

Light at the end of the Tunnel

Whilst it was tempting to caption this piece “Still in the Lifeboat...” and add flippantly “... but don’t worry - Boris is back at its helm and not yet on paternity leave”, the following ‘bon mot’, written by Jeremy Grantham, co-founder of the asset management firm GMO, in March 2009, the month in which markets turned in the aftermath of the global financial crisis, is the most prescient we’ve come across in recent weeks.

“be aware that the market does not turn when it sees light at the end of the tunnel. It turns when all looks black, but just a subtle shade less black than the day before.”

And, so it did in late-March when the Coronavirus crisis looked to be at its bleakest. Mark Twain may have said that history rhymes rather than repeats itself but it seems to have repeated itself, with one of the key catalysts for the market reversal, both this year and in 2009, having been central banks’ monetary stimulus.

Having fallen by 20% since the start of the year, global equities, as measured by the MSCI All Countries World index, started to bounce back in the latter part of March and continued do so through April and had fallen by just 10% in 2020 by the end of the month.

That said, the global equity market recovery had petered out by the end of April and the first question now is whether equities are up with events or have got ahead of them. They are, we would argue, ahead of events. Although we seem to be over the worst of the Coronavirus crisis and there is certainly an increasingly brighter light at the end of the tunnel, the path out of it is still uncertain, as are the prospects for the global economy and companies’ earnings.

However, equity markets are inherently forward looking, though, as we know from recent experience, not always inherently optimistic, and their anticipating a recovery is to be expected. The second question is whether they are too far ahead of events, our answer to which is maybe, maybe not. Only the events themselves will, in time, give us a definitive answer.

The markets’ behaviour this year has been eerily similar to the path the Prime Minister has travelled in recent times. Like or hate him but like the markets, he has gone from near death to new birth, from intensive care to nappy changing in just six or so weeks.

Many of us will have travelled a similar but, hopefully, less extreme road in parallel and there is further yet to go but at least we’re getting there.

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