The U.S. equity market has experienced a dramatic drop in value starting mid-February. The S&P 500 Index, which tracks the stocks of the largest 505 companies in the U.S. and is considered by many as a measure of American economic vitality, has declined from its recent peak 3380 on Feb. 14th to 2237 on Mar. 23th. The rate of dropping is faster than any other market crash in history.[[1]](#footnote-0) It took only 22 trading days for the index to dip by more than 30%. For reference, the second, third and fourth fastest pullbacks of this magnitude all occurred in the Great Depression in the 1930s. During the indiscriminate massive sell-off, the intra-day circuit breaker was triggered four times (total five times in the history since the technique was first introduced in 1987) as a means to prevent the index from falling by more than 7% on a single trading day.

Though the Federal Reserve put in use many drastic measures as a means to reduce the impact of the economic recession, including slicing interest rates to almost zero,[[2]](#footnote-1) adding 2.3 trillion dollars to the market and etc., the market did not react until one month later. For reference, during the 2008 financial crisis, the Fed only added 800 billion dollars to the market through quantitative easing.[[3]](#footnote-2) Meanwhile, this is the first time in history that the Federal Reserve started purchasing corporate bonds directly.[[4]](#footnote-3)

Now we can see that actions initiated by the Federal Reserve are unprecedented and at a magnitude at least 3 times the measures it took during the 2008 financial crisis. So how come that the U.S. equity market is so vulnerable to Covid-19?

The pandemic, which is believed to be highly contagious, has hit China first, and the Chinese government responded by imposing drastic quarantine measures to ensure the well-being of its citizens. During the time of the quarantine, more than 1 billion people were required to stay at home for more than 3 weeks. As a result, almost all business activities came to a halt. American investors, who have witnessed both the spreading of the virus and the suppression of infection, feared that an exponential growth of infected cases in the U.S. would disrupt the economic activities as well. So when the number of cases started climbing up in mid-February, panic drove a crazy indiscriminate massive sell-off of all stocks.

Meanwhile, even before the pandemic, it is believed that the equity market after a 10-year bullish run (denoted as the New-Norm Boom by Robert Shiler, the Nobel Prize Laureate) is on the edge of a correction. A bunch of indices that trace both the equity market and the economy

Indicated that the equity market is overheated. For example, the Buffet indicator[[5]](#footnote-4) suggests that the total market cap has way exceeded American GDP, and every time, the former is above the latter, a market correction will be followed. The Shiller P/E[[6]](#footnote-5) also suggests that the market in general is overpriced by more than 50% of historical average. It should also be noted that during the New-norm boom, the price rose as a result of stock buy-back, not concrete earning increase. A large number of corporations are in heavy debt, and the outbreak of the pandemic hit investors’ confidence of their insolvency capabilities.

In addition, the failure to reach an agreement between the OECD and Russia and a following oil price crash put American oil companies at risk of defaulting and bankruptcies.

During the market crash, some sectors were hit particularly hard while others stayed afloat. In this case study, we would like to examine the difference among sectors to stand still against the market freefall by studying the 11 sectors, which the S&P 500 Index is composed of.

In this assignment, we witnessed the stock market crash under the attack of coronavirus. There are some sectors such as the financial and energy sector that are going through a really bad time with the relatively low value retention. As the virus is pushing many companies to the edge of bankruptcies, it also brings opportunities to some sectors such as healthcare, especially the telehealth industry.

These large changes happened in different sectors also have an impact on the job market. The sectors of chance of survival group such as Health Care, Communication Services, and Information Technology are mostly the social clubs of employment of highly educated and elite workforce, while blue-collar contrast mostly in the groups with sectors already at the risk of collapse. the market may encounter even more inequality of job opportunity hence income and wealth after coronavirus. People with low education level will face with high risk of losing job and worse health condition due to payment failure.

1. <https://www.cnbc.com/2020/03/23/this-was-the-fastest-30percent-stock-market-decline-ever.html> [↑](#footnote-ref-0)
2. <https://www.marketwatch.com/story/heres-what-the-feds-surprise-interest-rate-cut-means-for-mortgage-rates-2020-03-03> [↑](#footnote-ref-1)
3. <https://www.vox.com/2014/6/20/18079946/fed-vs-crisis> [↑](#footnote-ref-2)
4. <https://www.forbes.com/sites/nathanvardi/2020/03/23/the-federal-reserve-moves-to-buy-corporate-debt/#1cce568b4c47> [↑](#footnote-ref-3)
5. <https://www.gurufocus.com/stock-market-valuations.php> [↑](#footnote-ref-4)
6. <https://www.gurufocus.com/shiller-PE.php> [↑](#footnote-ref-5)