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Wealth Management

Market Movements – May 2020

The spread of Coronavirus during the first quarter of 2020 generated a rapid sell-off in global equities. Asian markets initially felt the greatest impact, but as the virus spread outside of Asia, equities around the world suffered steep declines. The UK, Europe and Emerging Markets saw the biggest falls during this sell-off, while US, Asian and Japanese equities held their value slightly better. Conversely, gold and government bonds provided positive returns as investors shifted from equities to "safe-haven" assets.

Central Banks acted swiftly to help limit the economic damage caused by the Coronavirus to keep financial markets operating effectively. The US, UK and European central banks stand ready to provide further liquidity while also keeping government borrowing costs low. The Federal Reserve has gone even further in their economic response by buying up new debt issued by some US companies.

Governments across the world have announced specific fiscal measures to support businesses and workers affected by the Coronavirus as well as providing extra resources for their respective healthcare systems. The lockdown measures implemented seem to be having their desired impact and some European countries and American states are beginning to devise and implement plans to ease current lockdown measures. However, officials are acutely aware that easing restrictions too quickly could see another uptick in cases which would in turn lead to further strain on healthcare systems and extended lockdowns.

The price of oil has fallen nearly 70% since the start of March. Alongside a reduction in demand due to the Coronavirus, Saudi Arabia also initiated a price war following Russia's refusal to reduce their production. Despite now agreeing to production cuts, oil has continued to fall and in some specific markets, the price briefly turned negative for the first time in history. Though production is expected to reduce by 10%, demand is estimated to be 30% lower and therefore, for the time being, it is likely oil prices will remain depressed.

Although discussions to agree a suitable way to reopen the UK's economy are underway, the lockdown introduced back in March will continue at least into May and potentially longer. The government has announced their largest ever intervention in the economy to help limit the economic fallout of the Coronavirus. They will pay up to 80% of furloughed employees salaries, offer tax breaks for businesses operating in specific industries and loans to businesses that are guaranteed by the government. The purpose of these measures is to ensure people have a job to go back to once the virus is contained and in turn reduce the potential longer-term negative economic impact. Most of the measures announced are only available for a few months but it is more than likely that the government will extend these if it deems it necessary.

Overall, the fiscal measures implemented by governments across the world and the support of central banks should help limit the long-term economic damage from Coronavirus. We are likely to see a strong rebound in the global economy as and when the virus has been successfully contained. Since the middle of March, we have already seen equity markets rebound strongly as the number of new cases has started to plateau. However, in the near term, we expect heightened volatility to continue until the number of Coronavirus cases consistently falls and countries re-opening their economies successfully with little or no new outbreaks.

We are pleased with how portfolios have performed throughout this more volatile period. During these events it is easy for our time horizons to shorten and react to what is immediately in front of us. Despite this, we have continued to manage portfolios with the long-term in mind and in parallel to the objectives they are aiming

to achieve. Diversification has proved invaluable at protecting the value of portfolios on the downside, while also remaining fully invested and therefore participating in the recent equity rally. As always, we will continue to monitor the overall asset allocation and underlying funds and are ready to make any appropriate changes as the situation develops.