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U.S Markets Plunge as Novel COVID-19 Spread

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COVID-19 is an infectious disease that has made people ill on every continent except Antarctica, killing more than ten thousand people. This virus may not be as deadly as the Black Death or the Spanish Flu, but it still has the potential to bring about unprecedented inflation, poverty, and global economic crisis.

As COVID-19 continues to spread, markets have reacted in kind. The S&P 500 entered a bear market for the first time since the financial crisis of 2008, and the Dow witnessed its biggest one-day percentage drop since the 1987 Black Monday crash. Markets worldwide are also facing disastrous drops. European markets recorded their worst session since 2016, and major benchmarks in Asia also closed down.

Every asset class – stocks, bonds, and oil – has come under siege as investors flee toward the safety of cash, pushing the U.S dollar's value upward. Oil prices are mimicking the 1970s, dropping to nearly $20 per barrel. All 11 sectors of the S&P are in the red zone, with travel and tourism being hit hardest. Marriott is down 34%, United Airlines 33%, MGM Resorts 30% and Alaska Air 32%.

The Federal Reserve has announced that it will slash interest rates to zero and buy $700 billion in government and mortgage related bonds. The Reserve also announced further measures, like potentially injecting $1.5 trillion into the market by buying repurchase agreements.

As the New York Federal Reserve has stated, "these changes are being made to address highly unusual disruptions in Treasury financing markets associated with the coronavirus outbreak."
In addition, the Fed announced that it is going to start a crisis-era program of 'quantitative easing,' in which the central bank will buy bonds worth billions of dollars to further push down interest rates and keep markets flowing freely. The Fed is also providing generous loans to banks around the country so they can turn around and offer loans to families and various small and medium businesses in need of a lifeline.

However, there is still suspicion among investors that these measures, though robust, will only create a short-term positive response in markets, given that factories have indefinitely stopped producing goods and supply chains are continuously getting disrupted by quarantines and lockdowns.