Market Bulletin

Nervous markets call for a calm approach

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The start of the new year is of course a traditional time to take stock of the situation and make resolutions for the coming year. Unfortunately what many investors resolved to do when they got back to their desks in January was “sell, sell, sell”. The early weeks of 2016 have been a difficult time in global stock markets, with the UK market down 11.5%, the US down 10.5% and Europe down 16.6%.[1]

So what changed? Well, in reality very little except perception. Evidence of this can be seen by the market rise triggered by comments from Mario Draghi, president of the European Central Bank, that he may possibly reconsider current monetary policy and provide further stimulus to the eurozone economy. If such comments can trigger sudden price moves it tells you that markets are acting more on feelings than facts.

At times like this I believe it is important to have patience. The UK and US economies remain in relatively good shape, and although interest rates are generally expected to rise in both countries during 2016, Mark Carney, governor of the Bank of England, has recently sought to cool the market’s expectations of an imminent interest rate rise in the UK. In any case, our opinion is that interest rates on both sides of the Atlantic will remain relatively low for the foreseeable future and regardless of the exact timing any rises will be small and gradual.

The low price of oil and other commodities is also a natural correcting mechanism for the global economy. Although price slumps are undoubtedly painful for countries that are big commodity exporters, as well as for companies involved in the related sectors, we must not forget that for many more people low commodity prices are a direct boon. This not only applies to countries that are commodity importers, but also to companies that can now use those lower input costs to help support their profits, while consumers all over the world stand to benefit from lower fuel and energy prices, which potentially free up more discretionary spending on other goods and services.

Prudent investors should always be aware of risks, however, and there are factors that require close attention. Mishandling of the economic situation by governments or central bankers could destabilise a fragile situation. And the rate of economic growth in China is likely to continue slowing, so any areas that depend upon trade with China will most likely remain vulnerable.

In addition to this, the forthcoming referendum on EU membership in the UK and November’s US Presidential election are both events that could create significant uncertainty, which makes investors nervous.

Despite all of this it is important to remember that, even when the broad economic picture looks mixed, active investors do not invest in “the global economy” or “global stock markets” per se. In each region and asset class there will be themes, sectors or individual securities that represent relatively attractive investment opportunities; it is the job of active fund managers to uncover them.

[1] Source: Bloomberg, FTSE All-Share Index total return in sterling, S&P 500 Index total return in US dollars and FTSE Europe ex UK Index total return in euro, from 31st December 2015 to 11th February2016.

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