Coronavirus - Market update

April 17th, 2020

Since I wrote ten days ago, markets have rallied strongly, with the S&P 500 up 10.85% the MS World index up 8.93% and the FTSE 100 up just under 4%. It's not often you get an exit from a bull market, a bear market and then a new bull market again in the same month, but in the case of the Dax, (German index), KOSPI (Korean index) and the S&P 500, that is indeed what we have had. A sign of markets perhaps uncertain of direction without any historical context for the unfolding event we find ourselves in.

One can argue that the market rally is somewhat surprising given the flow of negative data starting to emerge as the global shutdown goes deeper. Approximately 81% of the world is currently in some sort of lockdown and in some emerging economies there is very limited access to the type of medical support we rely on if the numbers of infected become large. India, for example, has a population of 1.4 billion and only 40,000 ventilators. It is also hard to ignore the impact (social and economic) of 22 million signing on for unemployment benefit in the US during the last four weeks. To put that in context, it unwinds all the job creation in the US since the Global Financial Crisis 10 years ago.

It is not clear to me quite yet why markets are reacting so positively against the backdrop of some of the numbers emerging. We learnt this morning that Chinese Q1 GDP was -6.8% - the first quarterly contraction since 1976, and the likelihood is that the Q2 global GDP numbers could be between 20%-30% down. Markets of course look forward and it is conceivable that the fall in markets in late February and early March was so precipitous and fast, that the bounce back we are seeing is not without some merit.

My concern is that this pandemic, and its economic consequences are without question beyond anything we have experienced in our lifetimes. It is therefore impossible to benchmark this experience against anything before and my own appraisal is that it will take two or three years before we get back to anything like normal, whatever that may be.

Current medical stats

As of today, there are over 2.2million confirmed cases globally, with a little under 150,000 deaths. These remain very low numbers in terms of a global population of over 8 billion, though due to limited testing no one really knows how many of us have been infected. Today China upgraded their reported deaths in Wuhan Province by 50% to 3869 - whether those figures even now remain accurate is open to speculation.

There is clearly evidence that the infection curves are softening in Europe and now governments have the unenviable tasks of deciding the timeline for lifting the lockdown and getting people back to work. The Danish and Swedes have got schools back this week and the overwhelming medical evidence remains that the vast majority of deaths from Covid-19 are in those 70 and above and with pre-existing medical conditions.

Donald Trump has also announced this week his initial outlook for a return to work against a backdrop of the rapidly rising unemployment numbers mentioned above. Adding the 22 million recently signed on to the existing unemployment number of 5 million takes the current US unemployment number to a staggering 27.6 million - over 17% of the workforce. No wonder Trump wants to act fast.

Our own predicted unemployment rate in the UK is likely to peak at around 10% and then fall again fairly quickly, primarily due to Chancellor Sunak's job protection programme. It is of course clear that all economies do need to get the economic cogs turning again everywhere to avoid this crisis morphing from a medical one to a massive financial crisis that might indeed lead to a depression and, by association, much more significant financial pain and of course the associated medical and mental health issues that would follow.

As I mentioned in my last piece, my overriding concern about delaying a return to work much further is the heroic levels of debt building up and the associated pain of dealing with this in the multi-year period (possibly more than a decade) that follows. Just looking at the situation in the UK, the IMF is now suggesting that UK GDP this year is likely to be -6.5%, and our Government borrowing at the peak will be about £273 billion or 14% of GDP. This will be the largest single year deficit since the second world war. It is likely that the worst quarter on quarter number will take us to borrowing of over 100% of GDP.

Though this strategy of spending to mitigate bankruptcies and layoffs is clearly the right short-term fix, the numbers are large, and the duration of this financial support needs to be closely monitored by those in government with commercial sense and not the career politicians and medics. It is reassuring that our new Chancellor has an economic and commercial background to provide context to the journey, which will be crucial to avoid ending up with much larger fiscal and economic problems down the track.

The road ahead

So, it is good to see markets rising again, though there is clearly a long way to go and volatility will remain given some of the issues that I have highlighted. I would also like to see some common sense invoked by government beyond the medical challenges. We have empty roads for six weeks - this photo taken in Camberley this week. The Government could currently be shutting 3 out of four lanes on every motorway in the land and resurfacing where needed, with minimum disruption and a huge cost saving in the process. Frustrating lack of fore thought, as I suspect post this period many will be avoiding public transport and busy trains and taking to their cars, putting further stress on the road network.

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