**Intriguing Article**

I recently read an intriguing article in the New York Times by Austan Goolsbee, a professor of economics at The University of Chicago, “Beware: The Economic Crisis Is Just Beginning”. The author claims that unemployment is likely to increase more in the next few months than any full year in history, including the Great Depression.

I find the author’s conclusion questionable because it conflicts with how the stock market works. By comparing the current economic pain to that of the Great Depression, the professor is suggesting it will take a decade or more for the economy to recover. If millions of global investors who vote with their dollars shared the author’s opinion, the stock market would continue its downward trend for a much longer period than just the first three months of the year. Instead, the market has significantly recovered from the year-to-date loss of 34 percent loss through March 23 to close at a YTD loss of 8.6 percent on May 8. The trend is clearly upward as opposed to downward. Why is this?

The stock market looks to the future when pricing financial securities. It represents the combined thinking of millions of global investors who vote every minute of every day with their dollars as to what they think the future holds for corporate profits. If they think profits will decline, stock prices decline; if they think profits will rise, stock prices rise. Estimates are that the market looks beyond the current time frame approximately 12 to 18 months into the future and beyond.

The recent trend in stock prices as reflected in the S&P 500 is a strong signal that the economic pain we are currently feeling will dissipate over the next 12 to 18 months. Instead of the unemployment rate getting worse over the next few months, as Goolsbee claims, the market is saying the employment picture will improve. Clearly, the stock market sees the current economic pain as more short-term whereas Goolsbee sees it as long-term. Which one is more credible? A single economist who opines with the power of his pen or millions of investors who opine with the power of their dollars? This reminds me of the old saying that if you ask 10 economists for an opinion you will be 11 different answers.

Although the market is not infallible, I trust it much more than the view of a single economist. The forward-looking nature of the market is consistent with the idea put forth by medical experts that they will find a vaccine within the next 12 to 18 months. Does the argument presented here suggest a spirit of optimism? Yes, it does!

The magic of the market is a powerful force that moves in mysterious ways usually defying common sense. Over time, this magnificent mechanism has the ability to digest a complex assortment of information. Professor Goolsbee’s thoughts are important but need to be understood as not representing the combined view of millions of investors.

REC, 5/9/20