Market Update
April 2020

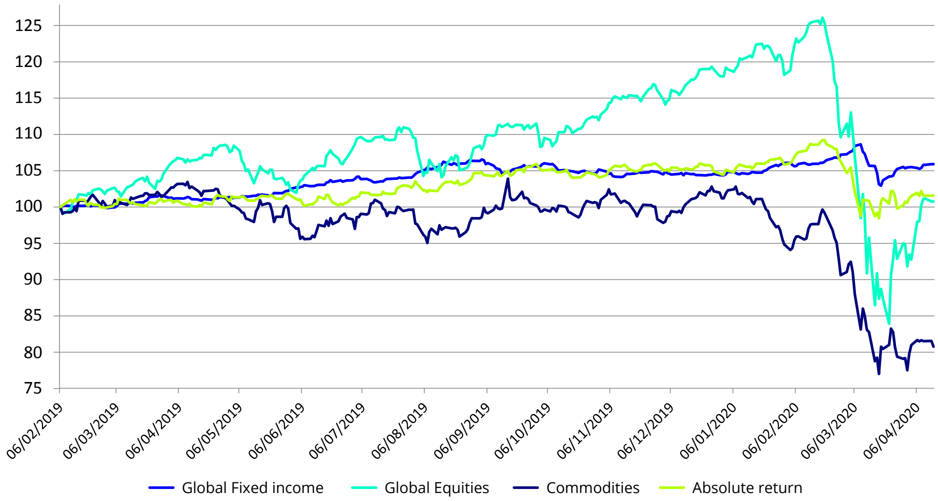
"This Too Shall Pass"...But When?

Following a decade of synchronised growth, investment markets have experienced a tempestuous month. Buyers became sellers and price action was indiscriminate. After years of steady growth, equity markets encountered extreme volatility with wild intra-day swings.

The cause of the crisis began as a healthcare emergency but attention quickly moved to Wall Street and then to the High Street. Records were broken as we saw the steepest falls in markets since the 1930's, bond markets were more volatile than we had seen since the Great Financial Crisis. In recent weeks, we have seen some signs of positivity as equity markets bounced from their lows and volatility eased but remained elevated. In this state of insecurity, it is very difficult for an investor to make a rational decision on what they should do with their finances.

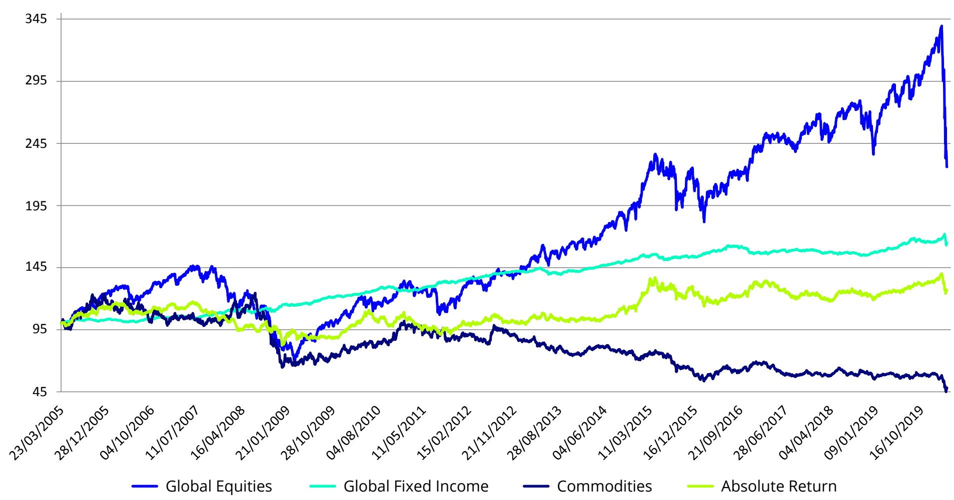
The two charts below demonstrate what we have seen in markets in the last year, see Table 1 and over the long term 15 years, see Table 2.

