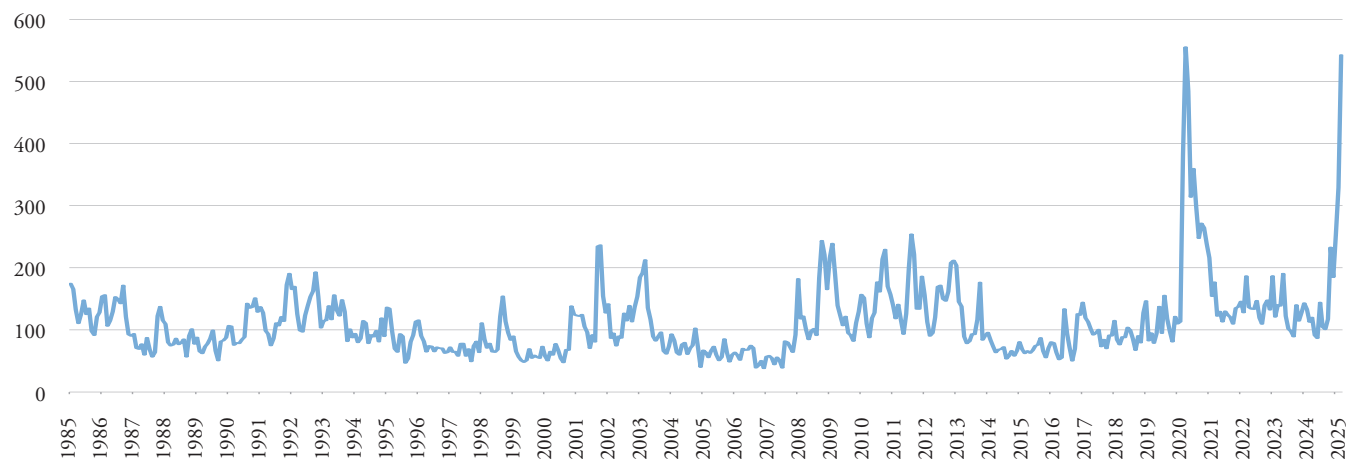


Echoes of 2020: What the COVID Crash Teaches Us About Today's Market

“March 11, 2020: The Day Everything Changed”; “Surge in Deaths Overwhelms New York’s Morgues, Hospitals”; “FEMA Sends Refrigerated Trucks to New York City to Hold Bodies”; “Ohio Bans Mass Gatherings of 100 or More”

These were headlines just five years ago (March 2020) as the COVID epidemic spread across America and the rest of the world. Uncertainty about the future course of government economic policy exploded, surging even higher than during the Great Financial Crisis of 2008–2009 (see chart below). The S&P 500 dropped 30% by March 2020 from the start of the year.

Economic Policy Uncertainty Index for the United States^{(1)*}



Data from 1/1/1985–3/31/2025, monthly, not seasonally adjusted.

⁽¹⁾ Values are monthly averages.

Source: Federal Reserve Bank of St. Louis

It wasn't until December 2020 that COVID vaccines were first made available to the public, and the societal aftereffects of the pandemic lasted well into 2022. Yet, even after its initial decline, the S&P achieved a total return of 18.4% for the calendar year 2020. From March 23, 2020, the S&P 500 rose an incredible 67% through the end of the year. From March 23, 2020 through the end of 2021, the S&P rose 113%.

The current selloff in stocks is not due to a global pandemic (thank goodness) but to a massive restructuring of global trade relationships by the U.S. through the aggressive use of tariffs. The objectives of the tariff changes appear to be somewhat fluid, but at least the short-term effects appear to be higher consumer prices and slower economic growth. Whether the current tariff policies reflect a new long-term “normal” or are an opening salvo intended to lead to new trade agreements and “deals” is unclear. As in early 2020, the path to a recovery in stock prices is unclear.

What is clear is that market valuations have begun to markedly change. The S&P 500 has already declined 17% as of Friday, April 4, 2025 from its high price earlier this year. The yield on 10-year Treasuries has dropped from 4.8% earlier this year to below 4% with add-on effects for mortgage rates, which have also fallen. Lower interest rates provide support to economic growth as well as a better valuation backdrop for stock prices, especially as stock prices have declined as well.

We should not be complacent about the current environment. An increase in economic uncertainty tends to lead to a revaluation of stock prices downward, as we have seen. Until economic policies become more stable, it is likely that market volatility will continue. However as the events of 2020 demonstrated, a recovery in stocks may occur more quickly and more dramatically than many expect.

* The Economic Policy Uncertainty Index for the United States, developed by economists Scott R. Baker, Nicholas Bloom, and Steven J. Davis, quantifies economic policy uncertainty by analyzing factors such as the frequency of specific terms related to economic policy uncertainty in U.S. newspapers, the number of federal tax code provisions set to expire in future years, and the extent of disagreement among economic forecasters. A higher index value indicates greater uncertainty regarding U.S. economic policy, which can influence investment decisions, consumer behavior, and overall economic performance. The index is published regularly on the Federal Reserve Economic Data (FRED) website maintained by the Federal Reserve Bank of St. Louis.

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REFERENCED INDEX

(Indices are unmanaged and are not available for direct investment.)

S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

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