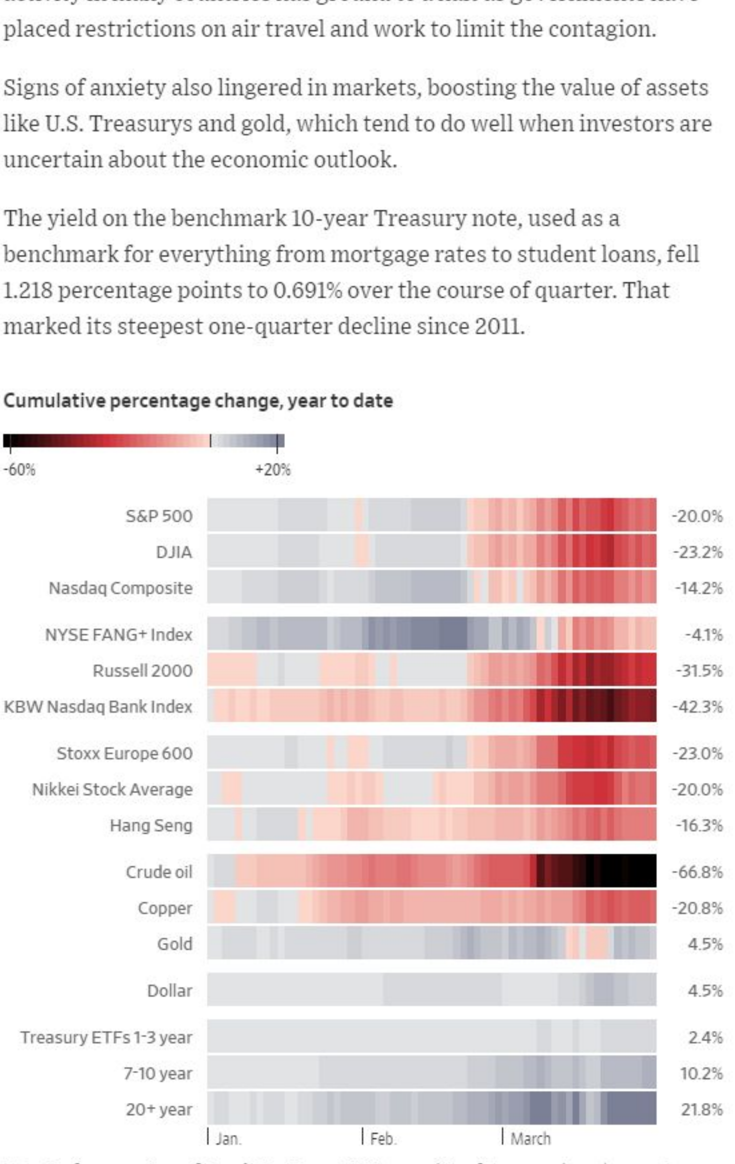
Central banks led by the Fed have been forced into emergency interventions to boost funding in credit markets and ensure an adequate supply of U.S. dollars to calm the worst of the anxiety.

Some of those measures have helped reassure investors. But equity markets may see a return of volatility when businesses start reporting quarterly performance and earnings in a few weeks, said Salman Baig, a portfolio manager at Swiss investment firm Unigestion. Economic activity in many countries has ground to a halt as governments have placed restrictions on air travel and work to limit the contagion.

Signs of anxiety also lingered in markets, boosting the value of assets like U.S. Treasurys and gold, which tend to do well when investors are uncertain about the economic outlook.

The yield on the benchmark 10-year Treasury note, used as a benchmark for everything from mortgage rates to student loans, fell 1.218 percentage points to 0.691% over the course of quarter. That marked its steepest one-quarter decline since 2011.

Cumulative percentage change, year to date



Note: Performance is as of **March 31 at 4 p.m. ET.** Commodities futures are based on most-active contracts. Treasury performance is for iShares exchange-traded funds.
Sources: FactSet (stock indexes, commodities, ETFs); Dow Jones Market Data (dollar index)

Gold rallied, with the price of the precious metal finishing the first quarter up 4.2% to $1,583.40 an ounce for its sixth consecutive quarter of gains.

Meanwhile, traders bet on more swings ahead. The Cboe Volatility Index, which tracks expectations for stock market volatility, soared 289% for the year through Tuesday—posting its biggest quarterly gain ever, according to data going back to 1990.

"The hope is that in the second half of the year, the virus may be contained and it can recover. If the disruption continues in the back end of the year, that's a different story," said Lee Hardman, a currency analyst at MUFG Bank in London.

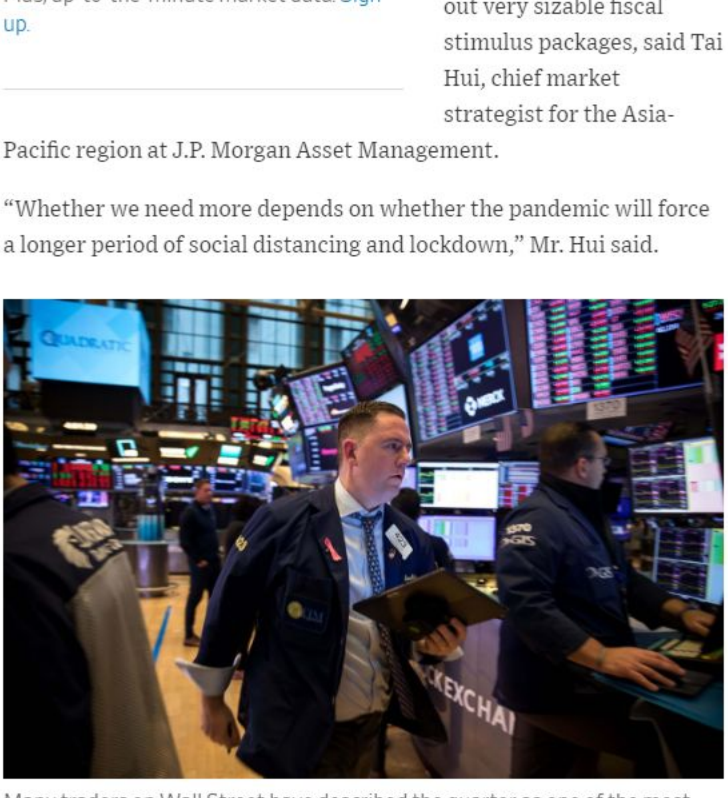
Traders have noted some positive signs coming out of Asia. On Tuesday, data showed an official gauge of China's manufacturing activity climbed sharply in March as factories resumed work following months of a near-total shutdown, though economists warned that business activity remains far from normal.

There are also tentative signs that new infections in Italy might be slowing: 4,050 cases were confirmed Monday, compared with 5,217 Sunday and 5,974 Saturday, according to data compiled by Johns Hopkins University.

Still, experts cautioned that the global economy is still headed for a sharp contraction in the first half of the year.

Many investors are in a wait-and-see mode, as the U.S., Europe and many Asian countries have rolled out very sizable fiscal stimulus packages, said Tai Hui, chief market strategist for the Asia-Pacific region at J.P. Morgan Asset Management.

"Whether we need more depends on whether the pandemic will force a longer period of social distancing and lockdown," Mr. Hui said.



Many traders on Wall Street have described the quarter as one of the most turbulent periods they could remember.
PHOTO: XINHUA/ZUMA PRESS

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