Weekly Digest

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Facts vs Opinions

Such are the strictures on life currently that the highlight of the weekend was a "Beat the Intro" competition on Zoom with four university friends. It confirmed my belief that my brain was most sponge-like in the 1970s, and, in retrospect, it's a shame that "Top of the Pops" wasn't part of the educational curriculum. Anyway, highly recommended as a way to gather virtually with some pals, with apps such as Spotify making the task of compiling the playlist a doddle.

After all the excitement of the Easter weekend, last week was relatively quiet by comparison, with limited new policy announcements, especially from the central banking community. Even so, investors remain eager to latch on to any fragment of good news, and so global equity markets continued to make progress thanks to various developments. First, there were further signs of "curve flattening" in terms of the incidence of new COVID-19 cases and deaths, notably in some virus "hot spots"; second, reports from Chicago suggested that an existing anti-viral drug, Remdesivir", was having some success in treating COVID-19 patients; and, finally, there was increasing optimism about the eventual return to normal life as partial reversals of lockdown were announced in a number of countries in Europe, while, in the United States, President Trump was his usual bullish self.

However, the cynic or pessimist in me can't help wondering how much of the optimism is based upon wishful thinking. In one of his recent newsletters, the investment manager Howard Marks reminds us that opinions are usually driven by innate biases which lead people to seek information that suits their views and desires, and to de-emphasise what doesn't– a trait known as confirmation bias. There can't be any greater innate bias for the general public currently than wanting to hear that we can return to life and business as usual. For investment managers anything that has the capacity to make markets rise is most welcome. Furthermore, within the fund manager community, I have never met a manager who doesn't think that his/her style or regional speciality is going to be the one that will outperform. They can't all be right, can they?

Thus we need to rely more on facts, but they are in relatively short supply at the moment. Let's face it, we don't really know many of the most salient facts about the coronavirus yet. How many people have had it? How many have actually died? Until these numbers are clear it is going to be almost impossible to end lockdowns with any degree of confidence. I have listened to several conference calls and podcasts with eminent epidemiologists, virologists, medical practitioners and healthcare sector representatives, and they are generally much more cautious in their tone.

One recurring analogy I hear is in the "pyramid versus iceberg" debate. Are the recorded cases the "pyramid"? Therefore what we see is what we get. Or is what is recorded just what is visible above the surface, meaning that there are several times as many cases unrecorded because the symptoms were relatively mild or even non-existent? The only way to ascertain the truth is through serological antibody testing. However, the logistics of rolling this out across the whole population quickly are daunting, and so it will initially resemble an opinion poll, with the results from random samples of at most a few thousand people being extrapolated to the wider population. If it turns out that only a low percentage has been exposed (say, less than 5%), it would be far too dangerous to end lockdowns owing to the very high remaining percentage of "susceptibles" – and remember that, owing to this being a novel virus, we came into this with 100% of the world's population being susceptible, or having no immunity. Should the number be substantially higher, it would get us closer to the much-desired "herd immunity" - but, in all probability, nowhere near the 60% plus level that is deemed to be sufficient to leave the virus sufficiently starved of new hosts to relax more fully.

There is no shortage of other obstacles either, not least the ability to manufacture sufficient test devices and the reagents required to make them function. Then there is getting them to the point of testing and back to a laboratory for analysis. And let's say that the random samples suggest that 50% of the population has been exposed and therefore acquired some degree of short term immunity. If you haven't been tested, are you going to gamble on which 50% you are in, especially if you are more vulnerable to comorbidity factors? Ultimately only a vaccine will guarantee complete safety, and not one of the people I have heard speak realistically expects one to be widely available for at least twelve months.

All of which suggests that governments ought to act with caution. And if they want to be more aggressive on opening up, then they will have to be assiduous when it comes to testing, tracking, contact tracing and quarantining, which in many western countries will conflict with the desire to uphold civil liberties. The risk is that we end up experiencing a "W" shaped recovery, in which an initial restart is knocked back by further lockdowns – a development which psychologists believe will have profoundly negative effects on mental health.

I'm not trying to spread gloom here, just to be more realistic about the prospects of a quick return to normality, and that's before assessing what a "new normal" might look like. That's for another day. (But, to sow an early seed, is anybody going to be able to get travel insurance without some form of certificate of immunity?) The more positive news is that every expert is of the opinion that the virus can be contained, although probably not eradicated. Social distancing does work, but, of course, with a heavy economic cost. While the virus is novel, it does not appear to be unique (which was the case with HIV, for example), and therefore a vaccine can be developed reasonably quickly.

