March 2020

The world today looks a very different place compared to just three months ago. By all accounts, 2020 was set to be a better year for the global economy. Many of the world's uncertainties including the UK crashing out of the EU without a deal and a sharp escalation in U.S.-China trade war tensions seemed to have abated.

Global growth was set to recover in 2020 to around 3.3% (3.1% in 2019) in response to more accommodative global monetary policies and improved U.S.-China trade relations and despite the global recovery being the longest on record (129 months by the end of 2019), it seemed highly unlikely that the U.S. would go into a recession in 2020.

And then COVID-19 happened…

Like most previous market crashes, it normally arrives from an unexpected exogenous event. Covid-19 has been that unexpected exogenous event. Over the past two decades, we have all become familiar with various coronavirus outbreaks including SARS, Swine Flu, MERS and Ebola to name a few. Whilst the world became aware of COVID-19 in early January 2020, as investors we mistakenly used these previous outbreaks as a "reasonable basis" to anticipate what COVID-19 was likely to materialise into.

Because the SARS outbreak most closely resembled the COVID-19 virus (also originating from China in 2003), it was widely used as the benchmark for what was likely to come from COVID-19. As a result, despite the world being aware of the coronavirus outbreak, financial markets remained on a strong footing in January with U.S. markets achieving record highs. In hindsight, investors got two vital factors incorrect: (1) the world is far more globalized than what it was in 2003. China's share of global GDP today is around 16.3 percent compared to 4.3 percent in 2003. Equally, over 162 million Chinese people travel abroad annually today compared to only 16.6 million in 2003; and (2) whilst SARS virus's mortality rate of 9.6 percent appears to be much higher than COVID-19, the infection rate was roughly half.

Fast forward to the end of the first quarter of 2020, and the virus has spread to almost all parts of the world, causing severe damage to economies as countries adopt various forms of "lockdowns" in an attempt to preserve collapsing healthcare systems. The financial effects on asset prices have been severe with global indices witnessing their fastest declines on record. To reduce the long-term economic effects of the pandemic, major central banks have coordinated record amounts of stimulus measures to financial markets. Assuming authorities across the world are successful in curtailing the spread of the coronavirus, experts predict that infections may start to decline in late April to early May based on a similar trend to China. Until there is a clear slowdown in infection rates globally, uncertainty is likely to persist.

Another major event in world markets today is the fallout between Saudi Arabia and Russia which has kickstarted an oil price war, pushing the price of Brent Crude oil below USD 20 a barrel – the lowest level in 18 years.

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