

Market plunge: This is not 2008

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The scale of financial market moves in response to the coronavirus outbreak has been reminiscent of the global financial crisis. We do not think this is 2008, however. The virus shock's impact will likely be large and sharp, but we believe investors should be level-headed, take a long-term perspective and stay invested. The economy is on more solid footing and, importantly, the financial system is much more robust than it was going into the crisis of 2008.

We don't see this as an expansion-ending event - provided that a pre-emptive and coordinated policy response is delivered. And we see encouraging signs that this policy response is starting to come together. It will need to be a joint and decisive effort between fiscal and monetary policy, as detailed in [Time for policy to go direct](#). The key vulnerabilities that need to be addressed: cash challenges faced by companies, especially small- and medium-sized enterprises, and households.

The BlackRock Investment Institute changed its moderately pro-risk stance to neutral two weeks ago as the coronavirus outbreak began spreading across the globe. Authorities have strong incentives to take aggressive public health measures to prevent the virus from spreading due to capacity constraints in the health care sector. This will likely result in a sharp and deep economic slowdown in the near term.

Market moves have been compounded by oil prices plunging more than 20% - on track for the biggest daily drop since in the early 1990s - as an OPEC pact to stabilize prices unraveled. This should ultimately benefit global growth, but it also risks at least temporary financial and economic dislocations in energy-heavy sectors, such as emerging market commodity exporters and parts of U.S. high yield.

This is a time for investors to keep a long-term perspective. The ultimate depth and duration of the coronavirus' economic impact are highly uncertain, but we still believe the shock should be temporary as the outbreak will eventually dissipate and economic activity will normalize - assuming the needed policy response is delivered.

We stay at benchmark weights for equities, and overweight the more defensive quality and minimum volatility style factors. We favor portfolio resilience, including cash and sustainable investing strategies, and still prefer U.S. Treasuries over lower-yielding peers for portfolio ballast. We recognize Treasury allocations are playing their role during moments of high uncertainty, but see risks of a diminishing buffer against equity market sell-offs and a snap-back in yields from historically low levels.

Key views

Markets moves have been reminiscent of the financial crisis. But we don't think it's 2008 as the economy and financial system are on much stronger footing.

We still see the expansion as intact, but this requires policy makers to act decisively to prevent the coronavirus from ending the cycle prematurely.

We maintain benchmark exposure to risk assets, and emphasize resilience through quality equities, cash and sustainability.

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