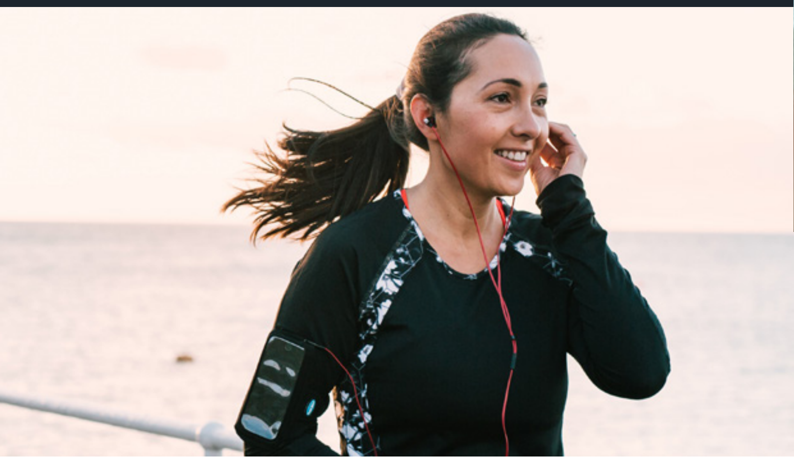
A month in the markets

Private Banking

By John Mullins

May 2020



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Month of April

Market Review

As was the case in March, nearly all of the focus throughout April was on the Coronavirus (COVID-19) pandemic and its likely effect on both financial markets and the global economy. With social distancing measures and varying forms of lockdown remaining in place in many countries around the world, economic activity fell further and unemployment increased sharply.

During this time, investors were balancing the positive effects of government support aimed at cushioning the economic shutdown, against the uncertainty that the pandemic created. There is no denying that economic data for the past month makes for grim reading. Activity in the services and manufacturing sectors around the world has contracted significantly, and growth around the world declined.

Global stock markets generated positive returns in April, although these fell some way short of retracing the losses seen in February and March. Returns were solid across most geographies, but much of this was fuelled by the enormous support measures by central banks and governments to prop up economies – rather than an improved outlook. To put things into perspective, the measures announced by the major central banks and governments far exceed that seen during the 2008 global financial crisis.

US

The US became the country hardest hit by the pandemic in absolute terms, recording more than 1 million confirmed cases by the end of April. Lockdowns came into effect in multiple states, although there was a major debate between President Donald Trump and state governors about the economic effect of these restrictions. The President has repeatedly called for lockdowns to be lifted.

There is no doubt that the pandemic has already taken a heavy toll on the US, with the Bureau of Economic Analysis reporting that growth fell by 4.8% during the first quarter of the year. This is the sharpest drop since the 2008 financial crisis. Meanwhile, manufacturing activity slumped, this was indicated by the purchasing managers' index (PMI), which measures activity across the manufacturing and services sector. By the end of the month, a record 12.4% of the US workforce had been approved for unemployment insurance. Meanwhile the US stock market as a whole performed well over the month.

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Europe and the UK

Countries in Europe remained in different stages of lockdown throughout April as the crisis continued to run its course. While the European Central Bank kept interest rates unchanged in April, this was because it had already cut rates in March and announced €750 billion in asset purchases. Economic data releases over the month showed that the pandemic caused eurozone gross domestic product to fall by 3.8% in the first three months of the year, with industrial activity slowing down and the companies in the services sector reeling. In Germany, the composite PMI for April revealed a major drop. The UK fared little better, with both the manufacturing and service sector contracting at record rates. Meanwhile, UK inflation fell to 1.5% in March owing to low oil prices and retailers that offered discounts as people chose to stay home as the outbreak worsened.

Asia

In China, where the virus originated, the government began reviving the economy in April after putting it into a self-induced coma to fight the outbreak. To a certain extent the rest of the world is looking to China and the rest of Asia as an indicator of what will likely happen in other geographies as the pandemic progresses. So far, the economic data seems fairly bleak. China's growth fell by 6.8% in the first quarter of 2020, according to the country's Bureau of National Statistics, and manufacturing activity in April contracted as demand from trade partners slowed down. Meanwhile, Japan suffered another blow as factory activity declined at its fastest pace in 11 years. Already in a prolonged downturn prior to the pandemic, there are concerns that Japan may slip into another period of deflation after consumer prices in Tokyo fell for the first time in three years.

Portfolio Management

While the portfolios remain defensively positioned, we tactically added exposure to shares over the month of April. In some accounts we also added a diversifying position in Gold. The portfolios continue to have a lower allocation to shares and a high allocation to cash.

Outlook

We remain reluctant to speculate about what will happen next with the pandemic or how markets and economies will perform. The positive news is that coronavirus infection rates and hospitalisations appear to be falling, and that there has been promising news about medical treatments for the virus. It is no exaggeration to say that this is the most uncertain environment we have experienced for decades, with so much depending on medical breakthroughs. While lockdown restrictions may be eased in the summer months, there is a strong possibility of a second wave in the autumn, and this could result in further market volatility.

In terms of portfolio positioning, we remain defensive in light of the uncertain outlook. We added a small amount of shares back into the portfolio – specifically in the US technology sector – given that virus infection rate curves are flattening and lockdowns may soon come to an end, but we did so with the view that a second wave is possible.

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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