As for equity markets, the headline indices remain as misleading as ever. In the US last week the FANG+ Index of leading technology and internet-related shares hit a new all-time high, while an index of bank shares fell around 10% in response to results from the sector leaders that featured a big jump in loan loss provisions. In that respect, at least, the pre- and post-virus worlds look much the same. The S&P 500 Index is starting to look top-heavy, with just five companies accounting for more than 21% of the market capitalisation. These are Microsoft, Apple, Amazon, Alphabet (parent of Google) and Facebook. The last time we saw such concentration was in 2000, when Microsoft, GE, Cisco, Intel and Walmart led the pack. It would be healthier to see less concentration. Hopefully this time it will be as a result of the pack catching up rather than the leaders collapsing!

It is also worth noting that whereas a month ago investors couldn't raise cash fast enough, there is now a distinct feeling that they have too much of it! Bank of America's latest client survey recorded the highest institutional portfolio cash balances since September 2001 (9/11), and some $877 billion has flowed into money market funds (equivalent to cash) in the last seven weeks, taking the total to $4.5 trillion. A lot of hedge funds and trend-following funds managed to get themselves short at the lower levels and are now scrambling to close their positions. At the margin this can create sizeable short term moves as the squeeze develops.

As we progress through the quarter we will continue to accumulate more facts about the state of the economy and how companies are faring, as well as a clearer understanding of the virus itself. Obviously we will have to use those facts to inform our own opinion of what it means for your investments. I would like to think those opinions will be well-informed and free of bias.

Finally, the renowned diarist who is responsible for 24th October being selected as World Tripe Day was Samuel Pepys. This week, to which college did Samuel Pepys bequeath his library?

Last week's Economic Highlights

The economic effects of COVID-19 continue to be revealed, and make for pretty grim reading. Last week's major release was from China, which reported a 6.8% fall in first quarter GDP compared to 2019. That's the first negative reading since the current data series started in 1992. Nobody is immune from this virus (with the possible exception of North Korea!). Retail Sales for the quarter were down 15.8% versus -20.5% in the first two months, and so a glimmer of recovery, although still worse than consensus forecasts. Industrial Production pared its annual decline to 1.1% in March after having been down as much as 13.5% earlier in the year. However, there remain concerns about who is going to buy the output with the rest of the world going into lockdown. The central bank continues to respond with further incremental interest rate cuts.

Meanwhile in the US, the Weekly Jobless Claims number edged back a touch to "just" 5.25 million. That's 22 million signing on in just four weeks. Such figures are unheard of in such a short period. The total payroll for the non-farm sector numbers 152 million, meaning that close to 15% of workers have just become unemployed. The job losses in the last month almost wipe out all the jobs created since the financial crisis, which is a sobering thought. Lagging economic data remains almost useless in helping us to project current and future conditions. Purchasing Manager surveys, usually the most timely series, were not really designed to cope with the sort of volatility in demand and supply that we are now witnessing. US Weekly Jobless Claims continue to give us the best snapshot of current coronavirus effects, with another 6.6 million joining the lists last week. That's 17 million in 3 weeks – more than 10% of the workforce. We might get some more clues as to the effect on corporate health this week when Q1 results start to filter through. China's trade data for March came out on Sunday night, with both Exports (-3.5% y/y) and Imports (+2.4%) doing better than forecast. However, exports could well deteriorate further in the weeks ahead as demand from the rest

This Week's Forthcoming Events

UK	ILO Unemployment Rate 3-M
UK	CPI Core NSA Y/Y
UK	Retail Sales SA Y/Y
UK	CBI Industrial Trends Total Orders
US	PMI Manufacturing
US	PMI Services
US	Michigan Sentiment

FTSE 100 Weekly Winners

Flutter Entertainment	18.7%
Just Eat Takeaway.com N.V.	17.4%
Ocado Group	15.8%
AstraZeneca	14.3%
GlaxoSmithKline	10.8%
Rentokil Initial	10.7%
Halma	10.5%

FTSE 100 Weekly Losers

TUI AG	-15.0%
Micro Focus International	-12.4%
BP	-9.5%
Marks and Spencer Group	-9.4%
John Wood Group	-9.4%
Royal Dutch Shell Plc Class A	-8.2%
Ashtead Group	-8.0%

FTSE 100 Index, Past 12 Months

Source:FactSet