Table 1: 1-Year Global Asset Class Performance



Source: Bloomberg 14.04.2020

Table 2: 15-Year Global Asset Class Performance

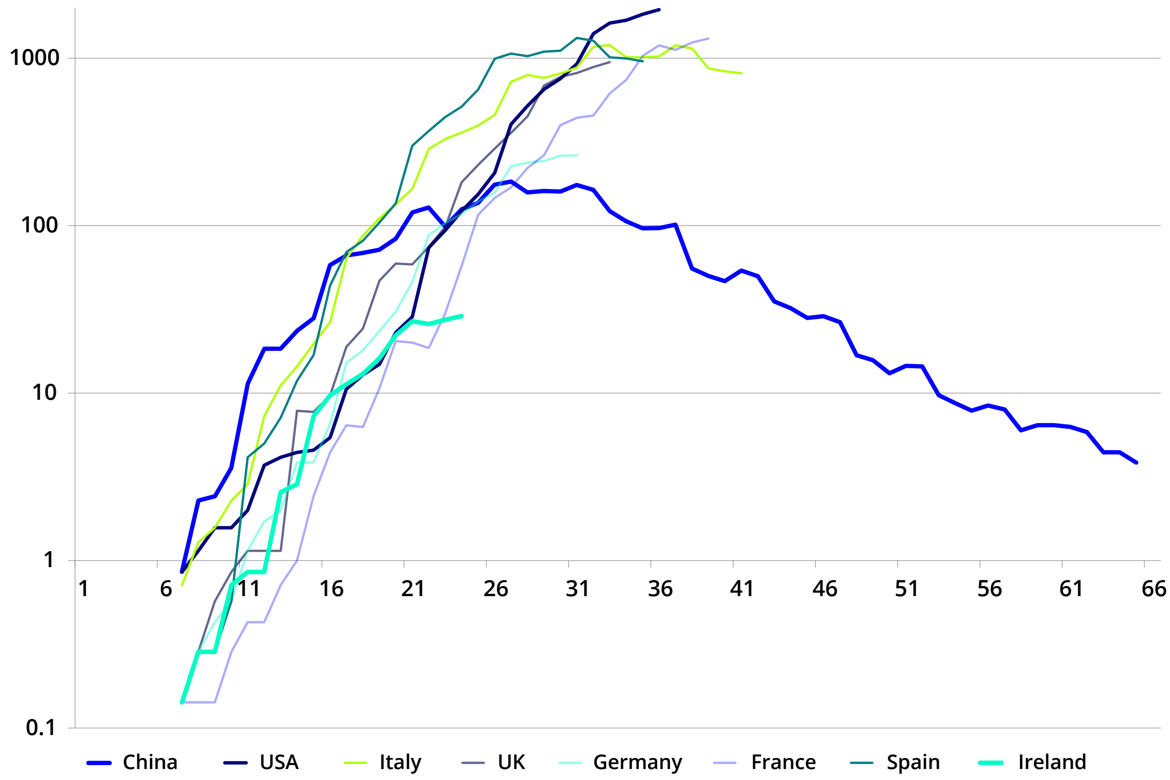


Source: Bloomberg 14.04.2020

Effectively, the initial sell-off wiped out any gains in stock markets since 2016. But the recent bounce in markets means that we are now back to early 2019 levels. There are a number of reasons why equity markets have bounced back:

1. While equity markets struggle to assess the implications of the crisis for company earnings the first uncertainty they need to see reducing is the timeline over which the infection/fatality rates are rising. As the epicentre has moved from China to Europe and now to the US, we are seeing a semblance of a timeline emerging which is helping markets understand to some degree how long we will be dealing with the worst of the virus.

Table 3: 7 day rolling average fatality levels



Bank of Ireland Investment Markets/Bloomberg. 14.04.2020

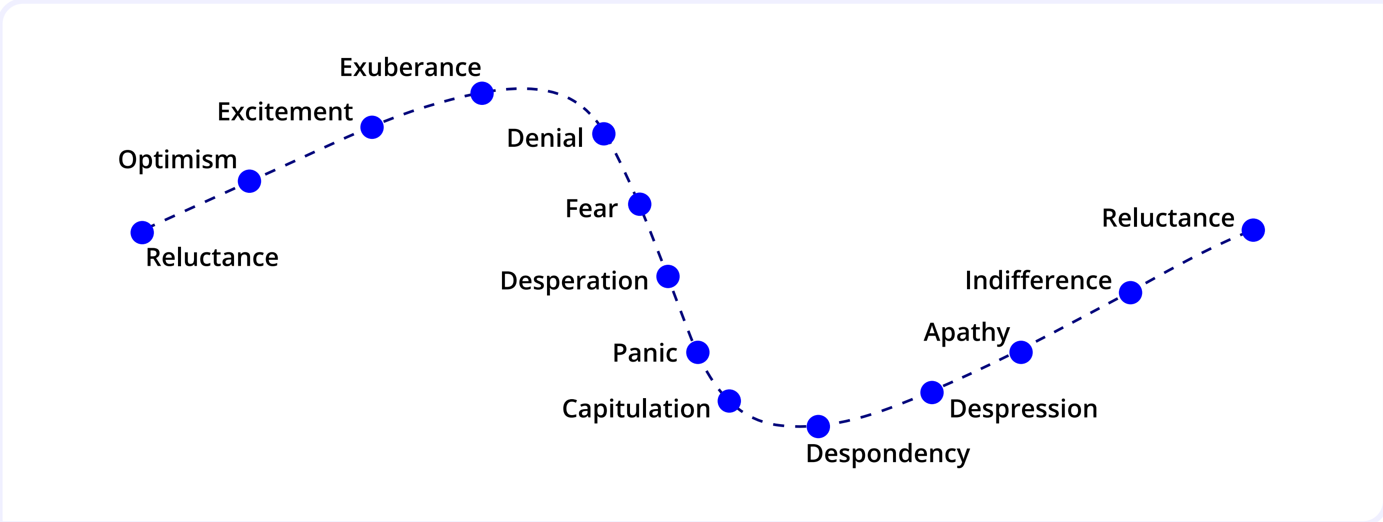
This chart measures the 7 day rolling average fatality levels from the first death in each country. While there are obviously significant differences, the overall pattern perhaps gives a clue to the timeline that the crisis is taking.

