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Update on current market developments

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Equity markets have bounced from lows over the last week, adding to the gains seen at the end of March. Two main factors have been responsible.

Central banks and governments have provided unprecedented support in the form of interest-rate cuts, quantitative easing, income support packages for workers and much more. This has helped ease some market concerns about the functioning of markets.

Sentiment has also been helped by a welcome fall in new Covid-19 cases in Italy. Many investors in the City have been watching the situation there particularly closely, as it had at one point been epicentre of the outbreak in the West. Italy now appears to be containing the spread of the virus, if the data being released is accurate, and this has been welcomed as a positive sign by many investors.

Despite this better backdrop and rally in markets, we remain cautious about what lies ahead. We believe it is too early to call an end to the market turbulence. Economic activity in many Western countries will drop precipitously in this quarter, reflecting the effects of social-distancing restrictions. In fact, the fall in profits generated by businesses around the world could be even bigger than was seen in the 2008 global financial crisis.

The stock market is, in theory, a forward-looking mechanism. It is supposed to account for future events. This means that it often pays to be optimistic before we see any material improvement in the economy.

However, given the speed at which the global economy is entering a recession – and the dramatic effects it is likely to have on the solvency of much of the corporate sector – we feel that the second quarter's economic data and corporate earnings need to out in the open and dealt with by financial markets before we can adopt a much more constructive stance.

A good rule of thumb is that equity markets tend to find a firm footing roughly one quarter before the end of a recession. We are all working hard to gauge the length, as well as the depth of this current economic downturn. This should provide the signal to buy, which will inevitably materialise.