# MARKET REVIEW : A 'BLACK SWAN' CAUSES HAVOC IN THE FIRST HALF OF THE YEAR

25th June 2020

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*As we emerge from lockdown, it may seem hard to recall what life was like before many of us heard about a coronavirus for the first time. The pandemic and the disruption it has caused have dominated the headlines since, but they aren't the only factors to have influenced the markets over the last six months. With that in mind, here's our review of the first half of the year.*

At the beginning of January, we published our vision for the year ahead. Other than Brexit uncertainty, the outlook was generally optimistic with interest rates set to remain at record lows and government spending expected to rise in the UK and Europe.

The year got off to an ominous start as the assassination of Iranian general Qasem Soleimani by the US threatened instability in the Middle East. Thankfully, hostilities didn't escalate further, and the markets switched their attention to the signing of the first phase of a trade deal between the US and China. Trade tensions had hovered over the markets throughout 2019, so they welcomed the thawing of relations.

The danger with trying to predict the future is every so often, along comes an event so improbable that it could be compared to a black swan. According to Nassim Nicholas Taleb, the author and former trader who coined the term around the time of the 2008 financial crisis, a black swan event 'lies outside the realm of regular expectations'. I think it's fair to say this definition succinctly sums up the pandemic which caught the world by surprise earlier this year.

The coronavirus first appeared in our weekly market update in mid-January. Having originated in the Chinese city of Wuhan, by the end of the month it had started spreading elsewhere in Asia and to Europe, the US and Australia. As a consequence, the UK 's official departure from the EU on 31st January was largely overlooked.

The markets remained wary of the coronavirus throughout February as China, the epicentre at the time, attempted to contain the virus. However, it continued to spread around the world, and global stock markets dropped sharply in the middle of the month as investors shifted their money into government bonds which are typically considered safe havens during periods of turbulence.

To make matters worse, the Organization of the Petroleum Exporting Countries (OPEC) failed to agree on production cuts to support oil prices as demand from China declined. Prices plummeted as a result, which was bad news for stock markets containing a lot of energy companies like the FTSE 100.

As many countries went into lockdown to slow the spread of the virus, economic activity ground to a halt and the number of workers claiming unemployment benefits soared. Governments reacted swiftly, introducing a range of unprecedented measures to protect jobs and help companies survive. Recently appointed UK Chancellor Rishi Sunak announced a furlough scheme covering 80% of the wages of employees who couldn't go to work and offered guaranteed business loans. Meanwhile, central banks cut interest rates and expanded their bond-buying programmes, known as quantitative easing.

Global stock markets hit their lowest point on 23rd March. Although the death toll continued to rise and many countries spent the entire month of April in lockdown, the markets started to recover almost immediately. While the support measures launched by the authorities were the main driver, encouraging signs emerged from China as economic activity resumed after it appeared to have contained the virus. The markets seemed to overlook disappointing results from companies reporting profits for the first quarter of the year and early evidence of the severe toll that lockdown had taken on economic growth.

Markets continued on their upward trajectory in May as countries gradually started easing social distancing and economic activity picked up again. However, faced with accusations of mishandling the crisis and an upcoming election, US President Donald Trump reignited tensions with the Chinese, who he blamed for the spread of the virus. Closer to home, as the number of new infections fell in the UK, politicians turned their attention back to negotiating a free trade agreement with the EU. Brexit uncertainty returned as the latest round of talks ended in stalemate.

Over the last few weeks, the markets have fluctuated based on developments. We expect this trend to continue in the coming weeks. The markets will have to weigh up good news such as the recovery of economic activity and reports of successful vaccine trials against the risk of a second wave of infections as lockdown restrictions ease. Meanwhile, Brexit uncertainty and tensions between the US and China linger in the background.

Since the emergence of the coronavirus in January, investors have faced the most challenging market conditions since the 2008 financial crisis. Shares fell at the fastest rate on record, although they've recovered relatively quickly. The measures introduced by governments and central banks should continue to support the markets as the pandemic fades, and many forecasts suggest economic growth should bounce back in 2021. There may be more turbulence ahead but try to avoid any knee jerk reactions regarding your investment portfolio. Previous experience suggests you'll be rewarded for staying invested over the long term.

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