

Future Money Coronavirus Views

The stock market crash we are currently experiencing is almost unprecedented, with a medical crisis at the heart of it rather than financial mismanagement or a geopolitical shock, as is often the cause.

With this, it will be difficult to predict the eventual path of recovery simply by looking at the trends following previous downturns.

The 1918 Spanish flu pandemic is probably the closest comparable situation but with over a century of economic development since that scenario, the global economy is now an entirely different beast and therefore trying to extrapolate from the small pool of data there is from this time may be of minimal use.

In today's crisis, total market losses are now in the same ballpark as in previous recessionary bear markets, but it has been the speed of the losses that have been truly staggering, as the scale of the economic shock heading our way has quickly been appreciated by investment markets.

The path of the recovery will depend on the action of governments and central banks around the world. While liquidity is being pumped into financial assets at an extreme rate, with consumers locked down around the world we appear to be at a fork in the road for how prompt the eventual recovery will be:

Path A: If governments step in sufficiently to support the lost cash flows of businesses and stem the loss of jobs, once virus infection numbers come under control and economies are opened up again, we could potentially have a relatively sharp recovery.

Path B: Should this not occur however and we do see mass increases in unemployment numbers, then even when the virus threat does fade, we will likely see prolonged weakness in demand, making the recovery particularly anaemic.

News today that the chancellor is preparing to announce a major programme to support employment and wages is the sort of development needed in order to point us towards 'Path A' and consequently we have seen a strong rally in UK assets today. At the time of writing, the pound has jumped significantly against the dollar (although it is important to note that the pound is still extremely down on the dollar, when looking at the movement of recent weeks overall) and UK equities, particularly those on the more domestically focused FTSE 250, are also up by large amounts today. However, it is important to remember that one swallow does not make a summer, with this medical crisis going nowhere soon further market volatility should be expected over the coming weeks and months.

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Future Money Ltd

Henry Wood House · 2 Riding House Street · London · W1W 7FA

0203 4570 387

www.futuremoney.co.uk