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Global stock markets are red and very ugly as the Coronavirus has been spreading to European countries like Italy. I think the problem is that the markets don't know what they don't know. In other words, there is a world of uncertainty out there and that's unlikely to change anytime soon. As I wrote last week, the market doesn't care until it cares and then it really cares.

Over the past two months, I have repeatedly written about bullish sentiment that became giddy, euphoric and finally greedy last month, the likes of which haven't been seen since the Dotcom Bubble. However, historic sentiment didn't imply an impending market peak. It rarely does. It sucks people in over and over and over again until something sparks a decline and the excuse is there for stocks to go down. When markets grind higher like we have seen since October, that first decline quickly wipes out the Johnny Come Lately investors in a severe bout of punishment, like we are seeing right now. Corona may be blamed, but stocks were just looking for a reason to go down.

I think another issue with the virus is that there is not a chorus of scientists and experts all concluding the same thing. That group seems to be all over the map, including some who believe the virus was created in China's bio-weapons lab in Wuhan and accidentally released. There was even an uber conspiracy theory that the "deep state democrats" created Corona and somehow shipped it to China in hopes of tanking the global economy so Trump would lose. I spent a few hours reading various science articles online to get a feel for the best and worst case scenarios.

From what I read, the best case scenario is that while the disease has spread outside of China, cases in China are declining and the mortality rate continues to be relatively low at less than 5%. As the weather warms in the northern hemisphere, similar to influenza, Corona will begin to die out much like SARS did 17 years ago. On the flip side, there are concerns abound that the virus will not die out and the spread will only get worse as it mutates. If Corona is still headlines in June, we are talking global pandemic with the associated economic, financial market and geopolitical fallout.

While stocks are down, the major indices have barely hit the 6% mark and just about erased 2020 gains. So far, it's anything but the end of the world or even the bull market for that matter. People are actually talking about the Fed "rescuing" the markets with another rate cut next month. That's a head shaker for me. With record low unemployment, the Fed is going to cut rates?

I understand the big picture is about Corona disrupting supply chains and causing a massive global slowdown for Q1 and Q2. And that could even be the catalyst that tips the US into the mildest of recessions, something I mentioned last week. Remember, the landscape for recession was doused with fuel when the yield curve first inverted last summer. Corona could be that spark, something I did not consider as recently as last month. FYI, after steepening the yield curve is once again inverted, meaning that short-term interest rates are higher than long-term rates which chokes off growth as banks lose the incentive to borrow short-term and lend long.

In the here and now, we have a cranky stock market which opened sharply lower, creating a gap or window on the chart below. Long time readers know that almost every single 10%+ decline is accompanied by what I call the gap of recognition. It's the point where investors realize they either own too much or not what they really want and don't know how to untangle their mess as stocks open down in a big way.In essence, investors have the "AH HA" moment that stocks are correcting and they're not prepared.

By the time stocks come back up to fill that gap or close that window, the decline is long over and the market is well on its way to new highs. We will know sooner than later if today's open was in fact that gap of recognition. The next few days will be key as there was some damage done. The problem with my gap of recognition i that there are plenty of times where it looks like something bigger is unfolding, but that gap of recognition turns out to be the beginning of the end of the decline.

For the bulls, the best scenario would be another ugly opening, followed by firming into lunch and strength into the close. On the flip side, the bears would like a higher open that fails before lunch where sellers reemerge for another wave of lower prices into the close.

Finally, as I already mentioned, the bull market ain't over. Bull markets do not end with a giant, outside the norm, putrid day so close to all-time highs. The rally from October may have ended, or at least the steepness of the advance. We shall see shortly.

As always, please don't hesitate to call, email or Skype with any questions, comments or concerns.

If you are looking to schedule a meeting or call, here is the link to my calendar. https://schedulewithpaul.as.me/

Early mornings, evenings and weekends should be scheduled directly with me.

Thanks

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