WEEKLY MARKET COMMENTARY
6 March 2020

Independent Financial Advisers

DECLINE IN NEW CORONAVIRUS CASES COULD KICKSTART SUPPLY CHAINS

This week the coronavirus (Covid-19) continues to dominate the news, and the markets, but we at least have a clearer idea of what to expect. With new cases in China continuing to fall and economic activity returning to normal, the pattern for an outbreak looks like three months of disruption to slow transmission, and probably another three months of disruption as supply chains get back to normal. This suggests a significant economic and human cost because of the outbreak, but from an investment point of view it is looking like a short-term concern.

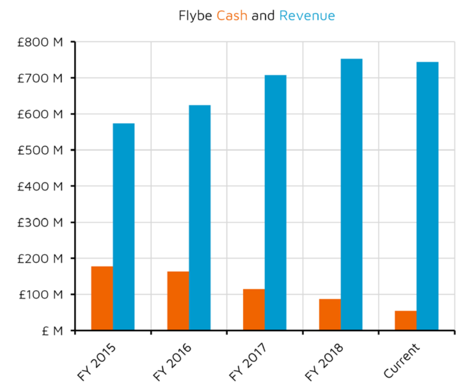
Elsewhere, social unrest in India appears to have quietened down after days of sectarian violence. The majority of the attacks took place last week while we were focused on the Covid-19, however the ramifications are still being felt. Hindu nationalists attacked members of the minority Muslim population, with members of the ruling party, police force and judiciary at best indifferent and at worst complicit.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-1.67%	+1.52%	-1.86%	-3.04%	+0.06%	-0.38%	-0.19%	-4.34%	+7.63%	-1.70%	+1.36%

COMPANIES: FLYBE NO MORE

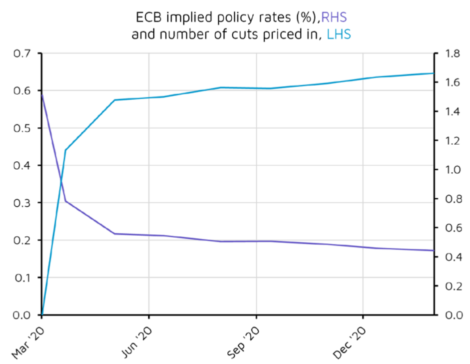
The International Air Transport association predicts that around £87bn in lost revenues for airlines this year as a result of the Covid-19. And those with weak financials are strongly at risk of being pushed over the edge – a case in point for Flybe this week. The Exeter-based airliner previously struggled with myriad of issues and while Covid-19 helped speed up the company's demise, ultimately it was the government who switched off the life support when the promised £100m support loan to the firm failed to materialise.



Over the last two decades, Flybe has undergone two restructurings and numerous management upheavals. Having a regional bias hasn't helped as a weakening pound has meant fuel costs which account for a significant portion of expenses has eaten into earnings. The airline industry is also notoriously competitive, especially within the UK as Flybe has to contend with being squeezed between British Airways and the low-cost carriers like Ryanair and EasyJet – all while fare prices continue to decline.

CENTRAL BANKS: FED DECIDES TO GO SOLO FOLLOWING SURPRISE RATE CUT

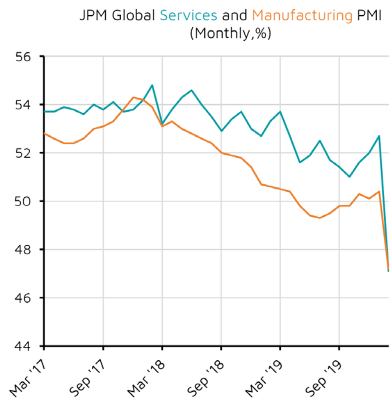
This week, the Federal Reserve (FED) announced a surprise half a percentage point rate cut following an emergency meeting. While the timing of the cut, only days before the scheduled March meeting caught many people unaware, what was more surprising was their decision to go it alone. This move bucked the trend of central banks coordinating policy movements together during times of crisis. Other key central banks will now have to forge their own paths and assess how much further the economic outlook could deteriorate and whether in fact they have the firepower to help.



While the market expects a rate cut, the ECB is reluctant to do so but could inject cash into the banking systems should small and medium company bankruptcies rise as a result of Covid-19. The UK is expected to cut rates and in Japan, the central bank has ramped up the purchasing of passive instruments in order to keep liquidity levels high. Rather than soothing the market, the Fed's decision did the opposite as ultra-safe US treasury yield dipped below one per cent while the broader equity selloff continued.

GLOBAL: PMI'S AT THEIR WEAKEST LEVEL SINCE 2009 CRISIS

The economic impact of Covid-19 is starting to reflect heavily not only within the Chinese mainland but the wider region. Purchasing managers' indices for Hong Kong and China fell to all-time lows last month, on par with deep recession, while sharp slowdowns were also recorded in Australia, Japan and South Korea. PMI readings below 50 indicate a sector in contractionary mode while anything above indicates a pickup in business activity.



China's services PMI fell from 51.8 to 26.5 while manufacturing fell to a record low of 35.7 points. Over in Hong Kong the composite PMI fell to its lowest ever level with a reading of 33.1. Over in the Western world, readings mainly showed more resilience with few pockets of growth, indicating Covid-19 has yet to have a material impact. The UK experienced its strongest period of growth since late 2018, in the US figures have only marginally declined and in Germany the PMI still hovers above 50.7 as the domestic economy continues to stave off the decline in trade with its closest partner, China.

Data Sourced from FE Analytics, and Bloomberg Finance LP