Sanlam

Wealth

The Noise, the Numbers & the Nuance

Weekly Market Update | 15 May 2020

Welcome to our weekly newsletter, where we summarise the key market developments over the last seven days.

The Noise

- On Sunday, Boris Johnson unveiled a conditional plan to reopen society, including permitting people in England to spend more time outdoors. The Prime Minister's published regulations also confirm that garden centres, outdoor playgrounds and sports courts can now open. He said a new "Covid Alert System" with five levels would govern how quickly further restrictions can be eased.

- Chancellor Rishi Sunak confirmed on Tuesday that the furlough scheme will be extended by four months, allowing employees to receive 80% of their salaries until October. He also said that the government will ask companies to start sharing the cost from August as the scheme will allow greater flexibility to support the transition back to work, including bringing furloughed workers back part-time.

- The Fed Funds futures market has been pricing in the possibility of negative US interest rates next year. The Fed Funds futures market is commonly used to gauge market predictions of future US interest rates. Federal Reserve Chairman Jerome Powell said that the Fed may need to act further to pull the US economy out of its slump, but that negative interest rates are still out of the question.

The Numbers

GBP Performance to 14/05/20	1 Week	YTD
Equity GBP Total Return (MSCI)		
UK (MSCI UK)	-2.6%	-23.2%
Europe (MSCI Europe)	-1.7%	-17.2%
US (MSCI USA)	0.4%	-3.0%
Japan (MSCI Japan)	2.2%	-6.0%
Emerging Markets (MSCI Emerging)	1.8%	-11.6%
Fixed Income GBP Total Return		
UK Government (Barclays Sterling Gilts Index)	-0.4%	10.0%
Investment Grade Hedged (Barclays Global Aggregate Corporate Bond Index)	-0.2%	-0.9%
High Yield Bonds Hedged (Barclays Global High Yield Index)	0.0%	-11.2%
Currency moves		
GBP vs USD	-1.1%	-7.7%
GBP vs EUR	-0.8%	-4.3%
GBP vs JPY	-0.2%	-9.0%
Commodities GBP return		
Gold (in £)	1.9%	23.6%
Oil (in $)	18.6%	-49.6%

Source: Bloomberg, data as at 14/05/2020

The Nuance

The Prime Minister's announcement on Sunday is indicative of a world which is desperately trying to find a way to allow people to return to their normal lives whilst balancing the inevitable public health risks associated with doing so. The government may have received criticism for ambiguity and mixed messages but it is somewhat unrealistic to expect that this situation could be resolved first time around with no mistakes. The only path out is to try to make sensible changes, carefully monitor the consequences and then gradually adjust. The foreseeable future will likely see governments teeter along this knife edge.

There are certain parallels to be drawn between the current situation and where we were following the Brexit vote. In the days immediately following the vote, markets moved in extreme ways. Chaos hijacked markets and asset prices dropped across the board. It wasn't long after the vote, however, that stability and normality returned to markets as the path ahead began to emerge. Similarly, the last few months have seen drastic market movements but volatility has moderated recently; there is still a slog ahead but we've begun to understand more about what the future might hold.

Markets don't necessarily hate uncertainty. When there is a large range of potential outcomes, investors can weigh up probabilities and attribute likelihoods to these outcomes. What markets really hate is when the range of potential outcomes can't be quantified. That's exactly what investors have had to cope with throughout March and April. As governments begin to lift lockdowns, the range of outcomes has narrowed and gained clarity. We still don't know exactly what the future will hold, but we do have a better idea of the potential options.

Whilst we embark on this voyage of discovery, we are starting to see gaps widen between winners and losers. Stock selection is extremely important in these markets and as the range of options narrows, we have a greater ability to ensure that our portfolio companies are well placed to weather whichever of these future outcomes eventually materialises. Given the care and balance we have assigned to portfolios, we remain confident that the companies we own can do exactly that.

Quote of the week

"I was almost out of wind from running but luckily the suspect still had some." A Nottinghamshire Police Officer.

Police in Nottinghamshire were nearly out of luck in their pursuit of a man who had failed to appear in court. Realising that officers on the scent were closing in, the suspect fled into woodland near Harworth. His location was a mystery to the officers who had pursued him there – luckily not for long. The suspect gave up his position in a rather dramatic way: he farted. "I heard him letting rip and followed the noises to a bush" said the officer, who subsequently found and arrested the suspect. It turns out you *can't* always trust your gut.

Source: bbc.co.uk

All investment views are presented for information only and are not a personal recommendation to buy or sell. Past performance is not a reliable indicator of future returns, investing involves risk and the value of investments, and the income from them, may fall as well as rise and are not guaranteed. Investors may not get back the original amount invested.