LGT Vestra Monthly Market Commentary in association with PIA Wealth Management

January / February 2020

The start of 2020 has certainly proven eventful; from the Coronavirus, to Brexit, Trump's impeachment trial and monetary policy, the past month has marked a number of key events that will continue to evolve throughout the year. The recent outbreak of COVID-19 (Coronavirus) in the Chinese city of Wuhan has weighed on markets; however, a combination of central bank support and the swift and robust response to the challenges posed by the virus has eased investor concerns somewhat.

Travel companies, airlines and retail companies were marked down as a result of a curb in consumer spending and travel. On the other hand, pharmaceutical companies developing drugs for the treatment of viral infections may benefit. A number of companies have suspended activity across China, which resulted in commodity prices falling. China is an important link in the global supply chain; shortages of parts manufactured in China have already impacted certain companies, and could have a wider impact in the months to come. As a result of the disruption, China is unlikely to meet its agricultural commitments as part of the phase one trade agreement.

Chinese stocks tumbled following the extended Lunar New Year holiday, with the main Chinese equity market (the CSI300 Index) falling 8%. In response, the People's Bank of China injected 1.2 trillion yuan of additional liquidity to prevent further decline and support the country’s economy, which helped the market to recover. The situation draws parallels with the SARS outbreak in 2002, with reports suggesting a global impact that generally failed to materialise. However, making direct comparisons ignores the different nature of the viruses, and the vastly different Chinese economy and the travel habits of its citizens.

Global markets have quickly corrected their initial falls, with the S&P 500 Index in the US hitting new all-time highs. Fourth quarter earnings for the S&P 500 stocks have been flat, rather than in decline, as had been predicted. A handful of companies are performing well and the dispersion of returns is getting wider, suggesting that there are opportunities for active managers to outperform. Despite the unknown economic ramifications of the Coronavirus, investors appear to have weighed this against an apparent economic "soft landing" supported by prolonged low interest rates.

Whilst we recognise that the impact from the Coronavirus remains unknown, looking over the longer term we reiterate our positive stance on equities. Compared to bond yields, the returns expected from equities look attractive; however, at current levels, investors will need to tolerate more volatility for lower returns.

In the UK, investors who expected a rate cut were disappointed. After the dovish comments throughout January, the Monetary Policy Committee voted 7-2 to keep rates unchanged at 0.75%. Although growth slowed and business investment has been sluggish, recent survey data has indicated more confidence in the economy. Before the next Bank of England meeting, we will get the budget announcement from the newly appointed Chancellor, Rishi Sunak, which is expected to be stimulative and could remove the need to ease monetary policy. Now that the UK has officially left the EU, for the "Boris bounce" to be sustained, we need to see progress on a comprehensive trade deal with Europe which will remove more of the uncertainty that has delayed investment decisions. This may yet prove more difficult than it seems, as negotiations have stalled regarding fishing rights in the rich waters surrounding the UK and the "equivalence" principle with regards to financial services.