



The month of uncertainty

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*“Many intelligence reports in war are contradictory; even more are false, and most are uncertain”
- Carl von Clausewitz*

In times of uncertainty you start with the facts and move on from there. Pan-European equities fell over 8% on the month, with the greatest selling coming in the final week of February, led by cyclical and commodity sectors. By contrast, most fixed income markets saw yields compress as investors looked for safe havens. Put all of this together and even a balanced portfolio struggled in a manner very rarely seen in the period since the 2007-9 financial crisis.

This time last month I observed that “I would say that we are unlikely to end this year with 2020 being afflicted through all four quarters by the coronavirus. However as a ‘voting machine’ factor it is impactful all around the world to perceptions of growth and profitability”. Despite almost everybody materially improving their knowledge of global supply chains during the last few weeks, the former assertion could still be true, although clearly very focused on the second half of the year and the final three months of 2020 in particular. This is because what started February as a predominantly China-focused issue ended the month having a direct impact (in terms of at least one case being diagnosed) in at least sixty-five countries globally and (using official statistics) many more new cases occurring in the broader world than in China.

Perception really matters. Somebody wisely wrote that the biggest impact of something such as the coronavirus comes from the uninfected reacting to the threat. You do not need to be highly schooled in the theory of the economic multiplier to envisage the impact of the cancelling of a conference or the closure of a school, let alone the impact of a moribund economy or the psychological and behavioural impact of a period of widespread forced working from home. These are all very typical and very reasonable human reactions, underscoring again that, in the shorter-term, sentiment and perception really matters.

It is easy to opine that you should be greedy when others are fearful when it is not your own money on the line. It is harder when you are relying on your pension fund or investment pot to finance your retirement or pay for a special event or longed for purchase. We all know that regime shifts do happen in the equity market, which never have been predisposed to go up 8-10% per year, even factoring in dividends, in a smooth fashion. The 1968-1982 American market is often cited as an extended overall period of negligible nominal terms. Similarly, investors into the largest U.K. index in the early days of the year 2000 would also have a tale of woe over how long it took them to get back to square one after the dot com crash, even accounting for dividends. However, the one good aspect about the equity market - in contrast to some other asset classes - is that it does give you some exposure to economic development over time. And over time it is still correct to remain optimistic not about just the world continuing to spin, but economic progress. After all, there are plenty of people - especially in the emerging markets - who want to get richer. Capitalism is good in that respect.

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At the time of writing, talk of both widespread central bank monetary stimulus and government fiscal boosts is giving global equity markets a better start to March than February ended. Stimulus is no longer-term panacea, but you can understand policymakers dusting down such a response to supplement healthcare system measures and keep global growth levels and corporate earnings capabilities from getting locked into a negative vicious circle.

We all learn from periods of market volatility. A need for diversification and making sure there is understanding upon which thematic and valuation rationale an investment is made, are just some of the more obvious elements. For what it is worth, cumulative global debt levels remains my big concern for the world in the 2020s, and not the

coronavirus. Shorter-term however, my hope - and expectation - is that we will be talking a little less about the latter in a month's time. And for sentiment influences towards global financial markets this can only be a good thing.

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