RAYMOND JAMES

The end of the beginning

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"Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning" - Winston Churchill

Over three hundred and fifty years ago, back in 1665, Isaac Newton socially distanced himself from the horrors of the then rampant bubonic plague and - away from his burgeoning academic career at Trinity College in Cambridge - enjoyed a 'year of wonders' at his childhood home. During this period he formulated a theory of universal gravitation, explored optics and discovered differential and integral calculus. I would not feel bad if your own lockdown experiences and achievements do not move the history books quite as much as the man who formulated the laws of motion and universal gravitation did. As acknowledged multiple times nationwide over recent weeks, normally unsung heroes and heroines are the backbone of any country.

By contrast, the world's equity markets have been gracing the history books in recent weeks, with typically the biggest monthly falls in around a decade in March followed by the biggest monthly rises in around a decade in April.

We all know that markets over a shorter time period are (to use the words of Benjamin Graham) 'voting machines' and heavily influenced by fear, greed and other sentiment considerations. Flow of funds matter too and whilst global equity market inflows have been very patchy for a long time, central banks and governments have learnt the lessons of the global financial crisis of a dozen years ago, and have undertaken stimulus efforts and intervention policies at far greater speed and magnitude. Certainly I would have looked at you with complete shock at the turn of the year if you had given a prediction about widespread wage subsidy schemes, near zero interest rates in both the U.K. and the United States and government budget deficits that were likely to be well above ten percent of GDP. However with the onset of the COVID-19 pandemic - at many levels - what would have previously been regarded as strange or extreme has, at least for the time being, become the reality norm.

The above interventions have provided some form of potential economic bridge out and away from the current lockdown recessionary conditions. It is this economic bridge heading towards the concept of a 2021 economic growth recovery that equity markets in April have grasped. Sadly this is not a guaranteed destination but, at least during the last month, the markets have travelled hopefully. And - as plentiful economic, market and even health crises have shown over time - human ingenuity over time tends to win out. Financial markets will inevitably lean on virus and associated healthcare driven realities over upcoming weeks and months.

Tentatively here at the start of May, I would ignore the oft-quoted market aphorism to 'sell in May and go away'. Here in the U.K. - and much of the rest of the western world - we are about to embark on the next stage of the crisis, where lockdown restrictions are progressively eased. Challenges, uncertainties and changes to

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some kind of recent historical normal life will remain plentiful for individuals, businesses, governments and financial markets. Expect a continuation of volatility and also over the next quarter, some record falls in GDP in the western world. The better news is much of this is anticipated and some of the economies of East Asia have given us some insights on what to both undertake and expect.

Sadly we are very far from Newton's 'year of wonders' but his observation that 'we build too many walls and not enough bridges' feels very apt as a general rallying call for the rest of this year.

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