Market update

Rebound Month

April was a month during which battered risk assets staged a strong rally across the globe. After the widespread panic of mid-March, a combination of seller exhaustion, massive stimulus and better news on the spread of Covid-19 acted to steady sentiment and push stock markets up from their lows. Indeed, depending on which particular area one wants to drill down on, this was one of the sharpest rallies ever seen, coming as it did on the back of one the quickest ever collapses.

The amount of stimulus promised or provided by governments and central banks is now touching $16trn, or just over 18% of the global economy. This is an eye watering number by any standards and has been provided at breakneck speed to offset the effects of the current mandatory shutdowns. The need for this massive stimulation effort was made abundantly clear in April by a series of ugly economic datapoints, each of which underlined the deep impact of social distancing measures on activity planetwide. Cushioned by this huge injection of liquidity and government spending, markets absorbed the deluge of bad news and focused instead on how the spread of Covid-19 was evolving.

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As infection rate data began to slow, then peak for western nations during April, market momentum steadily built across the globe. Sentiment was also boosted by reports of varying credibility, on the progress of existing drugs for Covid-19 treatment and the prospect of a new vaccine. In addition, after an exceptionally aggressive period of de-leveraging in the middle of March there was also substantially less selling pressure to meet this rally, which in turn added to momentum. Some asset classes which had been dysfunctional the month before, e.g. the corporate credit market, managed to pivot on the back of central bank support and post their most active period ever. In the US market alone issuance was over $250bn in April, a new record posted at the same time the US economy was delivering the worst economic numbers since the Great Depression, a situation which graphically illustrates how powerful policy changes can be in determining investor behaviour. The 'whatever it takes' mentality behind central bank intervention, is clearly beginning to have its desired effect in unblocking key parts of the financial system.

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However, under the surface not everything is as rosy as the headline recovery would suggest. Although some bounce backs were large, nearly all risk assets are still nursing considerable losses for the year. Some corporate issuers may be able to refinance their debt easily, but the cost is high and outside of household names it is not so easy.

Importantly, several crucial asset classes remain dysfunctional, with the oil market perhaps the most obvious example, illustrated by negative intra-month prices. Even in a world of negative interest rates, watching the benchmark US oil futures market panic, then push the price of a barrel of oil to almost -$40, was a shock. The explanation was fairly simple, with US oil producers effectively paying people to store oil that wasn't needed as a result of demand falling, but it was another example of the complex, overlapping reverberations of Covid-19 rippling through global asset markets.

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The outlook from here has undoubtedly improved as we emerge from lockdown and the sizable stimulus is beginning to have an effect. However, in the very near term there is a risk that equities have front loaded a seamless recovery a little too quickly, especially as the process of balance sheet repair in the corporate and household sectors will take time and will act to moderate economic recovery from here. Old risks are also re-emerging with everything from Brexit to China-US trade tensions making a reappearance during the month. Although we would be slow to dismiss these risks out of hand, we think the pressing need to repair the economies of the world will likely trump the rhetoric we will have to endure on these issues in the months ahead.

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Our own actions during the month have tended towards investing carefully, but investing nonetheless, as we keep our eyes on the longer-term time horizons all portfolios are managed to. We will continue to do that in the face of the inevitable setbacks ahead in our journey to the 'new normal'.

Portfolio Performance

Portfolios delivered between +4% and +9% during April depending on risk mandate, with the higher risk portfolios moving the most. Unsurprisingly, it was the most beaten up assets which led the recovery, equities in the vanguard accompanied by a broad spectrum of credit managers. There were few negative contributions of note.

David Cooke
On behalf of the Saltus Investment Committee, May 2020