The Great Stay-In (Fifth of a Series)

THE LEAD | April 8, 2020

"As goes COVID-19, so goes the nation."

Paraphrasing the famous 1950's dictum on General Motors' relationship to the welfare of America highlights how the coronavirus has hijacked all aspects of the economy.

There's consensus that once the disease runs its course, commercial activity will come back. It's also agreed that between now and then GDP will be negative, perhaps alarmingly so. What's not clear is how sharp or long the downturn will be. Or whether the recovery will be weak, temporary, or pick up where February left off.

For guidance we turned to Brian Nick, Nuveen's chief investment strategist. Brian is a frequent commentator on top media outlets. He kindly offered to help our readers understand better the current economic and markets dynamics:

TLL: Brian, thank you for taking the time. First, let's talk about job losses. You've said these feel like the tip of the iceberg. How bad will it get before we're done?

Brian Nick: This will be the worst labor shock since the Depression. The numbers are startling because it's all happening at once. Ten million Americans have already filed for unemployment; I won't be surprised to see ten million more in coming weeks.

An effective economic policy gets money to businesses to help keep workers (or bring them back) on their payrolls. If we see more million-claim weeks, the slower the bounce back will be. Keeping workers attached to jobs is key. Europe is attempting a more direct method of payroll subsidy that I expect will work better.

TLL: Various shapes – V, U, L – have been proposed for the kind of recovery we will have. Do you have a favorite letter?

BN: I like to say "Q" just to watch people try to sort that out. I think it'll likely look like the Nike swoosh logo. It took until Q2 2011 for GDP to recover to the level it had peaked at in Q4 2007. I don't think it will take that long this time around. More likely we'll see a multi-staged recovery with certain sectors reopening while others remain closed. We can't expect the lights to come back on as quickly as they've gone out.

TLL: Recognizing your advanced degree is in economics, not medicine, when do you think the virus part of the crisis will be over?

BN: I think we'll see positive GDP growth in Europe and the U.S. in 3Q, assuming social distancing policies puts the economy in an induced coma while it fights off the virus. There are early signs we're turning a corner in some of the hardest hit European countries. If true, by June the health care battle may feel like it's largely won.

But if I'm still sitting home in August typing e-mails with nowhere to go, my economic assumptions today will prove too optimistic. But they don't feel that optimistic now.

? Next week: We continue our conversation with Brian Nick on the economy.