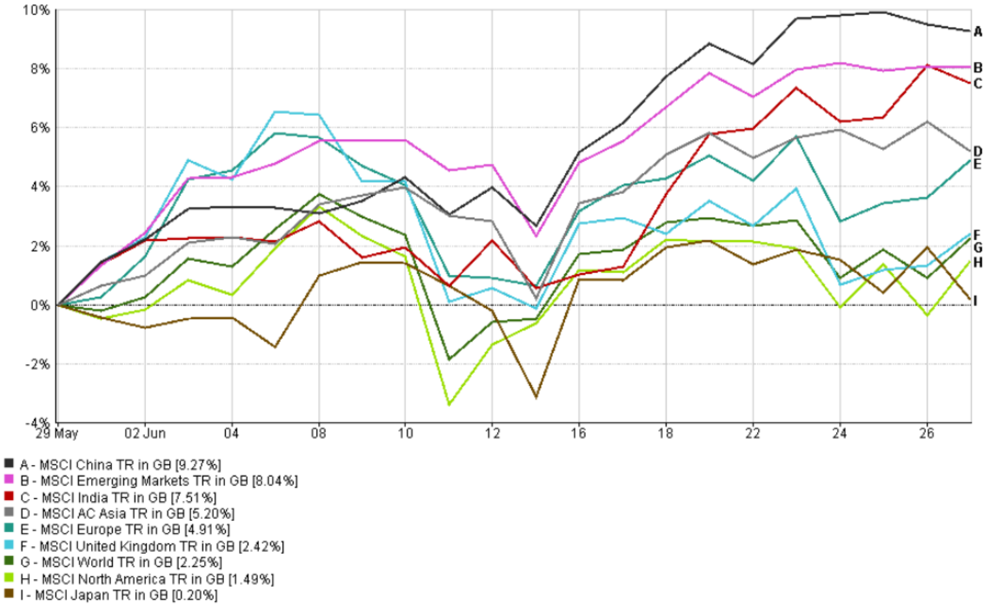
MARKET UPDATE

JULY 2020 MPU

Central Banks Vs. COVID-19

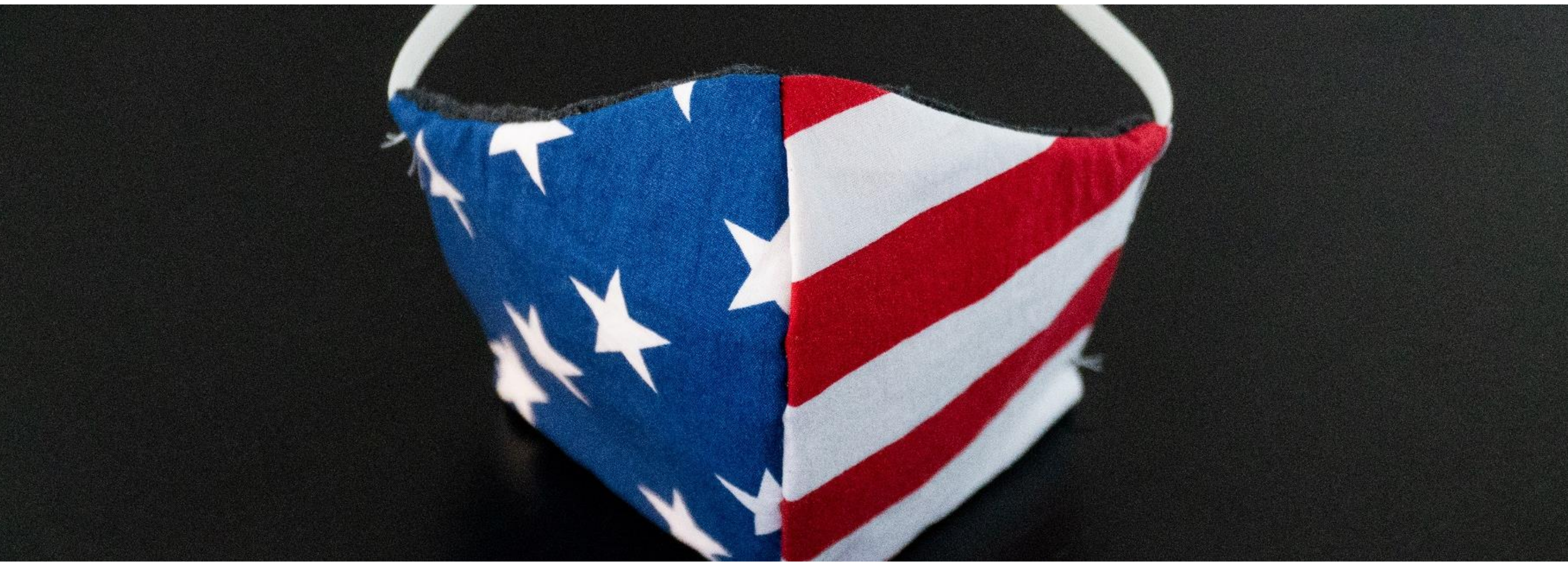
Against a backdrop of a continuing global pandemic, trade spats, renewed regional conflicts and record-breaking collapses in GDP, we saw the best UK and Asian quarterly performance since the GFC in 2008/2009 and the S&P put in its best quarter since 1998. Admittedly, all these rebounds came on the back of an awful Q1 but even so, the magnitude of what was basically a relief rally was a surprise to many. The month of June saw outsize returns for China and India in particular which highlights that it is not all about the headline COVID numbers. China continues to have the situation largely contained whereas India has the fourth highest case count in the world and over 15,000 new cases being added daily, as well as a spiralling death count.



