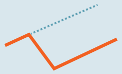
Shapes of recovery?

It can be hard to get a handle on the geometry of markets – and never more so than in the aftermath of economic dislocation. But now the dust has begun to settle on the biggest sell-off in a generation, the next question might be whether we're in line for a recovery, and, if so, what shape that recovery might take. Depending on the hit to Gross Domestic Product (GDP)[1] , history tells us we could be in line for any number of different scenarios.

L-shaped

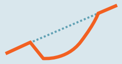


The worst of all scenarios. A permanent loss of economic capacity and an extended slump. Less a recovery; more a prolonged recession or (whisper it ever so quietly) a depression. **Example:** The Great Depression (1929-1939).

V-shaped

The economy recovers quickly after a sharp downturn. **Examples:** the US recession of 1953 – a response to the Fed raising interest rates.

U-shaped



An extended economic downturn but with an eventual return to pre-crisis levels. **Example:** The 1973-75 Nixon recession – caused in part by the OPEC oil embargo.

W-shaped

The market has a sharp fall, followed by a sharp rise, followed by another fall and another rise into recovery. **Example:** From January to July 1980 the US economy experienced an initial recession, then entered recovery for almost a full year before dropping into a second recession in 1981 to 1982.

OTHER SHAPES TO CONSIDER

Sideways - Z

Here, in the best of all scenarios, the discovery of effective measures to fight Covid-19 unleashes pent-up consumer demand, leading to a mini-boom before the economic trends reverts to its pre-crisis trajectory of steady if not spectacular growth.

Square root

The square-root recovery An initial relief rebound followed by a plateauing of economic growth.

Doughnut

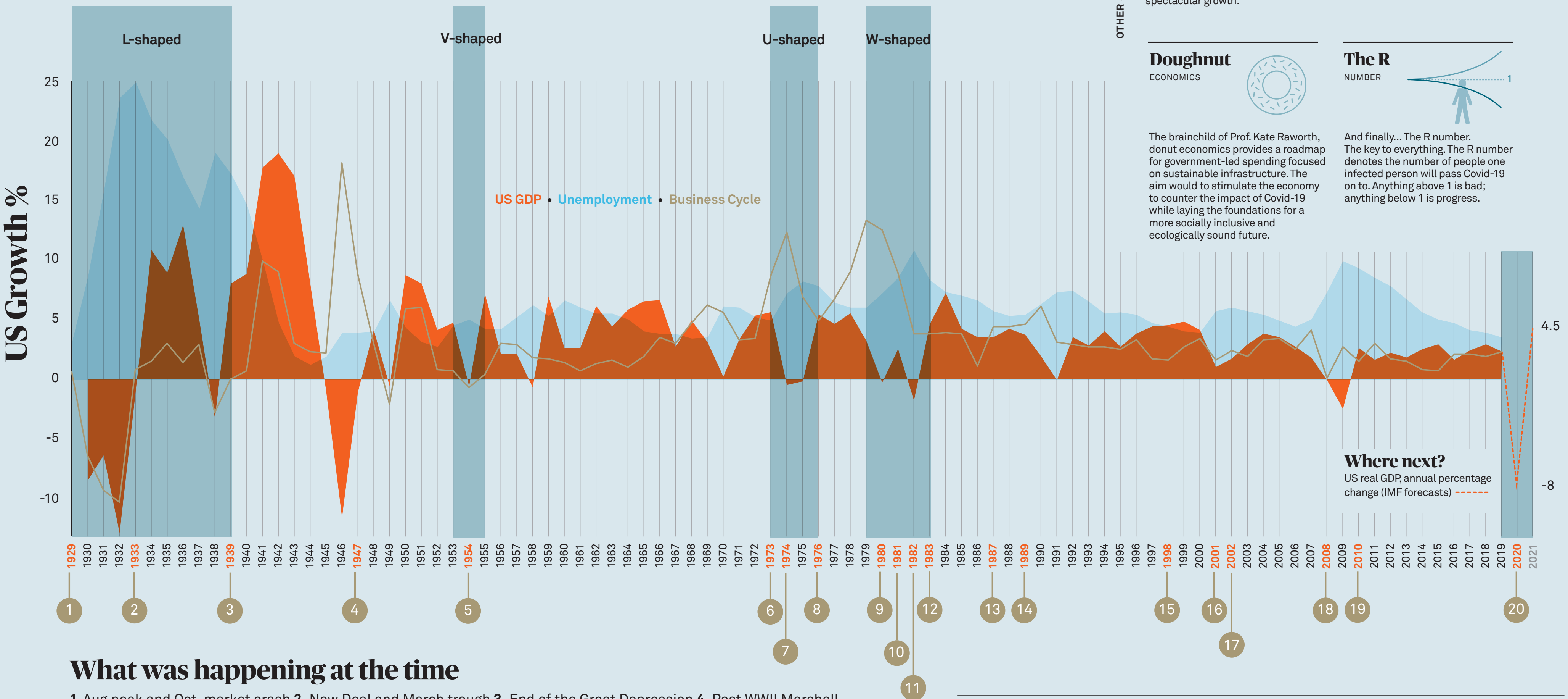
ECONOMICS

The brainchild of Prof. Kate Raworth, donut economics provides a roadmap for government-led spending focused on sustainable infrastructure. The aim would to stimulate the economy to counter the impact of Covid-19 while laying the foundations for a more socially inclusive and ecologically sound future.

The R

NUMBER

And finally... The R number. The key to everything. The R number denotes the number of people one infected person will pass Covid-19 on to. Anything above 1 is bad; anything below 1 is progress.



What was happening at the time

1. Aug peak and Oct. market crash **2.** New Deal and March trough **3.** End of the Great Depression **4.** Post WWII Marshall Plan of economic aid for Europe and beginning of the Cold War **5.** May trough, Dow at 1929 level **6.** Vietnam War and gold standard ended, Nov. peak **7.** Stagflation (ie. inflation without growth), Watergate US political crisis, Fed raised rate **8.** Expansion, Fed cut rate **9.** Jan. peak, Fed raised rate, July trough **10.** Reagan era, Expansion peaked in July **11.** Nov. trough, Fed cut rates **12.** Reagan-era defense spending **13.** Black Monday market crash **14.** Savings & Loans Crisis: catalyst for a recession **15.** Long Term Capital Management crisis: catalyst for a recession **16.** March peak, 9/11, and Nov. trough **17.** Expansion **18.** Contraction and Global Financial Crisis. **19.** Obamacare (US healthcare programme) **20.** Covid-19 pandemic.

Stagflation: Slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

Fed: The Federal Reserve is the central bank of the United States.

[1]. A measure for a nation's output over a given timeframe.

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