CARTLIDGE MORLAND
INDIVIDUAL WEALTH MANAGEMENT

# INVESTMENT COMMENTARY

**22 MAY 2020**

# OVERVIEW

**Equity markets have moved up sharply over the past week, although tailing off yesterday.** Investor optimism has increased as the spread of Covid-19 appears to be falling in Europe and the US, although the situations in Russia and South America are still of deep concern. There was hope that an effective vaccine would soon be available as US and China bio-tech companies were relatively positive about their progress. However, initial enthusiasm waned after more analysis was required to establish how effective the US vaccine would be. The gradual re-opening of businesses after lockdown has encouraged investors and the oil price has risen to over $30 per barrel, as demand starts to increase and supply has been cut. Sentiment was also helped by the European Union reaching agreement on a €500 bn aid package to help the EU recover from the devastating impact of Covid-19.

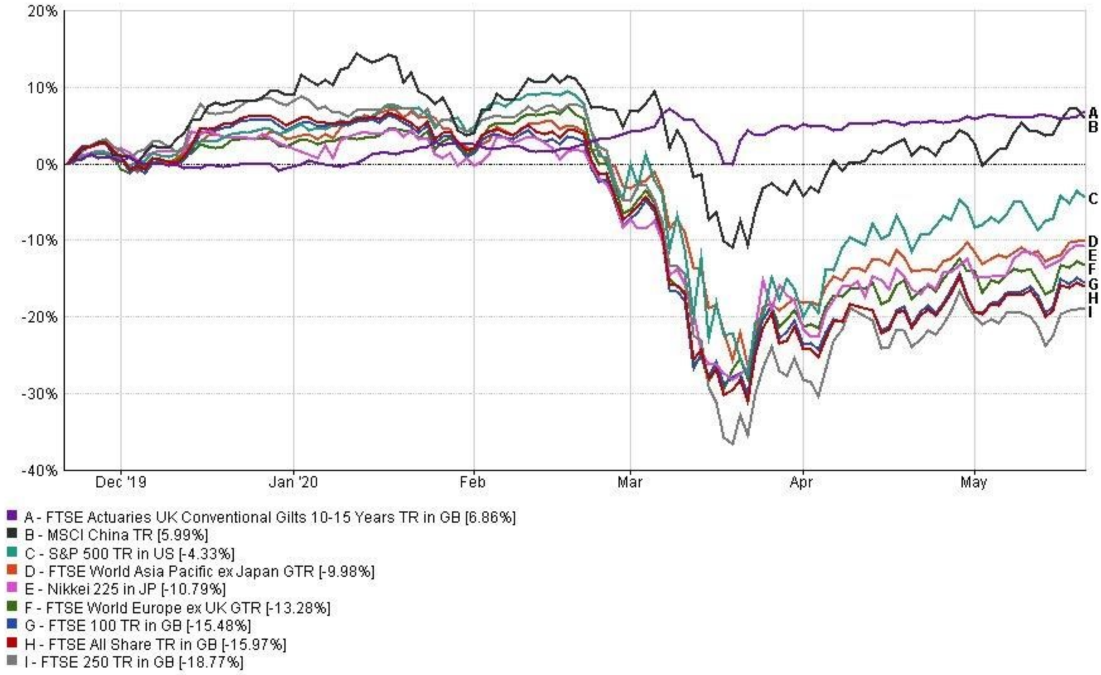
Rishi Sunak, the Chancellor of the Exchequer, has warned that there may not be an "immediate bounce back" once the economy reopens, with a severe recession expected. Public finances have deteriorated rapidly with government borrowing increasing at a rapid rate as it supports the economy through the pandemic. Sterling remains relatively weak as the Bank of England (BoE) continues to debate negative interest rates. The Governor of the BoE has not ruled them out as a tool to combat the economic impact of Covid-19. There is some expectation that negative interest rates may be adopted by the end of this year, but just the fact that they are under consideration could see money market rates reduce. The average yield on UK gilts has now fallen below zero as inflation slowed to its weakest level since 2016. The outcome of the ongoing Brexit talks are also weighing on investor confidence.

**Deflation has now become a worry for developed economies - at least in the short term.** The collapse in the oil price and falls in commodity prices in general, as economies have shut down, are likely to lead to downward pressure on inflation. Lower cost prices for producers will result in less expensive goods. As lockdowns are lifted, companies are likely to heavily discount their goods to encourage consumers to return. The worsening unemployment figures around the world will lead to less pressure on wages. Lower wages will be reflected in lower production costs and lower retail prices. Longer term, the inflation rate could rise as the loose monetary programmes of central banks, as well as fiscal programmes, will see more money circulating in the economy - which could then drive prices up. Some de-globalisation may also be seen as manufacturing could be repatriated from China, for example, so reducing competition and leading to higher production costs and prices.

**Tensions between the US and China continue and Asian equity markets have reflected this unease.** The US Senate passed a bill to bar some Chinese companies from listing on US exchanges. President Trump also escalated his criticism of China in not only how it handled the pandemic, but also its intention to introduce legislation to "safeguard national security". Such legislation seems designed to stop protests in Hong Kong and assert China's authority, whilst likely to curtail Hong Kong's autonomy.

