Why is the Stock Market Still Going Up?
By Henry Blodget, Businessinsider.com

After a horrific month in which nearly 21 million Americans lost their jobs, why is the stock market still going up?

April was the worst month for job losses in the history of the country.

More Americans lost their jobs last month than during the entire financial crisis from 2007-2009—or during any downturn in the past 80 years.

Our official unemployment rate is now 14.7%, the highest since the Great Depression. Moreover, as Insider's Carmen Reinicke explains, this rate only counts people who are actively looking for work and not finding it, so it likely a significant undercount, since it excludes the Americans who want to be working but aren't even looking.

The "employment to population" ratio also dropped to a record low. Only about half of Americans — 51% — are employed right now. The peak of this measure was about 64% in 2000.

- 7.7 million restaurant, bar, and hotel workers lost their jobs.
- 2.5 million health-services and education workers lost their jobs.
- 2.1 million retail and store workers lost their jobs.
- And so on.

The only bright spot is that about 18 million of the 20.5 million job losses are considered temporary. At least for now, these folks think they'll be rehired when the economy improves.

This devastating jobs report raises a reasonable question that has come up often in the past few weeks:

Why, in the face of this economic and social calamity, is the stock market going up?

Back in February and March, as the pandemic ravaged one industry after another, the stock market plunged by a third in five weeks.

Since then, the news has seemed to have only gotten worse.

And yet, since bottoming in mid-March, the stock market has risen steadily. Now, six weeks later, it has recovered about two-thirds of its losses and is not far below its all-time high.

So what gives?

Well, first, stock prices generally reflect investors' assessments about the future, not the past. As horrific as the economic news has been over the past six weeks, it has actually been better than some investors expected it might be back in mid-March.

Some economists, moreover, believe that we've already experienced the worst of the impact of the pandemic and that the economy will improve from here.

Second, the government's fast, aggressive financial response to the crisis — in the form of emergency aid packages from the Treasury and Congress and emergency liquidity from the Federal Reserve — has significantly limited the potential economic damage.

The government aid packages haven't saved all jobs (by a long shot), and they won't save all US businesses, but they've helped save a lot.

In fact, one of Wall Street's best economists, Jan Hatzius of Goldman Sachs, estimates that the various forms of government aid — including enhanced unemployment benefits — will actually more than offset the income Americans have collectively lost this year. This aid will not be shared equally, so there will still be plenty of individual pain, but, in aggregate, a lot of the economy's consumer spending should be maintained.

So, in short, for now, the reason the stock market is rising is that some investors believe we've seen the worst of the impact and that the situation will improve from here.

Other investors, meanwhile, think there's more bad news to come and that those hoping for a quick recovery will be disappointed. The most famous investor on the planet, Warren Buffett, appears to be in this camp.

Which investors are right?

We'll see. No one has a crystal ball, and the endless challenge of trying to predict the future better than other investors is one reason the stock market is so fascinating.

In the meantime, our sympathies to the tens of millions of Americans who have lost their jobs in this crisis. We all hope that the optimists are right, that the worst is over, and that we can rebuild our economy quickly from here. — HB