MARKET UPDATE

JUNE 2020 MPU

Liquidity is everything

May saw the continuation of the very strong rebound from the March equity lows. The markets over the recent past are again characterised by bad news being dismissed as short term, and largely inconsequential, and good news, however hazy or small, being seized upon to drive markets higher. Despite the market giddiness around the Gilead announcement on vaccine development at the end of April, we have had disappointingly little in the way of medical breakthroughs. At the same time, relations between China and the US have soured and are probably at a low point since this administration took office. Intuitively, there seems little to cheer about for markets. The economic numbers are record-breakingly awful across most of the globe and, whilst some of the pandemic numbers are better in some countries, the spectre of second wave driven shutdowns is a very real threat. The reason why all this doom and gloom is being ignored is, just like before, down to liquidity. The markets tanked in February/March because there was a doubt for a few short weeks (it felt a lot longer) that central banks and governments could print, borrow and conjure up enough money to stop a health crisis also becoming an economic one. Despite the terrible economic numbers that fear of financial armageddon has been removed for now.

The United States of Europe?

It has been said on several occasions that it takes a crisis to move the EU project forward. We might be witnessing one of those moments now as Germany and France have come up with a proposal for a recovery fund which is basically the previously resisted coronavirus bond. This would be the first time that a debt would be fully financed by all 27 members. A key difference here is that these are grants, not loans, and this development would be a step closer to a true fiscal and monetary union where the richer countries subsidise the poorer ones. There remain some major hurdles to be overcome here, not least the opposition from the likes of the politicians in the Netherlands and Austria. Ultimately though, it could be the electorates at the national level elections who might wish to have their say. As all countries are likely to struggle with the ongoing and as yet unquantifiable effects of the pandemic, it seems likely that some voters won't see debt mutualisation as being in their interest. For now though, this news is being taken positively and has helped European markets perform well in May, gaining some 6.5%.

Technically good

Once again in May, it was the large tech stocks which led the gains, with the ones which benefit from the change in behaviours driven by Covid-19 doing particularly well. One of the more illogical parts of the investment thesis for these extremely highly valued stocks is that when a rumour of a vaccine breaks it doesn’t seem to hurt them. As we said at the start of this piece, good news only applies to the equity markets. At the same time, the difference in value versus growth valuations has reached yet new levels. We see periodic reports which point out that this may be about to end but there is scant evidence to support any kind of mean reversion. As usual, we don’t particularly favour either player in the growth versus value debate. The good active manager will hopefully buy stocks at a level where they think they can sell them at a profit in the future, simple really. One issue which may affect some of the larger tech names is if Trump decides that attacking them in some form or other could be a vote winner. He really doesn’t like being fact-checked on Twitter, which is his favourite way of communicating, but so far he hasn’t really done much about it. We can say the same for his much-hyped press conference on China last Friday, it was big on rhetoric but he didn’t actually say anything new. In any case, the Asian markets liked the lack of anything specific, especially in Hong Kong where the Hang Seng rose 3.4% in Monday's trading. As we approach the US election we can expect an awful lot of talk from the Whitehouse about issues such as China but more than ever any concrete actions will be geared towards winning votes in November.

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