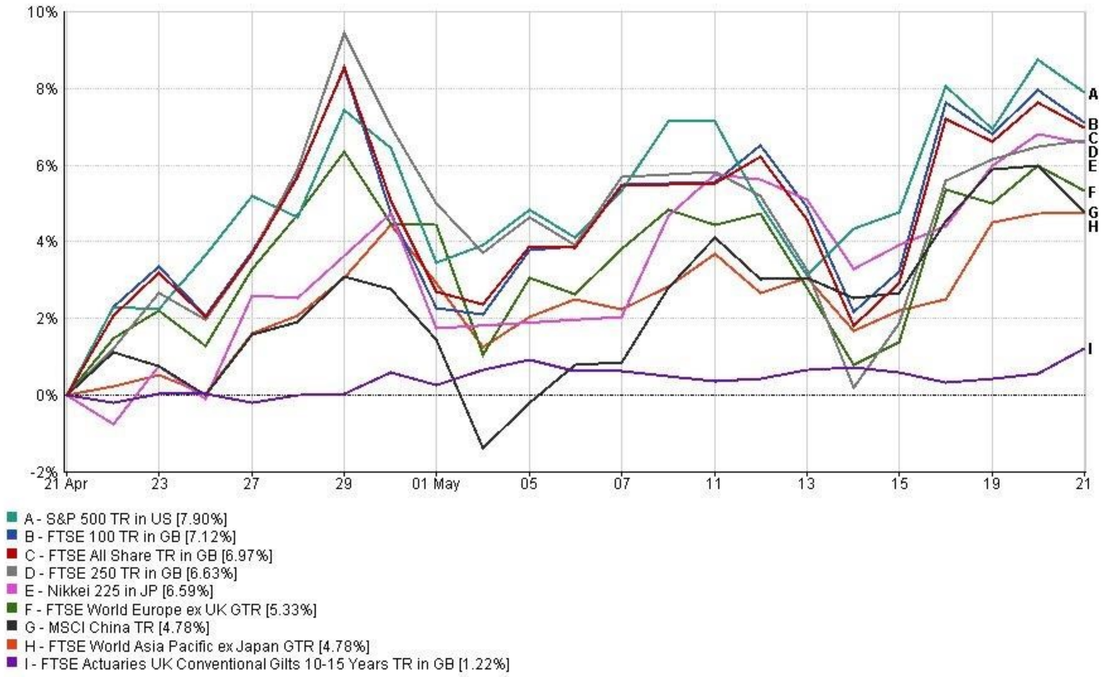
Equity market sentiment will be driven by current economic data as countries around the world start to move out of lockdown, restart their economies from recessionary levels and hopefully avoid a second, serious outbreak of the Covid-19 virus. Public finances have been decimated and restoring them will take years. Tensions between China and the US and the progress of Brexit negotiations will add to volatility.

**INVESTMENT MARKET RETURNS IN LOCAL CURRENCIES OVER SIX MONTHS**




21/11/2019 - 21/05/2020 Data from FE fundinfo2020

**INVESTMENT MARKET RETURNS IN LOCAL CURRENCIES OVER ONE MONTH**




21/04/2020 - 21/05/2020 Data from FE fundinfo2020

***The CM Investment Commentary is compiled by Angela Cooper, Managing Director of Cartlidge Morland's Investment Services team.***

*Angela runs the firms' investment management propositions, with over 30 years' experience in investment research working for investment companies, leading UK national IFAs and wealth managers. Angela graduated from the London School of Economics and is a Chartered Insurance Practitioner.*

# OUR VIEW

**The horrendous falls in equity markets are behind us alongside the very worst uncertainties that provoked them. That does not mean markets may not fall again, prior to sustained longer term recovery.** At the moment markets cannot properly price assets because the state of revised balance sheets in the wake of COVID-19 is yet unknown. Nor is it known how quickly 'normal' revenues will return – nor even if 'normal' will change in consequence of changes to consumer/business customer behaviours. At a corporate level, there are considerable uncertainties in most companies and the more various the markets a business operates in, then typically the greater those uncertainties are.

For the domestic investor, with significant FTSE 100 exposure, this is an uncomfortable time. Normally the comparatively high dividends on offer and the fact that 70% of revenue streams arise outside the UK make the FTSE 100 a potentially dull but stable source of income, combined with gradual increases in capital value, occasionally spurred by merger/takeover activity and share buy-backs. Above all, the FTSE 100 is an investment in global economic growth. The curtailing of or reduction in dividends and the complications associated with their multinational markets and operations make shorter-term outcomes for the FTSE 100 difficult to predict. When combined with limited revenues presently and inevitably larger debt levels, these companies are almost impossible to price. In these circumstances, markets simply mark prices down and bourses in France and Germany have experienced the same.

As we said when COVID-19 crashed on the global populace, this is really a matter of sitting and waiting. There can be inclination towards dramatic gestures or decisions as a result of a climate that has undoubtedly changed. It is too early to make those because we do not know yet which changes are permanent, nor how the global economy will settle in the aftermath of COVID-19. Ultimately, we and others will need to take a definite view but offloading presently unattractive assets at bargain basement prices to re-invest in very expensive ones will not be a good strategy if the prices of the former recover quickly from appalling lows (extraordinary gains) and potential replacements have little further to go presently.

# CARTLIDGE MORLAND ..... in lockdown

**Our assumption is that clients will prefer not to meet us in person until normal social activities have resumed nationally** – in other words once the population at large starts meeting friends and relatives again. Until that time – and presently we do not anticipate it being prior to 1 July – our London office will remain closed and virtually all will work remotely. A skeleton staff has been maintained in our Scunthorpe office on a rota system, whilst most have worked from home. That arrangement will continue at present.

We can meet clients through 'Skype', 'Microsoft Meetings' and 'Zoom' if preferred, but remain otherwise readily available via telephone and email. Calls are being re-directed to us by our answering service.

**As always if you have any concerns please contact your usual Cartlidge Morland Partner/ Director/Consultant.**

CARTLIDGE MORLAND

83-85 Mansell Street London E1 8AN
t: +44 (0)20 7709 5560
e: enquiries@cartlidgemorland.com
**www.cartlidgemorland.com**