

Market Update

9th April 2020

Markets continue to be amazingly volatile with the S&P climbing 7% on Monday this week. In general, we do not expect to see market changes of that magnitude in a bull market; they are much more associated with bear markets and we are probably not out of the woods yet. In addition, we are facing a material collapse in GDP as large swathes of the economy are closed down. We are beginning to consider the extent of any bounce-back once these controls are lifted. It is perhaps easiest to put these considerations in the context of individual businesses. Take for example hairdressers. The longer people are confined to their homes, the more dishevelled they will start to look. Hairdressers have lost custom as their clients are prevented from going to salons but once the quarantine restrictions are lifted, people are likely to rush back, and hairdressers can expect to experience a surge in demand as a result. Nonetheless, the longer the lockdown remains in place, the more business hairdressers will miss out on. This is somewhat different to the structural damage to the economy experienced in 2008 when the banking sector was on its knees. Currently, the immediate damage is potentially less structural but the longer we remain in this crisis, the greater the risk of structural damage occurring grows as sections of the fabric of the economy start to deteriorate.

Looking beyond the lockdown, it is becoming clear that we cannot eliminate this virus in the short-term and that we must learn to live with it. China and Korea might offer some ideas of how greater controls can be put in place to halt the spread of the disease without resorting to shutting down the economy. In both China and Korea, technology has formed part of the solution. For instance, in China people have been given an app for their mobiles which register red, amber or green depending on the risk they pose in spreading Covid-19. A green display confirms that the holder has not been in close contact with anyone infected with the virus and they can travel relatively freely. If an individual has had some association with someone who has had the virus, the app will flash amber and some restrictions on travel will be imposed. A red display confirms a close association with the virus, potentially a member of the immediate household has contracted the illness, or the individual resides in an area where there has been a fresh outbreak. Under these circumstances, self-isolation would be expected.

Korea operates a similar system and although its use is more voluntarily, it is nonetheless incredibly sophisticated. People are able to flash a QR code* on a particular train carriage or bus that they wish to travel on. If someone on that carriage subsequently contracts Covid-19, their fellow passengers will be alerted and encouraged to stay at home. Those travelling in other carriages or buses are unlikely to have had contact with the virus and be at little risk of contracting the disease.

This demonstrates that there are ways of managing people's movement without resorting to full-scale quarantine measures and which allow businesses to gradually get back on their feet. The hope is that measures like these will be put in place in the Europe and the UK in the coming months. The Investment team will be closely monitoring the plans for how Europe and the US move from lockdown and the impact it will have on their economies.

Jason Broomer, Investment Director

*QR is short for Quick Response and is a type of barcode that takes information digitally from one source (in this case bus or train) to your device (i.e. smartphone) to give you more information.

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