

Goldman Sachs

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Could stock markets plunge yet further? Making sense of the current turmoil

Q: How does this compare with previous cycles?

The main difference is that it's been faster; the absolute magnitude of the falls so far is in line with many event-driven bear markets in the past.

Q: What has been the policy response?

Swift and large. Policy has been fast to adjust this time, and we see this as a large positive and likely to prevent this from becoming systemic.

Q: What is required to stabilize markets?

Are we there? In our view, there are four components of this: (i) A sign that the policy intervention is sufficient to prevent severe second- and third-round economic shocks; (ii) A sign that the infection rate is reaching a peak; (iii) A sign that the economic downturn may be slowing; and (iv) Cheap valuations. In reality, we believe it will be a combination of these, and in some cases there are already signs these are in place.

Q: Is this now a 'structural' bear market?

We don't think so, given the policy in place. However, if this becomes systemic, (ie, rising unemployment, corporate losses infecting the banking sector and leading to a large-scale credit squeeze) then the market could have further to fall; previous structural bear markets saw the market fall by 50% or more, down another 20-25% from here.

Q: Valuations are low, but can we trust this signal?

Valuation is a necessary but not sufficient condition for a turn; that said, on some measures and especially vs. government bonds, equities are the cheapest they have been historically.

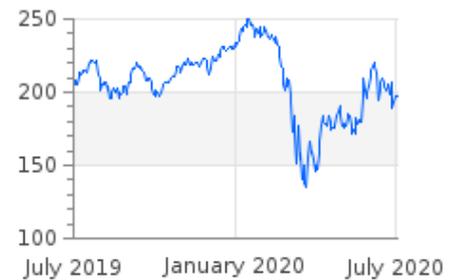
Q: Will this all lead to inflation?

This is a common question and, given the large policy packages delivered combined with supply chain disruptions, we believe this is a risk. However, there are also other factors that may prove 'disinflationary' more medium-term too, such as households' and corporates' desire to keep a larger cash buffer or some unwind of the inventory build in certain sectors of the economy.

Price: 197.4

Market Cap: \$67.88 billion

1 Year Share Price Graph



Share Information

Code: GS

Listing: NYSE

52 week High Low
250.08 130.87

Sector: Financial Services

Website: www2.goldmansachs.com

Company Synopsis:

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