CONFUSION, BREXIT, PANDEMICS AND ELECTIONS 7th OCTOBER 2020

The financial world has always been confusing and unnecessarily complicated in my humble opinion. The terminology, the complex products, a myriad of charges and fees, regulatory definitions in the advice field such restricted or independent and the role and permissions of fund or investment managers all create a foggy maze for the investor.

Equally frustrating is the fact that, if you ask 10 financial services professionals the same question, you are likely to get at least 7 different answers. Conflicting opinions or advice come from interpretation or bias by an adviser.

If the adviser is restricted to one particular company, they are likely to be able to give you multiple reasons why their product is the best option. If they are independent, they will tell you that whole of market advice is best.

So, while understanding exactly who you take advice from in managing your investments is important, it is vital you are also given a wider view of the investment markets in both business and market cycles because, forgetting the company, product, fund or adviser for a moment, the current world economic and financial situation is possibly the most complicated I have seen in my 36 year career.

Understanding where we might be in these cycles now can help your investment decisions, guide you to the most appropriate sectors of the market for investment, give you some understanding of what returns you can expect in the coming years and more importantly, help you to tailor **your** plans to meet **your** requirements over the length of time you hope to be investing for.

Timing the market is difficult if not impossible, but there are certainly times when you should stand aside, times when you should invest, times when you should be cautious and times when you should be more adventurous.

So, why so confusing now?

We are in completely uncharted waters right now because we have a broad mix of events affecting the stock markets of the world, a mix we have never seen before with a number of potential outcomes.

World economies are broadly all in the same position at the moment, all battling with the Covid-19 pandemic. However, all stock markets are not behaving in the same way. The UK markets are still well below the levels seen at the start of the year and floundering sideways while some of the US markets have recovered completely from the initial Covid-19 induced sell off and have even made new all-time highs.

Drill down a little further than that and you can see that the US markets that have prospered have done so because of a small number of technology shares, like Apple, Amazon, Facebook and of course Tesla. A large number of shares in the S & P 500 index remain down in value for the year, even though the index is up, so you even have conflict within the same index in some cases.

In the UK we also have Brexit to contend with. Many will argue how much better off we will be by leaving the EU but the fact is we have no idea what the outcome will be, it will likely be difficult in the early years while we find our feet and I'm sure we will be ok in the long run, but it is highly unlikely that, even without the Covid-19 pandemic that it will be business as usual.

The US has a volatile and unpleasant election to contend with, in addition to the pandemic and the US seems very divided at the moment. Some believe a Biden win will be bad for the economy and so the stock markets, others disagree and think he will be the opposite. A Trump win is thought by some to be good for the markets and economy because of his focus on business and low taxation, but will he be able to do that with the Covid-19 economic debt hanging over the federal balance sheet?

Then there is the pandemic itself, how long will it take us to get over this economically? If state support through furlough and other methods does not continue for a long time, unemployment across all continents will rise dramatically, reducing spending in the economy and thus hurting business growth, therefore hurting the stock market.

But here's the mystery, despite being in deep recession, with a dire economic outlook, US markets have been volatile but in the main risen to pre pandemic levels and UK markets, initially fell and have recovered some of that initial loss but are now settled in a sideways range still well below pre pandemic levels.

Why no second leg down?

Historically, as we saw in 2008, markets react badly at the start of a crisis with a sell off, then there is a partial recovery (so far so good) and then we see the bad economic news continue to roll in and the market falls again in a final capitulation, before reaching levels that the wider market feel are too low. Then, as the economy starts to recover, the buying begins again.

But this time we have not seen that final sell off, so markets are not behaving like usual, why?

Most market professionals think there are two reasons:

The promised continuance of stimulus by most world governments has made traders and investors less fearful of the effect a bad economic outlook.

The introduction of millions of new traders through mobile apps like Robinhood in the US has increased trading volume and pushed markets higher with the gambling like activities of amateur traders.

Both of these seem to solve the conundrum in one way, but can the markets keep going up on the premise that the stimulus will just keep going and the millennials will just keep trading?

Both of these have a strong likelihood of coming to an abrupt end and underneath it all, companies have to keep on making and selling their goods to make the profit that puts the share prices up. Given that factor alone, we could be in for a rocky ride over the next 3 to 5 years.

In Summary

All in all, we are in difficult, volatile times with so many external factors influencing the investment markets. However, the fundamentals of successful investing never change and by being flexible with thorough comprehensive research, it is possible to continue to grow your capital, even in times like these.

Trying to predict what the market will do is an easy practice on the road to ruin. These extraordinary times call for extraordinary patience and resilience.

Get in touch to discuss your investments, whether you have an existing portfolio or are just starting out – call us on 01909 511247 or email info@middletonprivatecapital.co.uk