leodiswealth

A perspective on markets

We live through unprecedented times. Not so much in terms of stock markets – experienced investors will have lived through crashes before from the 1974 oil shock, to Black Monday in 1987, the Tech bubble bursting in 2000-2003 and of course the Great Financial Crash of 2008 which saw Lehman Bros go to the wall and RBS, just two hours from going bust. What is truly unprecedented, even in 2008, is the scale of Central Bank and Government Fiscal intervention on a co-ordinated global scale. The economic fall-out of mass lockdown is both seismic and man-made – a deliberate and considered attempt to protect lives as surely is right and proper.

The US stimulus package of $1.8 trillion may be the largest figure, but all major Governments and Central Banks, including in the UK, have ripped up the rulebook to support companies and individuals through the coming weeks and months. We feel the scale of the measures are likely to have a big impact on the eventual recovery as well as providing the relief needed now. They have learnt the lesson of 2008 and have moved with both speed and conviction.

Amongst the uncertainty, we can, unfortunately, be sure of one thing. The news is going to remain dominated by increasing numbers of casualties of COVID 19. For investors, this is likely to keep a lid on risk appetite however compelling share prices may appear after the sharp falls already seen. It is worth noting, however, that in March alone, the US Dow Jones Index has seen five of the largest one-day rises ever recorded as well as five of the largest falls.

So where are share prices going from here? At some stage markets will rally and most probably sharply. That is the lesson of past slumps. The uncertainty as to how effectively companies can 're-boot' operations and how dented consumer confidence may be post-crisis suggests a rally would fall short of previous highs for now, but a rally, nonetheless.

We are not medical experts and amongst all this remember that this is a health crisis affecting lives as well as the economy. We monitor the Chinese experience, and economic activity is fast picking up as they move on from peak infection. This will come to pass in other economies.

In summary, policy makers have pressed the 'shock and awe' button as was desperately needed and whilst there may well continue to be bad days ahead in the short term, the odds still favour a rally when markets look beyond the current news.

We are working hard to look after client portfolios as the UK has shut down. We sensibly raised cash levels and increased investment in gold. The importance of a diversified portfolio has again been highlighted. It is also worth noting that in these times of market panic, some investments are being sold indiscriminately. In other words, the good has been punished along with the bad. In our view, this will create new investment opportunities.

Given the recent and very sharp falls in markets, we don't think that there is likely to be much benefit for investors in selling more investments now. The correction has been the most marked since 2008 and may well have already factored in much of the economic damage that the coronavirus outbreak will do. Selling out now risks crystallising losses rather than avoiding further falls.

27th March 2020

None of us miss the daily commute and all appreciate the wonders of modern technology. We trust that we can provide the reassurance regarding the vagaries of the investment world to allow focus on friends and family at these times.

Please stay safe.