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After the global stockmarket rally in April, May has been more settled (so far) although it still feels as if the investment world is in limbo, fighting a two-way pull. Glass half-full – things will get better and equities are forward-looking investments. Glass half-empty – most Company earnings are collapsing, and many dividends are being cut whilst lockdown continues.

So, what do we know?

There will be an economic recovery in 2021. Growth, or contraction (economists like to say negative growth which apparently sounds a bit better!), is based upon comparison to the previous twelve-month figure. It is hard to imagine that the global economy in twelve months-time will be as bad as it is now. Hence there will be growth in Spring 2021, but from a very low base. But, under almost any scenario, global GDP will not be returning where it was at the end of last year, by next May.

We also know that since 2009, when interest rates collapsed in developed world economies, risk assets, such as equities, have marched to the drumbeat of a 'Risk on – Risk-off' mentality. It used to be a very rare occurrence for 95 or more of the FTSE 100 shares to all rise or all fall on the same day. It is now quite a common thing. Either risk on or risk off.

When prices are rising in the Risk on mode, it tends to be across the board upsetting the old correlations. We see equities, gilts and gold all rising at the same time when 'normally' gilts and gold rise when riskier equities fall, and vice versa.

Why the change? The answer lies in interest rates. When they are virtually non-existent (or negative as in Japan and Europe) assets behave differently. The safe havens such as gold and gilts can rise even as equities rise, as the alternative is, basically, no return on your cash.

Of course, the flip side is that in Risk off mode, all assets can fall in value simultaneously making it difficult to be fully defensive. Gold still works well as a counterbalance to equities over time and in extreme market movements. We are therefore happy to hold for clients. Equally, holding heightened levels of cash helps in Risk off mode giving us the chance to buy other assets at a lower price.

Gilts concern us (and much of the Private Client investment world). The gross return on the 30-year gilt is 0.58% per annum. In plain English, a £1,000 investment would get you an annual return of £5.80 for the next 30 years. You do not have to be too worried about inflation to think that is poor.

We have increased investment in Funds that hedge equity risk using macro strategies – they have performed extremely well during the downtown providing a more effective counterbalance than 'expensive' gilts. Two Funds managed by Brevan Howard, BH Macro and BH Global in particular have rewarded investors.

We do not have all the answers to the current upheaval (no-one does!) and investment is going to fluctuate between risk on and risk off whilst the news flow regarding infection rates, vaccines, treatments for COVID 19 develops. Stay alert is the latest Government message, rightly so. It is equally applicable to our investment strategy for clients.

Please continue to stay safe and care for yourself and your loved ones.