

# 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)<sup>1</sup>, 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

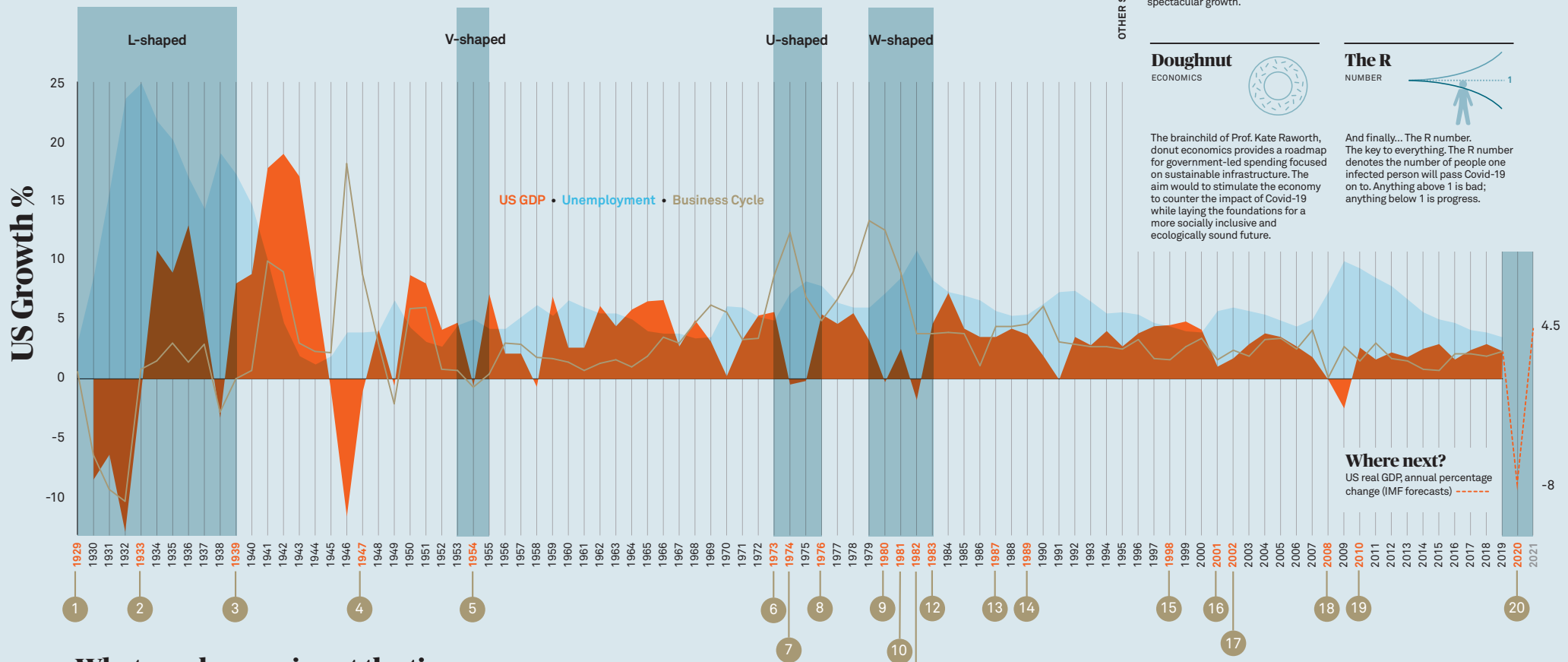
The market has a sharp fall, followed by a sharp rise, followed by another fall and another rise into recovery. **Example:** From January to July 1980 the US economy experienced an initial recession, then entered recovery for almost a full year before dropping into a second recession in 1981 to 1982.

## 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.



## 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.

OTHER SHAPES TO CONSIDER

## Doughnut ECONOMICS



The brainchild of Prof. Kate Raworth, donut economics provides a roadmap for government-led spending focused on sustainable infrastructure. The aim would be 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.

## Where next?

US real GDP, annual percentage change (IMF forecasts) - - - - -

**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.

<sup>1</sup> A measure for a nation's output over a given timeframe.

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