

Future Money Coronavirus Views

After experiencing the first week of lockdown in the UK, and after similar measures worldwide, there appears significant focus from public announcements to emphasise that the restrictions on our day to day lives will not be just a short term inconvenience, they will be in place as long as the public health situation demands it. We are being told it will be months, rather than weeks. Expectation management is a key priority in the daily briefings we receive. While this message of patience is likely being internalised by individuals, it is a theme that investment markets, as well, need to accept.

To illustrate this, consider the last week in stock markets. At times on Monday 23rd March, the FTSE 100 was below 5,000, yet by the end of Thursday, the index had reached approximately 5,800. A 16% return in four days, a huge gain (albeit from a very depressed base!). Rallies in other markets were of a similar scale. Optimism levels were high as the details of the \$2tn US stimulus package, along with the numerous other support packages around the world, were digested. Friday and today, however, have been different stories, with stocks heavily down again (at the time of writing the FTSE 100 is around 5,500).

With the level of stimulus being pumped into the financial system and with the knowledge that more will come should it be needed, financial markets feel adequately supported. Yet, there is a lot of bad economic news still to be declared. The economic impact of this crisis is only just beginning to reveal itself. Friday's falls could largely be attributed to the first signs of increasing unemployment numbers in the US and the expectation is that these will get significantly worse in the coming months - one heavily caveated "back of the envelope" estimate from a US Federal Reserve member predicted US unemployment could reach 32.1% in Q2!

The point here is that markets may have priced in their best estimate of the current cost of this crisis, but until will see how bad the economic situation truly gets, the actual cost cannot be predicted. As such, while markets feel the support of the wall of stimulus money coming their way, until greater clarity is gained, confidence in the timing of the ultimate recovery cannot be certain. Heightened volatility is likely to be a key feature of markets over the coming months.

In our personal lives we must be patient, accepting lockdown restrictions until this health crisis is improving. In the same tone, investment markets must be patient, accepting volatility until the corner of this economic crisis is turned.

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