McLaren
wealth management

Global Market Strategy – April 2020

Every person in the world affected by pandemic

The fact that everyone now, wherever they live in the world, is affected in some way by the effects of the pandemic, and possibly will be for another four to six months, is enough to make any investor think twice about investing new money in the stockmarket.

It seems trite to be talking about the markets when we hear March 31st that a further 393 Brits have died from the corona virus. It seems equally trite to single out the UK's challenges when the whole world is in lockdown and each country has its own medical fraternity working on the front line of its nation's care defences.

The equity markets act as a barometer for world events, and their volatility reflects the unknown territory which we are all experiencing. Every now and then there is a piece of optimistic news which allows the markets to rally, and rally hard. The same computer-driven selling which propelled indices lower has the same effect on the upside, pulling investors, both professional and retail, along with it. It is not easy to resist.

Volatility has been crazy. The VIX (volatility index) rose to 83 in mid-month and has subsided to a current level near 50 - still huge compared to the tranquil levels of 11-12 in January. Reflective of movements in the VIX, stocks have plunged since mid-February, yet in the last week of March there were rallies of up to 20% in some stocks. Indices have risen 6-7% in a single day, giving the illusion to some that markets are embarking on the next bull run. The likelihood is, however, that given the speed and scope of the current rally, it proves to be a dangerous bear trap, a bear market rally or technical [dead cat] bounce.

The SP500 had its worst Q1 performance ever but the very worst market during the first quarter was Europe, down 24%. Across individual countries, Spain fell 30%, Italy 28% and France 27%. Among European stocks, Banco Santander dropped 40% and Daimler Benz 45% during.

It is the speed of the move up and the struggle of, for example, the SP500 to rise above its 200 day moving average (see below, courtesy of MagicPoopCannon on tradingview.com) which betrays the likelihood of a trading trap.

Source: MagicPoopCannon, March 30th (https://www.tradingview.com/chart)

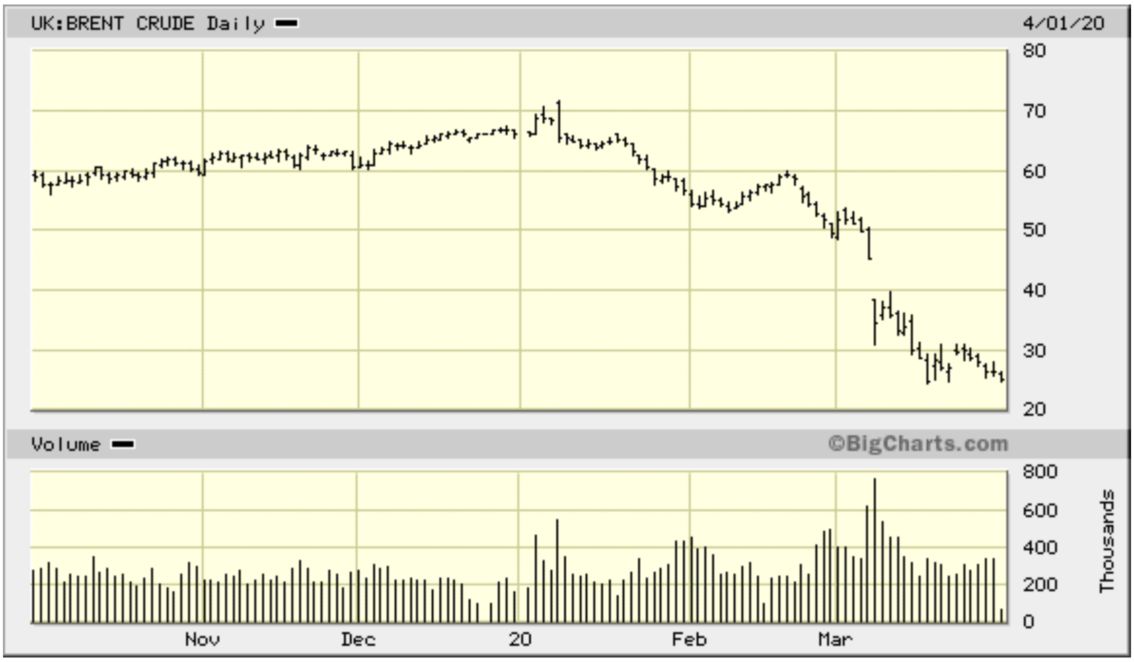
Roelof-Jan Van Den Akker through his Twitter feed is also sceptical of the current move higher. The gap higher on the DAX which occurred on March 9th between 11096 and 11450 needs filling, and Roelof sees this happening probably in a sharp spike lower during May (see below).

Source: Roelof-Jan Van Den Akker, March 31st (https://twitter.com/RJ_vdAkker)

The **pound** fell sharply to near $1.14 on March 19th following the BoE's decision to lower UK interest rates to a record low of 0.1% but in the last 5 trading days it rose 5% to finish March at $1.2495. Much of the pound's appreciation has to do with the trillions of dollars being thrown at the US economy. The weakening of the dollar led to a revival in gold which was among the assets sold in mid-March as part of indiscriminate asset selling to raise cash, however the greenback is likely to win out in the short term (six months) as money moves into severely beaten down quality US stocks. Karen Jones, head of technical analysis for currencies at Commerzbank, sees the pound failing at the 200 day moving average line of $1.2662, presaging a descent to back to $1.14.

Pound/Dollar exchange rate, March 31st (Source: poundsterlinglive.com)

Oil has seen large falls during March, and since January has fallen 66%. The spat between Saudi Arabia and Russia (Russia refused fall in line with OPEC's agreement to cut output so Saudi drowned the market with oil to drive down the price, especially in Europe, Russia's main market) saw oil futures hit an 18 year low. Because of the current lack of global economic activity, American producers are finding they are running out of storage facility and could end up paying consumers to take oil from them.



UK Brent Futures, 6 months to March 31st (Source: BigCharts.com)

Chart reading is not an exact science but it does provide some sensible caution in the current environment. If equity investors are looking to be invested for the long term, as they should be, then having capital invested by mid-May has to be the ultimate objective. This pre-supposes one can time the market, which is another fool's endeavour but by then the market should be able to look through the travails of the corona virus.

Canaccord Genuity's chief investment officer, Michel Perera, gave a succinct appraisal of the markets during an open conference call to investors in March, cautioned assets in the current environment unless there was good reason (rebalancing for example). He warned that such is the volatility at present, not only are investors unlikely to get the price they thought they would get when their order was placed, they could easily find themselves scrambling to recover their positions if the market turned on the belief the worst of the virus was over. During the call Michel was asked if, due to the extent of quantitative easing (purchase of bonds by governments in order to add liquidity to the economy), a country could go bust. Michel's answer was that because interest rates were close to zero, governments can raise debt and invest it for future returns from infrastructure and education. As to which sectors are likely to do best when the world gets back to normal, Michel was unequivocal: healthcare, technology, infrastructure and the ongoing theme of the future: ESG.

Favoured investment plays:

Nil risk:	
Cautious risk:	**Cash**
Balanced risk:	**Managed / Multi-asset funds**
Market risk:	**UK equity**
Adventurous risk:	**Asia, US equity**
Speculative risk:	**Technology, Healthcare**

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (all US) 26%, China 6%, Asia 13%, Global Equity 29%, European equity 4%, UK equities 12%, US smaller companies 1%, Emerging Market equity 7%, Cash 2%