PROMOTION

Which way next for markets?

After global markets stumbled to their worst quarter since 1987 in Q1, we have now seen a meaningful bounce in many equity markets from March lows and there are now good arguments for both sides which way they will turn next.

On the one hand, the collapse in economic data has been unprecedented and the outlook now arguably looks worse than anyone predicted when the markets were at lows. The structural damage that will be inflicted to some of the previously fastest-growing sectors of the global economy such as hospitality and aerospace looks grave and long lasting.

The equity market recovery since March has been disconnected from economic reality and the prospects of returning to economic normality on a global level looks almost as uncertain as ever. Hesitant and unconvincing reopening of economies, risk of re-entering lockdowns and deteriorating financial conditions all point to equities re-testing their lows. This certainly seems a possibility but is not likely to be a long-term risk should it happen. When the market hit lows there was a lot of fear priced in and we would likely have to return somewhat to that level of panic. Emotion drives markets and at that point large portions of healthy people were fearing for their lives, never mind their investments and it now seems unlikely that fear level will return.

On the positive side for markets is the global economy is and will continue to be supported by stimulus far bigger than ever seen before. If it proves as effective as hoped, then economic growth and corporate profits could start to surprise on the upside from next year. If this is the case, extremely low interest rates could help force equity valuations higher (as they become more attractive relative to cash/safe haven assets) and as a result stock markets may well rally to well above previous all-time highs.

The huge amount of government and central bank stimulus though, combined with an eventually recovering global economy, also risks inflation escalating. In the case of surging inflation, cash assets will be heavily eroded and safe haven bond values would likely plummet. In this situation, equity markets and real assets will likely offer much better retention of buying power.

In the short term, the crumbling data and disappointing updates may be able to push back against the stimulus. Ultimately though, it seems more likely that major governments and central banks will eventually win the war with their immense firepower.

Whilst the market was at its lows our message was clear to all investors- stay the course and capitalise on opportunities. It has been said that the stock market is a device for transferring money from the impatient to the patient. We believe that the case for being extremely selective in stock picking is greater than ever. If you would like to discuss some of the opportunities we are finding please do not hesitate to get in touch.

Risk Warning: With investing your capital is at risk. Opinions constitute our judgement as of this date and are subject to change without warning. . ◆

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