Coronavirus

Market sell off update

March 17th, 2020

Since I wrote on March 9th last week, stock markets have remained highly volatile reacting to very fast-moving events around the world. The FTSE had its worst day on Thursday since the 1987 stock market crash and the S&P 500 followed suit last night, recording its worst one day fall since 1987 too. The coronavirus has quickly moved from a peripheral concern to one where genuine fear is enveloping consumers and governments are cracking down on free movement.

Markets are now pricing in a global recession, with the S&P 500 now down 30% over 18 trading sessions. This is an unprecedented position when merely a month ago the US economy was performing well against modestly slowing global output.

This is clearly a particularly concerning time for investors and it is always difficult to see very solid investment returns made over a multi year period evaporate due to a short-term so called 'black swan' external event that has come out of nowhere.

Clearly, we need to see assistance and leadership from our governments in these periods, and some of the negative market response in recent days has been due to policy responses that the markets think will have limited impact. The second Fed interest cut on Sunday night was part of this problem - cutting interest rates is not going to make us all go out and spend more, when interest rates are already at 440-year lows.

It can be argued that this policy response was not actually aimed at getting people to spend more, but more directed at helping leveraged businesses as the coronavirus impact is clearly hitting a large part of the real economy simultaneously. Those operating in the travel and hospitality businesses are facing a very tough time ahead and indeed, it looks likely that many businesses in these sectors will fail in the months ahead, particularly where leverage is involved.

We are speaking to fund managers on a daily basis, and whereas none of them have a crystal ball as to when this event will run its course, they offer reassurance that they have altered portfolios where necessary and many of them are adding to their favoured positions at these much lower prices. Sadly though, much of the market selling has been indiscriminate.

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Coronavirus - Diagnosis update

At the time of writing, there have been approximately 8,000 deaths globally against 200,000 cases, so absolute death rates are low. In the UK we have had 71 deaths against 1,950 cases, though the current estimations are that the actual number of cases in the UK is between 35,000 and 50,000.

In trying to provide perspective, and as I wrote last week, approximately 500 will have died of flu in the UK this week, based on the last recorded data from Public Health England. 26,408 people died of flu in the last year that full data is available - 2017-2018.

I personally believe that over dramatizing death numbers (the media need to think very carefully about delivery of this information), without providing context does not assist in the need to avoid panic among the public. The facts are that most people who are dying have established medical issues. This virus does not appear to display high risks to the young or fit.

The government is taking the right approach and we all need to act responsibly in managing what we can do as individuals and businesses to contain the spread of this virus. It is clear that a full vaccine is unlikely to be available for about a year, despite that fact that Mike Pence announced on Monday that there are human tests going on as of this week.

What should we do?

The Coronavirus will pass - normal life will return and markets will react appropriately when there is visibility on an outcome. None of us know what will happen until that time arrives and that is the fundamental problem in financial markets right now. Markets like known outcomes and as a discounting mechanism, they are now pricing in a very significant global recession as they have no quantum on future corporate earnings. There is no real modern context in history for this event and it appears right now that this is being treated as a war like scenario by our governments. This may indeed be the right short-term reaction to avoid greater pain in the medium term.

My real sense is not to panic and sell, though it is fair to say that things could get much worse before they get better and investors therefore need to consider that in the context of any short-term cash requirements from invested assets.

We will get through this - we will travel again and get to the beach! Please, like me, think positively and most importantly stay safe and healthy.

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