Latest Market Commentary

2020 began encouragingly for investors with many financial markets performing well, driven by expectations for moderate but sustained economic growth. Some equity markets performed particularly well with the US stock markets making new all-time highs in February. In March, however, the growing fears surrounding the Coronavirus (COVID-19) led to the fastest 20% falls in history for equity markets and, as a result, global equity markets entered 'bear' market territory.

With many countries imposing a harsh lockdown, due to strict measures to contain the Coronavirus, it is inevitable that economic activity will be sorely dented. Most economists are now forecasting a severe drop in economic activity due to this unprecedented shock to the global economy. Recent jobless claims data from many countries are indicating a sharp rise in unemployment rates.

In order to shield their economies from the worst-ever potential recession, many central banks have drastically cut interest rates (to zero in most cases) and governments have instigated huge rescue packages for industries and consumers. The stimulus from authorities is on a scale akin to a war footing and is designed to prevent a recession turning into a depression.

It is very understandable that many companies are currently not able to give forward guidance for earnings in this present environment. Companies are taking action, and where necessary they are responsibly stopping dividend payments, thereby supporting their balance sheets.

The sharp drop in the price of oil (circa 55% below prices of a year ago) will bring some benefits both to industries, especially to those heavily reliant on energy, and to consumers.

We believe that there have been some signs of capitulation with, in our opinion, some assets being indiscriminately sold. The VIX (volatility index, colloquially known as the 'fear index', hit an all-time high in March; and this was considerably higher than the levels seen at the peak of the Global Financial Crisis in 2008.

More recently it is potentially encouraging to see areas of economic activity within China returning to more normal levels, as well as the latest data indicating that infection rates in South Korea (and now possibly Italy) are levelling out. As we write this commentary, it is of course not possible to predict when the lockdown measures will be lifted, though it is encouraging to see some very recent easing in parts of continental

Europe. There is, however, a real risk of future 'cluster' outbreaks that could lead to further lockdown measures being required.

The very best news will, of course, be a cure, medical treatment, and/or vaccine, but more scientific research is still required before this particular coronavirus can be properly understood. We do, however, believe that this will pass, though we anticipate continued financial market volatility in the near term, particularly as predicted peak infection rates have not yet been reached for many countries.

Since the end of March there has been some encouraging improvement to global markets and ultimately, as history has shown us before, we do expect asset values to further improve and for prices to move based more clearly on fundamentals and reason.

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