

INVESTMENT LETTER MARCH – APRIL 2020

Global Stocks and the Economy

In my previous investment letter I mentioned that investors entered 2020 with the markets heading higher with a lot of optimism about the economy, but I warned for the coronavirus hitting China and some other Asian countries at that moment. That global health crisis is devastating economies around the world. The countries that first felt the impact, like China and South Korea, begin to see improvements in the health of their populations and their economies.

If in February Coronavirus has dealt a setback to the emerging global economic recovery, in March and April it has disrupted the European and the US economies with a lockdown installed in most countries. The coronavirus continues to rage in most parts of the world.

The impact of the coronavirus on the initial jobless claims report is huge, more than 16 million Americans filed for unemployment insurance the last three weeks. Congress allocated already a \$2.2 trillion pandemic relief package and is looking for another \$250 billion worth of small business aid. Besides that the Federal Reserve unveiled on Thursday the 9th of April a plan to inject some \$ 2.3 trillion in additional funds for households and local governments.

So , where are the stock markets going?

Every portfolio manager is mindful of the mantra to ‘buy the dip’. Initially a lot of people thought this would be a V-shaped recovery, a speedy return to health for the global economy and the capital markets after a short spell of distress triggered at the end of February by virus outbreaks and lockdowns in Europe. What changed our view was when the Fed came in all guns blazing, and the markets still went red.

The US central bank slashed interest rates by a full percentage point, among a series of other supportive measures while the stock markets had their deepest decline since 1987. Since their mid-March low, US stocks have gained about 25%, technically lifting them back into a new bull market, albeit one tinged with extreme uncertainty over the outlook for companies and the global economy. Some analysts therefore reckon that the rally since late March is what is often dubbed a “bear market trap”.

Fund managers must try to balance the huge scale of central banks support against economies in deep stress, as seen in record-breaking acceleration in US job losses. Not everyone is convinced the stimulus is enough. A lot of analysts predict that markets have further to fall.

In conclusion we can stated that it is a tough task for a profession that prides itself on making predictions and anticipating their market impact, but “ no one can tell you this is the time to buy, nobody knows”. But as Warren Buffet says: “use weakness to build up your positions”.

Stay tuned!

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