

The markets are badly rattled

The last couple of weeks have been the most extreme in post war advanced country Stock market history. Never before has there been such a plunge into recession so quickly, and never before has there been such a large and uninterrupted fall.

What are they telling us? Why have so many investors decided to sell out at ever lower prices?

The rational part of the story is the sudden coming of the virus and the combined decision of governments on World Health Organisation advice to close down big parts of their economies to slow the spread of the disease.

Normally in a bad recession the parts of the economy serving the discretionary purchases people make when they are feeling reasonably confident and well off like holidays, higher end retail, restaurant meals get hit more. The businesses involved may see a 20-25% fall in turnover, often taking them into loss and maybe threatening the dividend. In this recession, created to fight the virus, many of these businesses will lose most of their revenue for a time or may be forced to close.

Some running a hotel or B and B or pub or restaurant or travel business will be asking themselves today whether they should sack their staff now to cut their outgoings, and negotiate soon with landlords and suppliers to get their other bills down. As more do this so there will be a further contraction in demand as their staff lose their jobs and experience a sharp fall in income and consumer confidence. It is vital governments do more to avoid staff losses and to help companies through what should be a temporary problem. I have put my proposal again to government to offer substantial cash support for paybills for companies with a large virus created drop in turnover in return for those companies keeping the staff on for the recovery.

The happiest outcome we can now look forward to is an early decline in new cases of the disease in the major countries followed by an early removal of controls. Then the economies can bounce back. If this is prolonged more businesses will go bankrupt, more jobs will be lost and the misery compounds.

In the markets there has been a big shortage of dollars. 5 leading Central Banks were aware of this and made more dollars available, but it has not proved enough so far. There has been a rush into cash, especially dollar cash. Even so called safe haven assets like gold have sold off recently.

Nothing on this site is investment advice. This is commentary on what has happened.