BREWIN DOLPHIN

Markets in a Minute - 1 April 2020

Global Shares Rebound

Share markets rebounded sharply last week as numerous countries unveiled more stimulus packages to cushion the impact of the Covid-19 pandemic. After a 33% fall, global shares have now rallied by 16%.

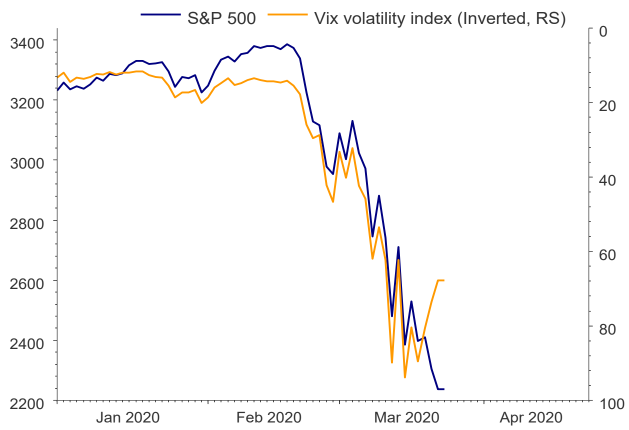
Market Conditions Remain Challenging

Last week saw the first sense of the economic impact. It was extraordinarily bad. Worse than any objective measure of expectations but not bad enough to upset the market on the days when these data come out. This reflects the fact that the market already knows the economy has effectively stopped. How could any of us have missed that? The question is not how deep but how long and what is being done to minimise the second-round effects of unemployment and credit defaults.

Have we reached the bottom?

It is worth noting that, in market terms the length of a recession matters much more than the depth of it. If the economy can get back up to speed quickly, as was the prediction from economists in the earliest phases of the spread, then that need not lead to a particularly severe bear market. Also, the conditions to mark a bottom have not yet been decisively satisfied, although many conditions to suggest we are near the bottom have. The topping out of the volatility index (VIX) – aka the fear index – (at a level which would be difficult to surpass) tends to happen when the market still has longer to fall, but historically not much further.

VIX and S&P 500 during coronavirus crisis



Source: Refinitiv Datastream

Economic Stimulus

Although last week we saw four days of tightening credit spreads, dealing in credit remains problematic throughout - particularly selling short dated credit. Banks are not wanting to take on more risk now which is suppressing liquidity.

Efforts to ease the money markets form part of the greatest deployment of economic stimulus in history. The most significant element was the $2.2 trillion package which is making its way through Congress and rightly or wrongly will be given credit for the positive days we saw last week. Now though the bill still has the House to clear it which will leave the market particularly vulnerable to any unexpected delay. It also leaves the market devoid of an obvious positive catalyst in the near term.

US Dollar weakens

We have seen the USD weaker as risk aversion lessened during the week, so we can expect it to fall as and when a sustained recovery comes. But in the meantime, there have been measures taken to boost dollar supply which will help to address the supply/demand imbalance and, under anything other than panic conditions, extended interest rate differentials should start to bring the dollar down. The strong USD is putting pressure on emerging markets due to the difficulties of servicing USD debt.

Comment from Guy Foster, Head of Research:
"Recognising that the world is a very different place to the one in which we were previously operating the equity team have been looking at the stocks who can survive the challenges and ride the recovery. Generally, these were firms with very strong competitive positions, financial flexibility and means of benefitting from dislocation."

I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful.

Warren Buffett

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