29/05/2020 - 29/06/2020 Data from FE fundinfo2020

What do the so-called experts know anyway?

The world's largest economy, the United States, continues to have the worst case trajectory in the developed world, with their own Surgeon General literally begging Americans to "please, please, please wear a face covering in public". The situation is not helped by a frustratingly disjointed approach from the Whitehouse which is often then exacerbated by local politics and deliberate avoidance of rules put in place solely to protect lives. It is difficult for some people to understand why this appears to others as an attack on their civil liberties and a very dangerous issue to have become politicised.



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The markets just do not care

As has been the case for over a decade now, what really moves the market is not human suffering (was it ever?) but central bank liquidity and the fear of missing out (FOMO) on markets where the 'house' essentially has your back. Whilst the human condition might not be of interest to equity markets' firms, pulling advertising revenue from social media companies most certainly is. As an example, Facebook fell in late trade on Friday as a whole host of household names from Coca-Cola to The North Face raised concerns, citing Zuckerberg's company's lack of action on hate-speech. We will have to see if this trend continues but the company fell 8% at one point and Zuckerberg himself lost (temporarily) circa $7 billion.

The new Radicals

We have been concerned for a long time about how the power of firms like Facebook is perceived by an increasingly radical public. OK, the radicalism is from a fairly low starting position, but if big spending advertisers feel it's counterproductive to be associated with the likes of Facebook, Twitter etc then the landscape and the share prices could change quickly. At the same time, the ever-opportunistic politicians will be working out if attacking these companies on size, tax paid or being used as a conduit for messages they do not feel helpful to their cause should be reviewed. It might be a jaundiced view but if it is a vote winner it might cloud a politician's objectivity. If you can do something which is perceived as a social good and get votes, then there is a win-win situation to be had. When you look at how much of the US market gains have been made by a small number of stocks, it is imperative that investors get their heads around the increasingly prevalent concentration risk.

Please Sir, I want some more

What is clear as we enter the second half of 2020 is the persistent narrative around central banks needing to do more. Many opinion pieces have been written about whether the Fed went too big or too early or both, but it's easy to forget that US Futures shutting 'limit down' several times in a few days looked to some like the beginning of financial Armageddon. So, we got through that dark period with promises of eye watering amounts of stimulus and now we have had the rapid bounce back. As the economic realities kick in and the realisation that the global economy has suffered a massive blow cannot be talked away with lengthy discussions about what letter shape (V, W,L)the recovery will be, more stimulus will be demanded. If the stimulus numbers are not big enough then we can expect much more volatility until the central banks provide even more and the market's needs are sated. The last time we saw even semi naked price discovery was Q4 2018 (Powell pivot) and it did not look too good as risk assets tanked. As we sit here today it seems to us almost impossible for them to try that again as the real economic backdrop is worse than it was back then. The word you are unlikely to hear in the world of the omnipotent central banks for a decade or two is normalisation. The current situation is not a temporary phenomenon brought on by the global pandemic, it is an acceleration of what we already knew to be the new normal.

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