MarketWatch

# Here are 5 reasons the stock market booked its worst decline since 2008, and only one of them is the coronavirus

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## Why is the stock market falling?

## Here are a few opinions that experts have floated

**Coronavirus has unmasked other problems in the stock market.**
AFP/Getty Images

The U.S. stock-market rally has unraveled, with a period of historic gains coming to a screeching halt, as fear that the coronavirus epidemic may reach America rattles Wall Street.

The Dow Jones Industrial Average US:DJIA fell into correction on Thursday, widely defined as a drop of at least 10%, but no more than 20%, from a recent peak. The S&P 500 index and the Nasdaq Composite indexes all joined the blue chips in correction territory.

However, it is the speed at which the indexes fell into these conditions that has surprised investors and some experts on Wall Street. It was the fastest decline into correction for the Dow, 10 sessions, since the nine-session slump into correction on Feb. 8, 2018.

| | **Corrections from a Record Close** | |
|---|---|---|
| Record Close | Enters Correction Date | Trading days |
| Nov. 3, 1919 | Nov. 12, 1919 | 7 |
| Nov. 28, 1928 | Dec. 8, 1928 | 8 |
| Jan. 26, 2018 | Feb. 8, 2018 | 9 |
| **Feb. 12, 2020** | **Feb. 27, 2020** | **10** |
| Sept. 23, 1955 | Oct. 11, 1955 | 12 |

For both the S&P 500 US:SPX and the Nasdaq US:COMP it was the fastest retreat on record from a record high, six sessions ago, to correction.

Thursday's declines also put all three equity indexes on pace for their worst weeks since the 2008 financial crisis.

Here's are 5 reasons that the market is falling:

**COVID-19 infects confidence**

Fear of the COVID-19 disease infecting the U.S. is intensifying. The illness derived from the novel coronavirus, SARS-COV-2, which originated in Wuhan, China, late last year, is starting to affect global trade and travel and taking a bite out of confidence about earnings and economic growth.

Seven days ago, Goldman Sachs chief global equity strategist Peter Oppenheimer told clients that "in the nearer term…we believe the greater risk is that the impact of the coronavirus on earnings may well be underestimated in current stock prices, suggesting that the risks of a correction are high."

Goldman made a similar call on Thursday, this time from strategist David Kostin, saying there would be no earnings growth in 2020.

Risks have intensified since Dr. Nancy Messonnier, director of the National Center for Immunization and Respiratory Diseases at the Centers for Disease Control and Prevention, said on Tuesday that "the disruption of daily life might be severe."

President Donald Trump's coronavirus news conference on Wednesday failed to provide investors with much comfort, mostly because it is difficult to predict how the virus will play out here and elsewhere.

The World Health Organization hasn't declared the viral infection a pandemic, but the disease, from the family of viruses known as SARS, or severe acute respiratory syndrome, has sickened people in

China, South Korea, Japan, Malaysia, Italy and Iran. And according to Reuters, Austria, Spain, Croatia and Switzerland have also confirmed their first cases.

The virus has virtually crippled swaths of manufacturing in China, the world's second-largest economy, and the country is a big buyer of products and services from other countries. U.S. technology companies such as Apple Inc. US:AAPL depend on Chinese supplies.

At last check, COVID-19 has sickened 82,550 people, and claimed 2,810 lives.

Investors don't know how long the outbreak will last, and it is too early to determine to what degree it will hurt corporate earnings, but a number of companies, including **Hasbro Inc.** US:HAS **HP Inc.** US:HPQ and **Mastercard Inc.** US:MA, have already said that they think it will.

**The 2020 election**

Uncertainty about the U.S. presidential election's outcome is also starting to drive markets strategists and analysts argue. A number of them think that if Sen. Bernie Sanders, an independent from Vermont who characterizes himself as a democratic socialist, wins the Democratic presidential nomination, and possibly even the presidency, stocks would take a hit as he is perceived by some as an antibusiness candidate. "The risk to U.S. stocks is pretty significant if Bernie gets the nomination," said Ed Moya, a senior market analyst with Oanda.

**Lofty valuations**

Even before the market slump this week the value of stocks has been viewed as rich.

One measure of stock-market values showed that the S&P 500 index was trading at 18.9 times the weighted aggregate consensus forward earnings estimate among analysts polled by MarketWatch. That is up from 16.2 a year ago and, aside from a brief point early in 2018, it is the highest forward price-to-earnings ratio for the benchmark index since May 2002.

**The bond market**

Government bonds yields have been sliding steadily as investors seek havens and thus drive up bond prices, amid doubts about global economic growth in the wake of the coronavirus outbreak.

The 10-year Treasury note yield BX:TMUBMUSD10Y fell to a record low below 1.24% on Thursday at one point.

**Recession fears**

Bond investors fear that the coronavirus might result in a global economic slowdown that might wash up on U.S. shores as a full-fledged recession. MarketWatch economics writer Rex Nutting explained the potential for an uncontained outbreak of COVID-19 this way: "Much of the immediate economic impact of a pandemic can be traced to the efforts to contain it, rather than from the effects of the disease itself. As we attempt to quarantine those who might spread the disease, we shut down a lot of economic activity."

A Congressional Budget Office study found that a pandemic "could produce a short-run impact on the worldwide economy similar in depth and duration to that of an average postwar recession in the United States."