State of play

25 June 2020

Our Investment Specialist Simon Durling shares his thoughts in our latest weekly update.

Today marks 3 months since the UK Government implemented lockdown (and since I started writing this weekly blog). As Prime Minister Boris Johnson announced measures to enable pubs, restaurants, galleries, cinemas and hairdressers to open their doors from 4 July, I felt this was a good opportunity to reflect on the past 3 months, what has changed and, importantly, how investment markets and asset prices have reflected this journey.

COVID-19: 3 month reflections

My first blog was written and published just after the lockdown in the UK was implemented. Two days later, India enacted their own measures leaving a quarter of the world's population living in a very different world. The strategy was designed to support each country's respective health service so they were able to treat the growing number of critical patients, many of whom required ventilators and critical care beds.

In that blog I reported 500,000 people signed up in a single day to volunteer with the NHS after a recruitment drive to help the vulnerable amid the COVID-19 crisis. The scheme was one of a number launched, aimed at relieving pressure on the NHS. The ExCel Centre in East London and other venues across the UK had been turned into a makeshift field hospital to treat up to 4,000 patients with the virus. In the end only a handful of patients were treated at these.

Back then there were 450,000 cases worldwide with a death toll of just over 20,000. As at 23 June, Johns Hopkins University records the worldwide cases total at 9,225,504 with 475,158 deaths.

Now that the world is coming out of lockdown, governments and officials wait to see what impact there will be on the number of new infections and whether there may be another spike or a second deadly wave causing those in charge to consider whether a return to restrictions is necessary.

A number of vaccine trials have begun and new drugs, aimed at helping to treat those infected, have been signed off for use although it is too early to tell how effective these will prove to be. Also, a new antidote test has begun aimed at identifying those who have had the virus, recovered and display a certain amount of immunity.

Economic impacts over the last 3 months

It is impossible to capture all of the economic news in a short blog but, as expected, shutting down a sizeable portion of the world's economy was always going to be seismic. The economic data released to date has broken records and, at times, can be hard to comprehend. The UK Office of National Statistics (ONS) announced an unprecedented 20.4% contraction in UK Gross Domestic Product (GDP) in April 2020. The UK economy is 25% smaller than it was at its peak in February 2020. This eclipses the 6% peak-to-trough decline recorded during the 2008-09 recession.

Claims for unemployment soared and many companies sought financial help and assistance. The US unemployment figures in particular smashed previous records with 30 million people becoming unemployed in just a few short weeks, with 6.9 million people losing their jobs in one week alone. The direct impact on the travel and tourism sector has been catastrophic with planes parked at airports and hotels and restaurants shuttered around the world. Car journeys dropped by more than 80% and demand for oil plummeted.

The economic response from governments and central banks has been unparalleled, even surpassing the interventions offered in the financial crisis of 2008/2009. Furlough schemes, business interruption loans, grants and payments for the self-employed has been thrown at the crisis in a desperate attempt by governments to avoid mass unemployment and sharp recessions not becoming a full blown depression. Central banks have printed vast quantities of new money, and bought corporate and government debt in an attempt to provide vital liquidity. This provided much needed confidence to a market reeling from a crisis which, in modern times, had not been faced before on such a global scale.

The big question is whether these interventions will work. Will the furlough scheme and others like it simply delay mass redundancies? Or will it provide the bridge to the other side of the crisis for businesses enabling them to keep their staff and look to the future beyond lockdown? The borrowing costs for all governments will rise sharply and it may take many years or even decades to recover the losses caused by this pandemic. Many central banks have suggested they will do whatever it takes and this has broadly been demonstrated on an eye watering scale. Only time will tell how economies will recover once activity returns to somewhere near normal.

How have markets performed over the last 3 months?

By pure coincidence the start of lockdown in the UK is also the low point for most stock markets indices across the world. Ever since the massive financial interventions have been announced and further measures have also been implemented the stock markets have recovered sharply. Interest rates have been cut to near zero and yields have fallen accordingly.

Moving to the main asset classes, below I reflect on how they have performed over the last few months and why. It is important to place any commentary and reflection about how an asset class has performed in context to the timescales involved (which here are clearly short-term) and this does not necessarily provide any conclusions or guidance beyond an observation. When investing, it is normally only recommended to an investor over the longer-term of 5 years plus. Our guide to investing covers most of the key issues and I would recommend, in particular for new investors, it is worth a read – you can find it **here**. If you need help or advice in making your decision, for example how much risk to take or what type of investment might be best for you, then you can speak to a financial adviser about your investment goals and how you might seek to achieve them or use one of the many digital advisers now appearing for less complex needs. Please bear in mind when going online or speaking to an adviser, you will pay a fee for professional financial advice. All investments carry varying degrees of risk. The value of any investment can go down as well as up, and you may get back less than the full amount you invested. Past performance is not a reliable indicator of future investment results.

Shares

The UK FTSE 100 was priced at 4939 on 23 March 2020 but has risen to 6321 as at 23 June 2020, just off the 6490 reached on 8 June 2020, which is a 27.9% recovery. The US markets have fared even better with the S&P 500 up 40% and the NASDAQ up 49.6%, reflecting the technology sector's gains from the changes made to the way we live. The story is much the same for most stock markets, having driven share values higher on massive stimulus and huge cuts in the return of alternatives. As I mentioned in last week's blog one of the reasons for the relief rally has been the dearth of alternative asset classes available for investors, labelled 'TINA' by the markets – 'there is no alternative'.

Government Bonds

Government Bonds have acted as a great diversifier throughout the last 3 months especially when share prices fell sharply from 21 February 2020 through to their lows on 23 March 2020. Yields have fallen to their lowest level in history with the UK borrowing for the first time at a negative rate and still being oversubscribed by three times at time of issue. As yields fell the loan value soared, providing higher than average returns and a much welcomed buffer, especially for lower risk portfolios. The only small blip was when markets decided to take profits in a short sell-off when 10 year yields reached a low of 0.19% and rose sharply to 0.86%

in just 9 days. Subsequently the yields have fallen back and have been hovering around 0.2-0.3% for some weeks. Similar returns and yield variations have happened in US Treasuries and other Government Bonds internationally.

Corporate Bonds

Corporate Bonds haven't performed as well over the last 3 months, impacted in part by the sell-off on 9 March 2020 where spreads widened and values fell. However they have recovered all of these losses and stand at just over 2% year-to-date. The profit taking caused yields to rise and concerns about the rise in default rates has meant it has taken nearly 3 months for yields to fall and values to rise back to where they were before the sell-off.

High Yield Bonds

High Yield Bonds have suffered a rollercoaster of a ride over the last few months and still remain just over 4% below their values at the start of the year. At one point the sell-off caused yields to rise sharply and values to fall by over 15% with concerns about default rates and liquidity spooking markets. Again, like Corporate Bonds the recovery has been slow but almost all of the losses occurred have been recovered back to a point before the COVID-19 crisis began.

Gold

Gold as an asset class is traditionally quite volatile and the last few months have been no exception. When the crisis started to impact markets in February 2020 the value of Gold appreciated sharply before profit taking struck when the price reached $1700 per ounce. The price fell very quickly to $1460 per ounce in just a week. It has subsequently recovered and is now trading very close to its all-time high back in 2011 at $1782 per ounce (as at 23 June 2020). Gold can be an excellent diversifier for portfolios in stressed markets or in times where there are expected spikes in inflation.

Find out more

Listen to our latest **Market Views: Check point** update with John Mullins, Portfolio Manager, as he shares his thoughts on some of the main themes over the last couple of weeks and how they have been driving market behaviour **here**.

Note: Data as at 23 June 2020.

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