April Market Reflection

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Covid-19 and its effects continue to be the primary drivers of markets. Whereas March saw global equities suffer the fastest bear market (-20% from the peak) in history, April, in contrast, witnessed a remarkable recovery. Indeed, the S&P 500 Index in the United States enjoyed its quickest ever bull market (+20% from the trough), and now stands more than 30% above the lows. Investors' confidence has been bolstered by unprecedentedly large and swift policy interventions by both central banks and governments which aim to support both businesses and households through what might become the sharpest quarterly drop in economic activity ever recorded. What has been remarkable about the recovery is that it has been led, in the main, by the same stocks that led the market for much of the period since the financial crisis, namely Technology companies, especially those benefitting from increased use of online services, and companies deemed to have all-weather growth prospects supported with strong balance sheets. Only latterly have more cyclical companies begun to rally as optimism increases about the relaxation of lockdowns, although there remains much uncertainty about the pace of easing and how long it will take to return to normal activities. In another extraordinary turn of events, the price of oil, represented by the West Texas Intermediate benchmark, fell briefly into negative territory. This was the immediate result of investors offloading expiring futures contracts to avoid having to take delivery of physical barrels of oil. But the underlying cause was the huge, lockdown-related reduction in demand in an era of burgeoning supply, leading to a surfeit that is outstripping storage capacity. The ensuing pressure on the profitability of oil-producing companies led to Royal Dutch Shell cutting its dividend for the first time since World War II.

- Economists continue to downgrade growth estimates for 2020. The IMF forecasts a drop of 3%, but is by no means the most pessimistic. It expects a 5.8% rally in 2021.

- Although it is clear that the second quarter of the year will see the worst of the declines, with activity reduced by 25% or more from the peak in some countries, the pace of recovery will be crucial for investors.

- Initial hopes for a "V"-shaped bounce look increasingly less likely to be sustained, with the consensus now shifting more towards "U". "W" is also a possibility if infection rates rise again after lockdowns are eased and further restrictions have to be implemented.

- Company earnings, in aggregate, are expected to fall 50% this year, although there will be a huge divergence between those who have thrived through the crisis and those whose revenues have effectively disappeared.

- There will inevitably be a strong earnings recovery in 2021, but it remains to be seen exactly how consumers' attitudes and confidence will have been affected.

- Dividend income is also under pressure, and, unlike in historical downturns, is expected to fall at least as much as earnings as companies are forced to conserve cash.

- Government bond yields remain near all-time lows, and interest rates are effectively zero. While this is a boon for governments as they issue enormous amounts of new debt to fund stimulus and support programmes, it only exacerbates investors' difficulties in sourcing safe, reliable income.

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