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Update on current market developments

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The actions of central banks over the last few weeks have improved market sentiment and boosted demand for equities. The central banks have injected liquidity into money markets and made commitments to buy government and corporate bonds on a scale never seen before.

These actions have improved the functioning of markets by lowering volatility and reducing stress in the bond market. Investors have also been holding high levels of cash, which they are slowly putting back in the market. This has helped to support share prices. The rebound has also been driven by "short covering". This is the process where some investors buy shares to end a trade which is designed to gain from a falling market.

In general, investors are content to pay an ever-greater premium for companies with strong competitive positions in their markets, especially those with lower earnings volatility and strong balance sheets. Elsewhere, less highly rated sectors such as oil and gas and banks remain under pressure, reflecting their higher level of sensitivity to the economic cycle. As a result, investors currently prefer sectors such as healthcare, technology and consumer staples.

Fall in West Texas Intermediate (WTI) crude oil prices – to almost minus $40 a barrel

$40

Recent days have seen an unprecedented collapse in oil prices. The headline-grabbing fall in West Texas Intermediate (WTI) crude oil prices – to almost minus $40 a barrel – reflects specific factors concerned with a lack of storage for US-produced oil.

UK oil producers' revenues are derived from a different oil contract, Brent crude, not the US WTI contract that collapsed. Brent is a better barometer of the global oil market, and currently trades in the low $20s. This level is clearly a short-term headwind for the UK oil majors, but it is worth highlighting that markets expect a rebound in oil prices in the months ahead and larger oil companies have increased their credit lines with banks.

Financial markets have made an impressive recovery from their March lows – and investors who held their nerve are now in a much better position. However, we are about to enter a very challenging period for economic indicators and corporate earnings. These are coming alongside a growing realisation that restrictions to suppress the spread of COVID-19 are likely to be in place for longer than previously thought.

Whilst some caution in the short term is justified, optimists would highlight that financial markets are adept at discounting the future. As a rule, equity markets tend to begin their recovery around three months before the end of a recession. We continue to work hard to gauge the length – as well as the depth – of this current economic downturn. This will give us the signal we need to increase our equity-market exposure.

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