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# Causes for cautious optimism in a torrid time

## Key takeaways

**Last week was a brutal time for world stock markets, opening with one of the worst performance days on record. As the week progressed, broad declines across financial markets left nowhere for investors to hide; even traditional 'safe haven' assets offered no shelter from the storm. Nevertheless, the extreme efforts of policymakers across the globe should provide comfort and cause for cautious optimism.**

- Record-breaking market turbulence throughout the week had a number of triggers. The situation was likely gravely exacerbated by many investment houses being forced to quickly liquidate positions in order to allow clients to withdraw investment capital. In an environment like this, even assets which typically hold their value well in periods of market stress can find themselves rapidly sold down, as investors attempt to sell their most 'liquid' portfolio assets to meet withdrawal demands.

- Meanwhile in the broader economy, most businesses are already feeling the impact of the outbreak. For the most part, neither businesses nor households are well prepared for a long shut down, and business contingency plans are under strain. Projections for the economic impact of this crisis are many and varied, and unfortunately history can offer no guide. What we do know is that the impact on global economic growth is likely to be sharp, and exceptional.

- But despite this alarming backdrop, there is cause for some cautious optimism, not least in the fast and concerted action being taken by policymakers across the globe. Investors are well used to seeing central banks respond quickly to economic crises, and this time around has been no exception, with a spate of interest rate cuts to ease the flow of credit to businesses and consumers, and liquidity injections to shore up the financial system. But, perhaps more importantly, governments across the globe are now stepping up in earnest too – reacting to the unfolding situation with speed, and at scale.

- As well as putting in place stringent social safety measures in an attempt to limit the spread of COVID-19 (or coronavirus), developed world governments in particular have rapidly unwound the austerity measures of the past decade, and are injecting massive stimulus packages into the economy.

- In the UK, the government's pledge to pay a large portion of wages for those sent home from work during the crisis is unprecedented, particularly in peacetime and under the rule of a Conservative government. Even in Germany – a model of government spending prudence – a massive supplementary budget including a €500bn bailout fund is in the offing. It goes without saying that, one day, the bill will come due on these spending commitments. However, for now, the focus of policymakers is on saving lives and protecting the global economy.

- Though this is a painful period, long-term investors must try to look through the short-term uncertainty. While the immediate future is likely to remain volatile, and the economic impact around the world substantial, central banks and governments are working hard to ensure that this is a short shock, allowing recovery to begin later in the year and into 2021.

## Weekly market moves

- In the worst week for global stock markets since the 2008 financial crisis, it was a particularly challenging time for the share prices of energy and real estate companies. However, all major sectors delivered negative performance, albeit areas like consumer staples (including food products and household goods) fared better than most.

- Gold and US Treasuries (government bonds) are traditionally among the safest and most liquid assets in the world, but even these assets underperformed as investors scrambled to sell. The only clear winner was the US dollar, which outperformed its global peers.

## What to look out for

- The eyes of the world are on the US, as an initial trillion-dollar stimulus plan in response to the ongoing COVID-19 crisis was blocked by Democrats in the Senate (upper house) on Sunday. An alternative economic package is expected to emerge imminently.

- Sticking with the US, employment market data could provide the first hard evidence yet of the economic impact of the ongoing crisis. A rise in unemployment across affected nations is inevitable, and even the most conservative estimates suggest that around one million people in the US will register new unemployment claims in this week's figures. While this is a chilling prospect, firm data on the economic impact of the crisis is welcome.

Article by Heartwood Investment Management, 23rd March, 2020.

*Important information*