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Dow Skids Into Bear Market, Heralding an Uncertain Future

By Matt Phillips

(New York Times) -- The Dow Jones industrial average closed down more than 20 percent from its high last month, ending a bull market that ran for more than a decade.

The 11-year bull market, which grew in tandem with one of the longest economic expansions in United States history, weathered a European debt crisis and survived President Trump's trade war with China, is dead — a casualty of the global coronavirus pandemic.

On Wednesday, the Dow Jones industrial average fell 5.9 percent, completing a decline of 20.3 percent from a high reached on Feb. 12 and signaling a bear market. That threshold — a fall of 20 percent from a high — suggests a fundamental change in investors' view of the economy and could be a precursor to a recession.

The S&P 500 closed down 4.9 percent on Wednesday, 19 percent below its recent high, as the market entered a realm where prices for stocks tend to fall rather than rise, investors seek the shelter of safer assets and fears of falling profits could prompt businesses to reduce investment and cut payroll.

The catalyst of this sudden fall was an outbreak that has spread swiftly across the globe, disrupting supply chains from Asia to Europe to the United States and forcing quarantines and travel restrictions that have ground entire countries to a halt. The pandemic, which has infected tens of thousands of people in more than 100 countries, has sent the market careening downward over the past few weeks — despite occasional reversals on bits of promising news.

Shares nose-dived again on Wednesday after the World Health Organization declared that the outbreak had reached "pandemic" status — which the organization defined in 2010 as "the worldwide spread of a new disease."

While the terminology might seem somewhat antiquated, the bulls and bears are a metaphorical way of describing the changing sentiment among investors. "It seems to refer to the psychology of the market," said Robert Shiller, a Yale economics professor.

The drop in the 30-stock Dow index was led by an 18 percent collapse in Boeing, after the aerospace and defense giant announced new efforts to preserve cash in the face of a global slide in air travel and the fallout from its troubled 737 Max plane. The high dollar value of Boeing shares makes it one of the most influential stocks in the Dow, which is a price-weighted index.

Falling share prices have incinerated $5 trillion in stock market wealth in less than a month. Few other periods in history compare to the speed of this bull market's demise from its recent record, reached just weeks before.

The descent into bear territory is a significant moment for markets, which often operate as something of an experiment in mass psychology. Although investors are unlikely to immediately change their buying and selling strategies after Wednesday, the 20 percent marker — arbitrary, but widely agreed upon — carries symbolic value. Bear markets can also herald economic recessions — including the 1929 stock market crash that preceded the Great Depression, or the last bear market that began in 2007 as the United States economy plunged into a financial crisis.

A bull market is one of the best indicators of investors' confidence in the underlying strength of the economy, and their belief that corporate profits and consumer spending are robust and will continue to grow. For many, it also signals America's continued pre–eminence in the global economy, and when a bull market veers off course, investors tend to panic about the future.

The latest bull market grew out of the ashes of the 2008 financial crisis, with the S&P 500 beginning its run in March 2009, and rising over 300 percent during this period. It lasted about twice as long as the average bull run. (The gains were 400 percent, if you included dividend payments.) Since the bull market for the Dow began, it is up more than 250 percent.

The performance of the S&P and the Dow together provides a capsule history of the American economy since it emerged from the recession that set in after a foreclosure crisis, a panic on Wall Street and a rash of bank failures beginning in 2007.

In the past decade or so, the United States experienced an economic expansion with few parallels in history, as the unemployment rate fell and low interest rates fueled consumer spending, including for major purchases like houses and cars. Consumer spending has long been the engine of the American economy, a driving force that has helped lift markets through rough patches, geopolitical crises and a trade war with China.

Still, the bull run happened even as income inequality in America has grown, and the market's riches have not been distributed evenly. Charles Geisst, a retired Manhattan College professor, and historian of Wall Street, described the 11–year run as the "most distrusted bull market" of recent memory. "It think it was reflective of everything that we've seen socially and politically in the last 12 years," Mr. Geisst said. "The average guy did not believe it, didn't believe in the prosperity."

And despite the gains, the long climb for the stock market was a steady simmer that never quite reached a boil. The 13 percent annual pace of gains was far less than during similar periods of the 1980s and 1990s that generated mass enthusiasm for ownership of stocks.

In the end, the bull market was felled by a virus. That's because an outbreak of disease such as the coronavirus presents a more complicated problem that cannot easily be fixed by monetary or fiscal policy, such as interest–rate and tax cuts. The outbreak's twin disruptions — snapping global supply chains and suppressing consumer demand — are leading to enormous challenges for governments scrambling to contain a disease while also steadying the economy.

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