WEEKLY MARKET COMMENTARY
27 March 2020

Independent Financial Advisers

MARKET COMMENTARY CORONAVIRUS UPDATE

This week markets have backed off from the absolute panic that characterised last week. Most equity markets have bounced back about 10% from their low points. This behaviour is being credited to a positive reaction to the various stimulus packages that were announced this week, but at times like this the markets often act randomly and people try to fit an explanation over the top. It might be driven by the stimulus packages or it might just be a correction from previous over selling.

The stimulus package idea does have some merit though, as the US finally passed a support package totalling $2trn. While not everything has gone smoothly, the response to the crisis from policy makers has been impressive. We won't know if they've done enough until much later, but at least they've shown willingness to try – not something we witnessed during the financial crisis.

Markets, like the rest of us, are adapting to this new environment. So far, they have been selling off on bad virus news and rallying on positive economic news, which so far has consisted of stimulus packages. We're likely to see more bad news on infections as the full impact of containment policies on the spread will take a few more weeks to have an impact. We're also going to see some dire economic news as the full effect of the outbreak becomes apparent. The 3 million jump in US unemployment is just the beginning.
So while this week has brought some welcome relief, we think there is more short term pain ahead before we can confidently start looking on the bright side.

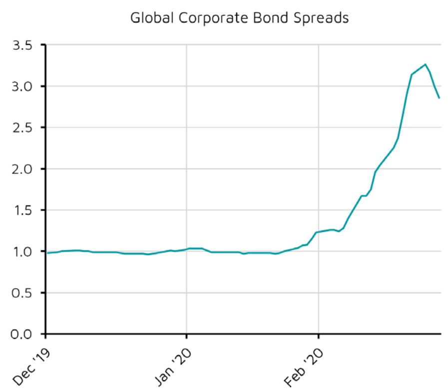
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+6.60%	+9.16%	+17.14%	+7.27%	+2.98%	-0.09%	-0.21%	-2.60%	+9.06%	+7.32%	+5.09%

BONDS

The indiscriminate selling of corporate bonds over the last month has seen credit spreads widen to levels last seen in the 2011 sovereign debt crisis. Even the highest quality AAA rated corporate bonds sold off, presenting distressed managers with plenty of opportunities as investors dumped assets in a grab for cash. Bargain hunters have also found attractive options within US municipal bonds; which cities and states go to raise cash; after investors oversold the sector.

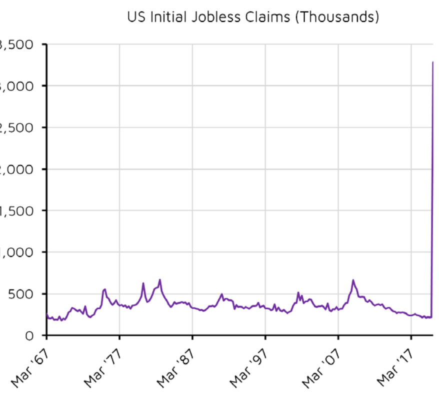
This week corporate markets cheered both the positive fiscal and monetary policy moves. Credit spreads snapped back as the promise of strong fiscal stimulus came to fruition, while the Federal Reserve announced it will be working with BlackRock to buy corporate debt in order to boost liquidity in the market. However, volatility within bond markets remains high and the ability of companies to pay back interest and principal remains questionable the longer the lockdowns go on for.



US

Bear market rallies historically tend to occur before asset prices hit bottom. This was the recurring theme this week for most equity markets. US equities rallied after the $2trillion dollar stimulus was passed through at the third attempt. But given that the US has overtaken China in the number of daily coronavirus cases, there could be further bumps and bruises down the road as the news flow turns negative.

In the meantime, we are starting to see to some of the impact that the lockdown has had on the economy materialise. Initial unemployment claims jumped to 3.28 million. To reiterate, three million lost their jobs last week, the highest ever recorded and the figures could be even higher next week as many didn't get through to overwhelmed authorities. In the worst-case scenario, unemployment rates are forecasted to hit 30 per cent by the second half year. In contrast, during 2008 financial crisis unemployment rates only reached 5.5% within the same timeframe.



Data Sourced from FE Analytics, and Bloomberg Finance LP

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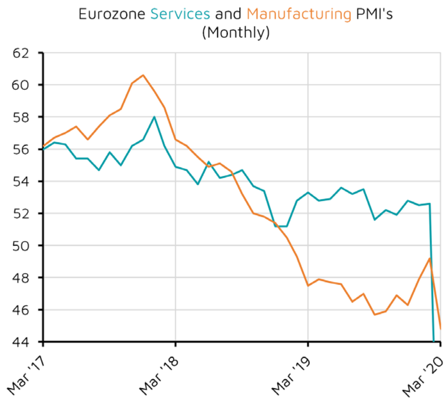
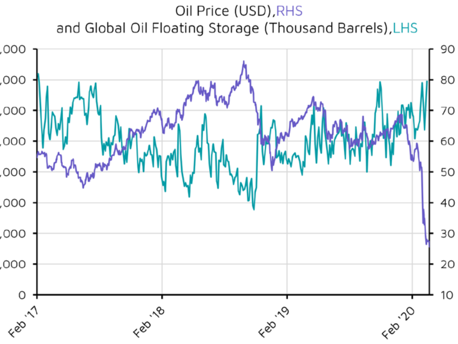
…declines in eurozone history; European …be forward looking so the passing of a …the ECB announcing the return of the … tailwinds for stocks. Growing appetite …ll this week. The OMT programme will …amount of bonds.

In terms of the Covid-19 spread the number of new cases for Italy fell while the death toll in Spain continued to rise. Countries across Europe have now significantly curbed public life. Sweden is the one outlier which hasn't initiated lockdown and encouraged a semblance of normal life with primary schools open and large gatherings allowed. For now, infection rates are lower than some of its peers but only time will tell if this great social experiment works.





OIL

Saudi Arabia announcing it will up oil production at the start of the month after Russia killed OPEC's planned supply cut saw prices plummet to historic lows. But where will this extra oil supply go as demand is virtually non-existent due to Covid-19 once the Russia -OPEC agreement runs out next month? The world is about to run out of space to store its extra oil and it may come sooner than anticipated.

Storage levels across the world are currently at 75% capacity and it's expected to hit maximum within the next few months. In turn, prices could drop as low as $10 dollars per barrel. The industry may look to offshore oil tankers to store their extra crude oil, but for this to be economically viable it would require oil prices to fall even further from current levels.

Data Sourced from FE Analytics, and Bloomberg Finance LP