2020 April Economic Review

- Stock markets fell across the board over the quarter due to the COVID-19 pandemic
- Economic activity dropped as lockdown measures caused companies to close and consumers stayed home
- Governments and central banks stepped in with large stimulus measures aimed at replacing wages and keeping businesses afloat
- Overall, the outlook for the global economy has turned negative for the immediate future and the prospect of recovery remains uncertain

What a difference a few months make. At the beginning of the year, there was a fairly good mood among investors; stock markets were positive, political uncertainties subsided, and it seemed as though 2020 was going to be a largely uneventful year for the global economy. In reality, we have just experienced one of the most challenging periods in living memory as the coronavirus pandemic caused economies around the world to shutdown and global stock markets to fall.

Economic update

The coronavirus outbreak has had a profound effect on stock markets and the global economy. In early February global stock markets seemed to be in a fairly resilient position, but that optimism soon faded when it soon became clear that the virus was spreading beyond China and causing major disruption to supply chains.

By March, COVID-19 was declared a pandemic and governments around the world began taking action by introducing various social distancing and lockdown measures. Many businesses closed, international travel ground to a halt and consumer spending dropped. Adding fuel to the fire, Saudi Arabia and Russia entered an oil price war that caused excess supply in the market and pushed prices down to lows not seen for decades.

In the UK, issues such as Brexit and domestic politics were largely displaced by efforts to manage the coronavirus outbreak. When the country entered a state of lockdown, significant components of the economy ground to a halt as bars and restaurants closed, and retail shops shuttered. Economic activity fell steeply in March and April as a result of social distancing measures and the partial shutdown of the economy. Purchasing managers' indices (PMIs) – which gauge whether business activity is growing or contracting – were down substantially. The UK composite PMI for the manufacturing and services sector fell to 36.0 in March and to 12.9 in April, a record low. A reading of below 50 shows that activity is contracting.

In the US, any expectation of steady GDP growth for the year ahead was discarded and replaced by efforts to prop up the economy. To that end, the US Federal Reserve cut interest rates twice during the month to nearly zero, while the government announced a US$2.2 trillion emergency relief package. Europe was among the first regions outside of China to be hit hard by the outbreak, with Italy bearing the brunt early on, although Spain, France and Germany were also badly affected. While European economic growth was already subdued before the pandemic, economic data showed that activity in the services sector contracted substantially.

In China, where the virus originated, the government moved fast to seal of Wuhan and impose strict measures. Factories closed down, bringing economic activity to a halt and disrupting supply chains. Economic output fell off a cliff during the lockdown, although China reported a small rebound when its containment measures were lifted in March. Other Asian countries such as South Korea and Japan also registered a deterioration in economic data as the business and consumer confidence took a hit from the outbreak.

Market commentary

It has been a challenging few months. The combination of the pandemic and government-mandated lockdowns caused global equity markets to fall across the board, some by more than 20% by the end of March. On the positive side, stock markets recovered slightly in April as investors came to terms with the situation.

In the UK, equity markets fell by more than 20% in the first three months of the year, with oil and gas companies being among the hardest hit due to slowing demand for petroleum products and falling prices. US stock markets were also down nearly 20% for the same reasons, with companies in the energy, financial and industrial sectors all seeing steep share price declines. The story was much the same for Europe, Japan, Asia Pacific and the emerging markets, with stock markets all down substantially.

In fixed income, government bonds delivered positive returns as investors sought safer-haven assets. Yields on government bonds in the UK, US, Germany and Japan all fell, meaning their prices increased. However, it was a different story for corporate bonds, which delivered negative returns. With economies shutting down, investors began to worry that companies will face falling revenues and they will struggle to pay their debts, causing them to default on loan repayments.