HilltopSecurities
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On the Edge of Recession

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Director
512.481.2012
greg.warner@hilltopsecurities.com

The coronavirus hit the National Basketball Association (NBA) and Hollywood yesterday, sounding a decisive wake-up call to any lingering doubters. President Trump addressed the nation last night on the virus threat and government response, but the financial markets were not pleased with the vagueness of the proposed action. Today, the National Hockey League (NHL) followed the NBA's lead by suspending the remainder of its season. Major League Baseball's (MLB) Opening Day is two weeks away—and just minutes ago, the 2020 MLB season was abruptly suspended. Both Kansas and Duke just halted their athletic programs, signaling that suspension of the NCAA tournament is just a matter of time. Broadway theaters are going dark effective today. Theme parks, including Disney, are likely to follow suit. All of this represents massive amounts of lost revenue and more than a few broken hearts.

The stock market plunge has destroyed 2.5 years of gains in a single month. The negative wealth effect associated with such a violent stock market move will weigh heavily on consumer spending, at least until the flow of good news overtakes what is currently a torrent of bad news. Travel and tourism have stalled out in recent weeks. The industry accounts for 10.4% of global economic growth and accounted for one out of every five jobs in 2018, according to the World Travel & Tourism Council and *The Wall Street Journal*. When all the vulnerable industry sectors are added up (many already operating at the margin), it's not hard to imagine layoffs in the food/bar, catering, and hotel industries in the weeks and months ahead. Technical workers, who businesses had long struggled to find, are more likely to be retained. The longer the COVID-19 threat, the more damage done. But to contain the virus, the economy suffers. No way around it.

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The European Central Bank disappointed the markets earlier today by announcing no additional rate cuts at today's ECB meeting. With the ECB's target bank rate already at -0.50%, it might have been worse if they'd cut deeper and the markets ignored the move. The ECB did promise additional asset purchases, but their tool chest appears close to empty. However, the Fed still has options. Today, they added much-needed liquidity by offering $500 billion in three-month repo, but the markets didn't care. The FOMC meets next week with a policy decision expected at 1 p.m. Central Time on Wednesday. Both Morgan Stanley and Wells Fargo are now calling for a full point cut to zero at that time.

Bloomberg News reported John Normand, Managing Director at JPMorgan believes the markets have already priced in an 80% probability of recession, the highest it's ever been without actually being in recession. It's been mentioned before, but to illustrate just how quickly the wheels have come off, the Atlanta Fed's GDPNow forecast through last Friday shows first quarter growth humming along at +3.1%.

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It'll take a significant fiscal response by Congress and the Trump administration, something they're presumably working on now. Italy, with much of the country in lockdown mode, took the bold step this week of suspending mortgage payments and small-business loan payments for up to a year, with the government guaranteeing the loans to spare struggling Italian banks further pain. The U.S. is suddenly in a position where actions of this magnitude are demanded by untethered markets.

Please see disclosure on page 2.

Market Indications as of 2:45 P.M. Central Time

DOW	DOWN 2,107 to 21,446 (HIGH: 29,551)
NASDAQ	DOWN 658 to 7,293 (HIGH: 9,817)
S&P 500	DOWN 224 to 2,517 (HIGH: 3,386)
1-Yr T-bill	current yield 0.34%; opening yield 0.35%
2-Yr T-note	current yield 0.48%; opening yield 0.52%
5-Yr T-note	current yield 0.58%; opening yield 0.64%
10-Yr T-note	current yield 0.88%; opening yield 0.87%
30-Yr T-bond	current yield 1.46%; opening yield 1.39%