MARKET UPDATE

APRIL 2020 MPU

March 2020 was a month that a considerable percentage of the global population will want to forget. No-one of sound mind on Planet Earth has not been affected by the Coronavirus to some degree or other, and we know there is more pain ahead before we can return to at least some semblance of normalisation. We have been sending out regular updates and hosting webinars since the outbreak began and so we will try to avoid merely repeating what we have already said.

The Market Phases

Q1 of 2020 can be broken down into three phases. Phase 1 from 1st January to 19th February, which seems such a long time ago now, could be considered a continuation of 2019 themes of easy money, share buy backs and American large tech propelling its markets skywards. The virus was perceived by most on Wall Street as an Asian issue and perhaps a European one but certainly not likely to derail the American economy to any significant degree. We also need to bear in mind that America makes up over 60% of the MSCI World Index, so what goes for America can appear to go for the world. Phase 2 ran from 20th February to approximately the 20th March (depending on time zone) and was characterised by blind panic, recurring 'limit down' futures markets and truly apocalyptic extrapolations for both risk assets and ,rather more importantly, mankind itself. Phase 3, which remains ongoing, seems like a collective period of (Post)-Traumatic Stress Disorder. Whilst there was a recovery of limited magnitude in some areas, many investors remain paralysed by fear of what may happen next.

Oil… its complicated to say the least

During Phase 2, just when investors didn't think the investing backdrop could get much worse, on the 8th March Saudi Arabia began a price war with Russia, triggering a significant fall in the price of oil. The astonishingly timed price war was triggered by a breakup in dialogue between the Saudi led OPEC and Russia over proposed oil production cuts, which was itself in reaction to the coronavirus pandemic. Oil prices had already tumbled nearly 30% since January, due to the inevitable but as yet still unfolding drop in expected demand. This price war has been a major contributor to the heavy losses in stocks and bond prices. At a time when there are numerous stories of heroic activities in response to the virus, the protagonists in this merciless attempt at opportunism may well be judged harshly when history is finally written on this chapter of the effects of the virus.

The enduring importance of the Adviser

Each time there is a significant pull-back in risk assets we are all reminded of the benefits of the advice process and the financial adviser community. Investing has been relatively straightforward for over a decade now and many DIY investors had become comfortable ramping up their risk over the last few years, some knowingly but many others less so. The investor probably doesn't think in terms of their Beta, but many had made significant gains primarily on that basis and had seen both few and shallow drawdowns. The feedback from many advisers during this crisis is that (so far at least) their clients knew they were investing for the medium/long term. Nobody like losses, even paper ones, but the benefits of a well-diversified portfolio with clearly communicated market updates explaining what is going on have once again become a desirable investment method. This is why the adviser will always remain central to the IBOSS propositions and we take considerable comfort in knowing that every client who is invested with us has been through a proper advice process.

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