2. Both governments and central banks are taking unparalleled steps to boost economies. The economic impact of the crisis is drawing parallels to some of the biggest economic downturns in the past century. The IMF has even compared the scale to the Great Depression. However the Great Depression was made worse by the lack of support from monetary authorities as that crisis deepened. That lesson has been learned – indeed it was the activist government intervention of 'the New Deal' that is credited with ending that crisis.

   Initially, we saw substantial central bank action to make it cheaper for individuals and companies to borrow to stimulate the economy. The markets said that this was not enough. We then saw a flood of government spending announcements –the US said it will plough $2 trillion into spending programs and tax cuts, effectively injecting 10% into the world's largest economy. This is over twice what the US spent in the Great Financial Crisis and rumours persist that it will double this if needed. Almost every developed economy has done something similar and Europe has not been found wanting.

3. China is returning to work. China, as the World's manufacturer saw its industrial activity shutdown in response to the crisis and this has had significant implications for supply chains across the globe. All indicators suggest China is getting back to work, with everything from media reports to the China Recovery index to data from companies with foreign investment all pointing to the economy being back to somewhere between 70%-90% of its pre-crisis levels.

So it is generally accepted that we are in a bear market and the World is in a recession. So where does this leave long term investors? The image below captures some of the emotions experienced along the emotional rollercoaster that charts the rise and fall of markets generally. In a matter of weeks, a decade of healthy stock market gains was forgotten. It is hard to say that we were in an exuberant state, but the sentiment across the market in early January was certainly one of denial. At that point consensus was that economies were starting to improve and the Coronavirus was just an Asian problem, perhaps along the same lines as SARS. As that narrative evaporated many moved quickly into panic and capitulation stages, which was where markets were only a month ago.



Some investors who sold understandably needed access to money now. Others feared further falls and crystallised what were up to then unrealised losses. Liquidity seized up – with reports that gold was being sold as it was the only remaining asset with enough liquidity. All that began to change when massive government intervention came onto the pitch.

History has shown us that retail investors typically achieve lower returns than the market, often because they take fright and exit at the wrong time. They may wish to buy back in at the bottom with a view to “recovering their losses.” But this rarely happens. The mantra of time in the market not timing the market has not changed.
So, to use a phrase familiar to many of you – “Are we there yet?” The supporting case says yes we have seen very strong stock market performance over the last two weeks. We have seen governments and central banks take unprecedented steps to arrest the decline in and stimulate global economies. But until the full extent of the spread of COVID 19 can be ascertained, how well lockdown measures work and if a vaccine can be found, we cannot be sure how quickly the problem will be resolved.

Economic data often lags daily news. It will take some weeks for business shut downs to feed into unemployment data, retail spending figures and debt delinquency levels. The measures taken by authorities will take some time to take hold and to become apparent in business performance.

They say that nobody rings the bell at the top or at the bottom of the market. We may see recent lows re-tested but we can take confidence that global leaders have adopted a “whatever it takes” approach to delivering a sustainable recovery over time.

For investors to achieve the optimal outcome, they will be best served by sticking to first principles:

- If your investment goals are focused on achieving growth then investing in real assets should deliver for you
- If your investment horizon is five to seven years or more, real assets should continue their record of outperforming other asset classes.
- If your attitude to risk suggests that firstly you want a return better than you can get from conventional deposits, that you accept there will be some ups and downs along the way, then you should consider investing.

For those that may need access to their money in a shorter time frame, for example if you are planning to retire in two or three years, now is a time to get some advice on what options are available to you. There are a number of critical decisions that you need to make and you need to plot your next steps very carefully.

We are living in extraordinary times and the right investment decisions now, will be difficult to judge for perhaps a number of years into the future. However the experience of the 2008/9 crisis was that selling after the major moves had happened was ill-advised. The better course at that time was to the stay the distance and I have no reason to believe this will be different.

In times like this, it is vital that customers take professional and personalised advice before deciding on how they can achieve their financial goals. As always, we recommend that you engage with your financial advisor to help you make these important decisions.

Warning: The value of your investment may go down as well as up.
Warning: These funds may be affected by changes in currency exchange rates.
Warning: If you invest in this product you may lose some or all of the money you invest.