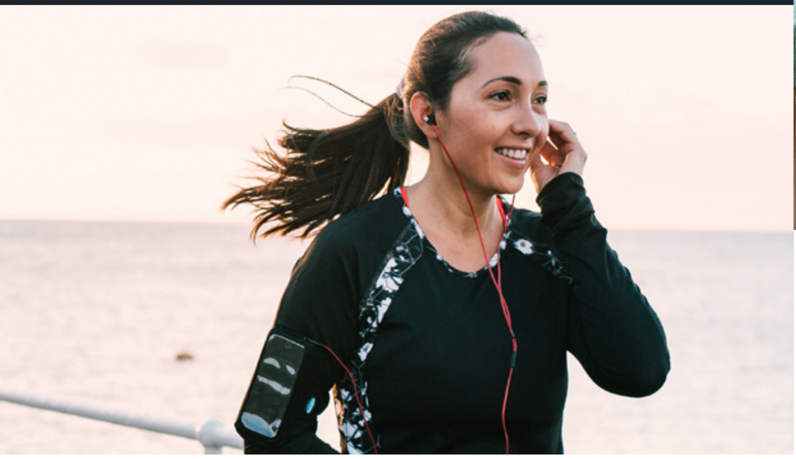
A month in the markets

By John Mullins

April 2020



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Month of March

Market Review

March was a difficult time for investors as the market volatility that began in February worsened when the ongoing Coronavirus (COVID-19) outbreak was declared a pandemic. During this time, governments around the world introduced a range of measures designed to curtail the spread of the virus, ranging from public health warnings to outright lockdowns to restrict movement and prevent large gatherings. By the end of the month, much of Europe, North and South America, Africa and India were in lockdown.

With economic activity effectively shut down, governments and central banks introduced unprecedented economic support, aimed at helping businesses and replacing people's wages. The consistent flow of negative headlines stoked further volatility in global stock markets as investors processed the potential fallout of shutting down entire economies. The pace of market dips was brisk and deep, with losses of 5-10% recorded on several days during the month as investors adopted a highly negative outlook for the months ahead.

To add to the volatile situation, Saudi Arabia and Russia initiated an oil price war that saw the price of Brent Crude fall to an 18-year low of less than USD $23 a barrel. Originally, the Organisation of Petroleum Exporting Countries (OPEC) had been expected to cut production to ensure a higher price, but Russia refused to cooperate. Saudi Arabia therefore decided to turn on the taps – and produce more oil – in an attempt to put the global oil market under pressure. It ultimately wants to squeeze its competitors in the US shale oil sector, where the cost of production is significantly higher than the Middle East.

US

In the US, the news flow was dominated by the coronavirus outbreak. Despite previously downplaying the COVID-19 threat, President Donald Trump found his country at the epicentre of the pandemic, recording the highest number of confirmed cases in the world by month's end. To stimulate markets and prop up the economy, the US Federal Reserve cut interest rates twice during the month to nearly zero, while the government announced a USD $2.2 trillion emergency relief package.

Elsewhere, the Democratic primaries continued to progress, with Joe Biden taking a commanding lead in the race to be that party's presidential nominee. His opponent, Bernie Sanders, appeared ready to throw in the towel and this may have been positive for markets, although he remained determined to continue campaigning despite his path to victory narrowing with each day.

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Private Banking

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Europe and the UK

European countries were battered by the pandemic in March, with lockdown measures in place across multiple countries, notably France, Germany, Italy, Spain and the UK. To prop up the UK economy, the Bank of England cut interest rates twice over the month, to 0.1%, while the government announced financial aid worth hundreds of billions of pounds to support both businesses and the self-employed. Meanwhile, the European Central Bank opted not to cut interest rates during this time, but instead announced that will buy up to €750 billion in government and private sector bonds, as well as commercial paper, by the end of the year.

Asia

In Asia, the situation is much more mixed as China began to emerge from its Coronavirus lockdown measures and other countries worked hard to suppress the outbreak. Chinese purchasing managers indices showed an increase in activity in March as restrictions were loosened. However, it was still well down on levels seen before the outbreak. Japan, which was already facing the onset of a recession prior to the outbreak, faced concerns that the pandemic will further weaken its economy. In response, the government announced on 1 April that it will provide support for domestic airlines and was planning a stimulus programme to stave off deflation.

Portfolio Management

We took a very dynamic approach to portfolio positioning in March having ended the month of February with relatively low levels of portfolio risk. Early in the month, we reduced equities further as the economic fallout from the COVID-19 outbreak began to worsen and market volatility became extreme. In the middle of the month, we tactically added back risk as we believed global monetary and fiscal policy was sufficiently aggressive to warrant a short-term rally in global equity markets. Throughout the month we also reduced exposure to alternatives and high yield in light of the significant deterioration in market conditions.

Outlook

Given that the COVID-19 pandemic is still in its early stages, we are reluctant to speculate about what will happen next. The situation is evolving on a daily basis and we can only rely on the medical experts for advice on how long lockdown restrictions will be necessary. Our focus is on analysing the potential economic impact of shutting down economies around the world, and how this will affect the business sector and financial markets. We know that policymakers have vowed to do whatever it takes to overcome the outbreak and protect economies from the impact of COVID-19, so we expect there will be further stimulus measures to come.

In financial markets, we expect greater volatility in the short term and the potential for further drops as the pandemic progresses. Along with the Coronavirus-related disruption, we must also navigate the uncertainty caused by oversupply in the petroleum market and the ensuing drop in the price of oil. Looking further ahead, when restrictions on movement are eventually lifted, we are likely to see an economic rebound driven by pent-up demand – as consumers look to start spending again – and loose monetary policy. It remains to be seen what the business sector will look like at that stage, as we may see a spike in corporate defaults and many other companies may outright disappear.

Note: The Portfolio Investments and Atlas Portfolios are Multi-asset, globally diversified portfolios. Although the portfolios may share similar underlying investments in terms of asset and fund selection, they will differ in terms of the way the funds are managed and the proposition in which they are held. Please refer to the Key Investor Information Document (KIID) for details on the objectives of the individual funds. If you have any questions relating to specific differences of the Portfolio Investments or Atlas Portfolios fund ranges, please contact your Private Banker.

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