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Update on current market developments

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Equity markets continued to recover last week, despite the gloomy news backdrop. Investors focused on three positive developments, which helped lift stock markets worldwide:

1. Whilst the news flow on Coronavirus remains deeply distressing, there was evidence pointing to slower growth rates in the spread of COVID-19 across parts of Europe. This was taken positively by the market.

2. The US Federal Reserve announced a package of up to $2.3trn in additional stimulus measures. This was designed to provide credit to small and medium-sized companies, large cities and counties. The central bank was also allowed to buy bonds issued by US companies that have recently seen their credit rating fall below the key level of "investment grade". This is an important step towards ensuring that higher-risk borrowers do not lose access to the credit markets. If this happens, they could become insolvent.

3. There was a long-awaited deal between OPEC and Russia to reduce oil production, after a recent slump in crude prices. The proposal aims to reduce output by 9.7 million barrels per day, the largest production cut in history.

However, despite this positive news flow, there are good reasons for caution in the weeks ahead.

Lockdowns are likely to remain in place for some time to come, increasing the economic damage. Central banks now have much less ammunition left, should it be required, and the cuts in oil production are unlikely to be large enough to offset the collapse in demand.

Economic data is also likely to deteriorate markedly. Already we have seen the biggest jump in US jobless claims on record, with 16.8 million new claimants in just three weeks. This represents a staggering 11.2% of the US labour force. In the upcoming global recession, we are likely to see global output fall twice as far – and much more rapidly – than it did in the 2008/9 global financial crisis. As we head into the first-quarter reporting season, this provides a negative backdrop for corporate profits – which could easily fall 50%, compared with the previous year.

Equity markets have rallied sharply from March lows, driven mainly by unprecedented action by governments and central banks. However, it is too early to call an end to any market volatility.

In previous bear markets, rallies of 20% or more have been common – before another sell-off resulted in a new market low. With the length of lockdowns in major economies uncertain – and months of terrible economic data releases ahead – recent stock market gains look very fragile indeed.

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