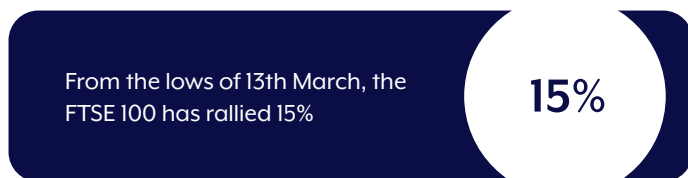


Latest market commentary

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Over the last two weeks equity markets recovered some of the heavy losses sustained during the first half of the month. From the lows of 13th March, the FTSE 100 has rallied 15% and the S&P 500 has gained an impressive 20%, after the US administration successfully passed an impressive \$2.2trn fiscal stimulus package. In addition, the US central bank, the Federal Reserve (Fed), increased its commitment to support the market by stating that it will purchase as many US government bonds as would be necessary to support the US economy and restore the proper functioning of financial markets.



Elsewhere, the Fed has also taken steps to increase the supply of US Dollars to overseas central banks in order to ease funding pressures experienced by US Dollar borrowers. It has intervened in the US corporate bond market for the first time. Outside of the US, we have already seen a substantial easing of fiscal policy in most major economies (including the UK) augmented by easier policy rates and quantitative easing (purchases of bonds).

Taken together, the speed, size and breadth of this global policy response to the economic and financial market effects of the

measures taken to suppress COVID-19, exceeds what was seen in the global financial crisis of 2008/9, and financial market participants have rightly taken note. Adding to the better tone has been buying of stocks by investors who wish to maintain the relative weight of equities in their portfolios versus bonds, which have generally held up much better.

However, we are about to enter the most rapid and deep global recession seen since the Second World War. As a result of governments' actions to prevent the spread of COVID-19 large swathes of the global economy are in shut-down mode and corporate revenues in many sectors have collapsed. We are only beginning to see data on economic activity, corporate profits and dividends and the worst is likely to be several weeks, if not months, ahead of us.

Against this background, it is too early to call an end to the financial market stress and volatility which we have witnessed since late February. Aside from the need for positive news flow on COVID-19, we feel that more of the impact on the corporate sector needs to be socialised with investors before the equity markets can begin to build a firm base from which they can stage a meaningful recovery.

However, optimists would highlight that financial markets are adept at discounting the future. As a rule, equity markets tend to find a firm footing roughly one quarter before the end of a recession and we are working hard to gauge the length as well as the depth of this current economic downturn to give us the signal to buy.

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