Wealth Management Weekly Market Update

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Market Update

The market sell-off continued last week, despite government pledges of further fiscal support and central bank liquidity injections, as countries moved into lockdown and tightened border controls to contain the coronavirus outbreak. UK equities were down -3.2% with Housebuilders, Industrials and Energy companies experiencing the brunt of the sell-off. US equities were the hardest hit last week, down -9.7%, with the S&P 500 falling into bear market territory. Global and Emerging Market equities were down -6.7% and -4.2% while Japanese equities were up +6.0% in GBP terms as the Yen, a safe haven currency, strengthened against Sterling. Globally, the hardest hit sectors were the more cyclical sectors including Energy, Financials and IT, while Telecoms and Healthcare performed well over the week in Europe and the UK. Global yields remain low with the US 10Y and the UK 10Y yielding 0.85% and 0.56% respectively. Sterling has been vulnerable to declines in global stock markets, down -5.3% against the US Dollar and -1.6% vs the Euro last week. In US Dollar terms Gold gained +4.0% last week, while Oil continued to slip, down nearly 60% YTD.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Gilts	GBP/USD	Implied probability of a rate cut at the next Fed meeting
▼ -3.2%	▼ -9.7%	▲ +1.5%	▼ -6.8%	▼ -4.2%	▼ -0.3%	▼ -5.3%	8%

all returns in GBP to Friday close

Macro News

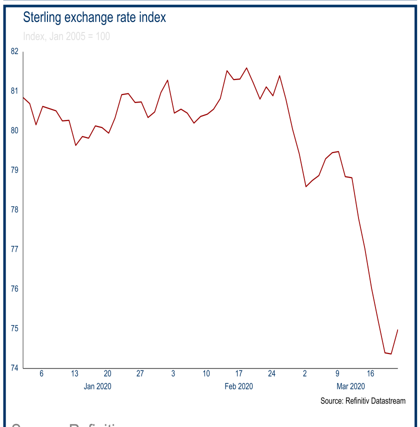
- The Bank of England again voted to cut interest rates, now to an all-time low of 0.10% in an emergency meeting, ahead of a further meeting this Thursday. The BoE also announced a new round of Quantitative Easing which is set to rise to £645 billion, the largest QE relative to GDP out of the US,UK and EU.
- Rishi Sunak set out plans for a £330 billion business loan programme to protect British businesses, followed by a pledge to provide employment subsidies for up to 80% of wages up to £2,500 a month in an effort to combat rising unemployment.
- The US Senate fell short of the required votes to pass through a stimulus package on Friday. The bill had aimed to provide $1.8tn to the economy. This blockage in the senate, caused by partisan differences, disappointed markets and caused stop-limits to be enacted in US futures markets in the US, and saw European equity markets open lower this morning.

The Week Ahead

- US Initial Jobless claims data is released this Thursday. Last week saw a rise in initial claims of 70,00, a greater one-week rise than any point in the Global Financial Crisis. Preliminary data out of 15 states suggests this week will see the worst ever results. Californian unemployment should almost quadruple and Minnesota increase tenfold.

Week in Charts

Fig 1: Sterling Effective Exchange Rate



Source: Refinitiv

Sterling has depreciated against trading partner currencies significantly since the start of the year. This is due in part to US Dollar strength, which often acts as a safe haven asset, but this Sterling weakness is symptomatic of strong market reactions to the outlook for the British economy.

Fig 2: Bank of England Base Rate

Source: Mazars Calculations

The Bank of England cut its base rate even further last week, from 0.25% to 0.1%. The new base rate represents an all-time low. The British Chancellor has talked of 'coordinated' monetary and fiscal policy in the UK. Policy shifts of this nature have been urged for months by Christine Lagarde, head of the ECB.

View From the Desk

We can now comfortably use a phrase that, under other circumstances, would surely risk bringing upon us financial anathema: "This time is different". European and Chinese societies, as well as some American states, worried by the death toll in Italy, have weighed the cost of human lives against that of severe economic disruption and have, quickly or slowly, opted for life. What ensued, for the first time in over 100 years of financial history, is an economic and financial crisis not due to factors inherent in market boom and bust cycles, nor the functioning of business. Economically, we are staring at a quarterly GDP contraction of 10%-20% for many developed economies, unheard of since WWII, maybe with more to come. This is more than twice the economic fallout of the 2008 GFC, which was spread out in 18 months.

How should we "invest in a time of cholera"? (sic)

For one, as this is not a traditional market crisis, investors must look outside markets for flags as to when the crisis will be over. From the quickest to the slowest, these are the three basic scenarios under which "social distancing" measures are lifted: (1) easy, available and cheap testing or if warmer conditions can slow infections to a pace acceptable for lifting some measures, (2) medicines already in circulation that can be used to create a solid cure protocol, enough to re-open most parts of the economy, (3) the invention and proliferation of a vaccine which will signal a proper return to business.

Two, in the meantime, we can no longer view stock and bond markets as properly functioning to raise and allocate capital. With over one billion people virtually in house arrest, including New York and London, it is difficult to consider market movements as "efficient". Investment meetings are mostly taking place for maintenance and M&A activity is freezing, with long-term decisions delayed. Thus, we cannot look at traditional market metrics, such as valuations, to flag a possible recovery or take market movements hereafter too seriously.

Time is of the essence. For every day the economy remains in lockdown, the ensuing economic damage is disproportionate. Unemployment is set to rise and many small businesses will forever shut down, as there's no amount of government aid that can make up for the sheer stoppage of cash flows. Urgency is the mother of invention, so we remain optimistic that a solution will be found. The speed at which this happened and the speed and unpredictable timing at which it may be reversed compel us not to change our positioning, but trust that time-tested asset allocation principles will get us through these, admittedly strange, times.

David Baker, CIO