Six things investors should remember amid extreme stock market volatility: El-Erian

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Fed faces existential crisis over quantitative easing as yields tumble

Navigating Extreme Stock Market Volatility

Forget that the major US stock indices eked out a small gain last week. All that most investors will remember is a wild week that took their portfolios on a harrowing roller coaster ride – one that prompted a respected financial television anchor, Jonathan Ferro, to remind his viewers that the market fluctuations they were seeing were not "one month or even one week moves but, instead, one day moves!"

This weekend's news about the further spread of the coronavirus points to the possibility of another volatile week, especially as policymakers scramble to catch up with the economic and social damage being inflicted by the virus. In contemplating this unsettling outlook, investors may wish to remember the following six things:

First, volatility is partly due to a tug of war that won't be resolved any time soon.

At one end of this tug of war, the corononavirus is causing economic disengagements and will fuel a series of awful economic data reports, negative corporate earnings revisions and financial distress for some companies. These cascading economic "sudden stops" involve a phenomenon that's extremely rare in advanced economies: simultaneous supply and demand dislocations.

Take the cruise industry as an example, albeit an extreme one, of a self-feeding cycle of demand and supply destruction that also has unfortunate negative spillovers. With all the media reports on infections and quarantined cruise liners, including the ship stuck off the coast of northern California, tourists' for new cruises has collapsed. In response, companies have grounded ships and laid off thousands of employees whose lost income will mean less spending.

Second, it's not easy to restart an economy, even after an all clear medical signal.

This is not just because of highly interconnected economies in which an effective restart requires a critical mass of synchronization and coordination. There are also tough managerial decisions that need to be made on a timely basis, with the high risk of others (including lawyers) second-guessing the management team (or worse).

As an example, imagine that you are the CEO of a company that, for precautionary reasons, has imposed a travel ban on employees: What would you need to make you comfortable enough – internally, externally and from a legal liability viewpoint – to lift the ban?

Third, the economics of fear makes everything worse.

Even when analytical risks are objectively low, fear has a way of amplifying the negative economic and social effects of the uncertainties that comes with a new illness. With misinformation and exaggerations also making things worse, most people will err to risk aversion as they get taken further out of their comfort zone and normal operating routines. Travel, conferences and festivals are cancelled out of precaution, adding another layer of paralysis to economies already suffering income losses and supply chain disruptions.

Fourth, periodic market relief is likely as governments around the world step up their efforts to contain the spread of the virus and counter its multiplying negative effects.

Having initially under-estimated the impact of something happening far away (and just in China), advanced countries are now scrambling to counter and defeat the virus. The immediate emphasis is on micro measures. These will soon be placed in a more holistic "whole of government approach." They are also likely to be supplemented by better global policy coordination. After all, it's a shared problem, involving collective responsibilities and needing coordinated approaches to minimize "beggar-thy-neighbor" problems.

The most critical area is, of course, medical advances to better understand this new virus, contain its spread, counter its effects, and increase immunity. Markets will tend to grasp bits of positive news, whether confirmed or not, to counter the stream of negative economic news. The reaction will be particularly pronounced if the news is related to vaccine development.

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