FPWM
TAILORED FINANCIAL SOLUTIONS

Investment Strategy Committee Tactical Asset Allocation Views & Commentary

Tactical positions relate to the strategic allocations for our five risk rated portfolio benchmarks which power our investment process. They are expressed as in the key below.

- - Strong Underweight	- Underweight	N Neutral	+ Overweight	+ + Strong Overweight

Please contact us if you require further information.

ASSET CLASS	TACTICAL POSITION	COMMENTARY
Global Government Bond	+	We stay overweight in this asset class despite strong rallies and extended pricing. But with a lack of safe haven diversifiers we need to insulate portfolios in uncertainty. We look to hold US and increasingly TIPS, anticipating a change to an inflationary bias in future years. Neutral GBP /USD
Investment Grade Bond	+	We increase to overweight on IG bonds as we feel there is a market dislocation that can be exploited by our managers. We remain focused on high-quality and US and UK exposure where possible. Fed buying corporate bonds has underpinned the market at a key time and is a statement of intent
High Yield Bond	-	We stay underweight as the crisis may lead to increasing default risk. In this scenario, the asset class is more equity like in volatile times due to higher credit risk. Whilst governments are currently supporting market liquidity, re-financing becomes more challenging if credit conditions tighten
Emerging Market Bonds	- -	We maintain our underweight here as we are concerned that the crash in global growth and impending recession hit hard in EM. Strong USD is a continuing headwind for this asset class. We need to see USD liquidity is reaching the EM reducing the chance of a credit event/currency volatility
UK Equity	+	The UK underperformed many developed markets and reached levels last seen in 2009 before a limited recovery. The government has done well supporting UK plc and we feel that it may emerge better from the pandemic vs many developed markets as a result. We favour quality over value
Developed Market Equity	+	The pandemic has driven the world into recession to halt a humanitarian disaster and we don't know how deep or long it will last. We still favour US economy as Trump has a bias to economy over health effects as he positions himself for a strong S&P 500 rebound and hopes for re-election
Emerging Market Equity	N	We maintain neutral position here and stay watchful as EM is very volatile. USD and China remain key factors here with China possibly emerging well from the crisis if news is to be believed. Possibility of onshoring on supply chain fears is a negative for this area which grew through globalisation
Commodities	-	We move to a negative bias as a result of a move into a deep recession and no real visibility on when the world returns to some form of normality. Oil is volatile and likely to remain so for some time until travel and shipping improve. Gold one of the few diversifiers in the depths of the crisis
UK Commercial Property	+	We maintain Property exposure which gives valuable income. Property is a long-term asset allocation in our portfolios and whilst fund suspensions are a concern, we are confident that they will reopen in good time and in the meantime the allocation does not impinge on day to day management
Absolute Return	+ +	The current market dynamics continue to place focus on this basket to provide diversification, reduce portfolio volatility and provide downside protection. We stay with a combination of market neutral and macro strategies to diversify risk exposure here, despite challenging dynamics
Cash	+	Where possible and appropriate we reduce overweight to benchmark providing funds to allocate as markets are presenting a clear long term buying opportunity. Market volatility expected to continue as the pandemic undermines confidence and economic growth and cash provides a balance

Please Note: The views expressed are those of the Investment Strategy Committee. They should not be taken as a personal recommendation to invest or refrain from investing.
Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and can fall as well as rise due to stock market and currency movements.

LOOKING BACK…

The first quarter of the new decade is best described as savage. Nobody could have predicted at the start of this year that much of the global economy would be halted by the COVID-19 pandemic and even in lockdown it would be hard to miss news headlines reporting the resultant sell-off in equities and corporate bonds. Falls in equities were faster and sharper than the 2008 financial crisis and for credit markets the worst since the collapse of Lehmann Brothers. Despite a bounce back later in March, global stockmarkets ended heavily down over the quarter.

US equities declined significantly over the quarter as the coronavirus outbreak spread **(S&P 500 -20%).** As confirmed US cases of Covid-19 rose from 150 to over 100,000 between 4th and 27th March, the economic impact grew clearer. Measured from its 2020 peak in February, the S&P 500 bottomed at close on 23rd March down 1,148 points or -33.9%. On Sunday 15th March the Federal Reserve announced a comprehensive easing package including near-zero policy rates, large-scale purchases of U.S. Treasuries and mortgage-backed securities (MBS), and regulatory relief for banks. On 23rd March they announced they would start buying corporate debt. This was a ground-breaking measure that was not even done during the 2008 Global Financial Crisis (GFC), and its importance cannot be understated. It sent an important signal to the corporate debt markets that the central bank has plenty of ammunition and it is not afraid to use it. Fed policy moved firmly into a policy of "whatever it takes" to keep liquidity flowing through the banking system, as Jerome Powell said purchases of US Treasuries and certain mortgage-backed securities would be "unlimited". On 24th March an unprecedented $2tr-plus package of spending and tax breaks was agreed between Republicans and Democrats, including around $500bn for loans and other types of assistance to firms, including US airlines, $350bn for small businesses and another $150bn for healthcare providers and medical equipment manufacturers. Importantly, direct distributions will also be made to lower- and middle-income Americans, $1,200 per adult and a further $500 for each child – a little "helicopter money". In the two weeks to March 28th, nearly 10m Americans filed for unemployment assistance and surveys of employers suggested that hiring intentions are lower than in the depths of the financial crisis in 2008. All sectors saw significant declines. Energy financials and industrials were hit hard, while IT and healthcare sectors held up better, but still fell sharply.

Eurozone equities experienced a sharp fall in Q1 (**FTSE World Europe ex UK -21.40%**) as Italy and Spain became some of the most severely affected countries. European nations took steps to restrict the movement of people and shut down parts of the economy to slow the spread of the virus. The European economy was already fragile, - growing by only 0.1% in Q4 2019, with Germany registering zero growth. The forward-looking flash Markit composite purchasing managers' index (PMI) for March fell to a record low of 31.4 (an index reading below 50 indicates economic contraction) compared to 51.6 in February. All sectors fell over the quarter with healthcare and utilities holding up best and financials and industrials among the worst hit sectors. Regulators have pushed for banks across Europe to suspend dividends and share buybacks until at least the autumn, which would help increase their capacity to manage rising non-performing loans as borrowers struggle to make repayments. Following an emergency meeting late on 18 March, the ECB announced the Pandemic Emergency Programme which will see purchases up to €750 bn conducted until the end of 2020 and was in addition to the €120 bn announced the previous week. The ECB allowed itself flexibility across asset classes and jurisdictions able to intervene powerfully in any market segment in need of support at any given point in time. The strong language used showed a commitment to supporting the economy with potentially unlimited QE. This was Christine Lagarde's "whatever it takes" moment. Governments across Europe also announced spending packages to help businesses and households cover the loss of income during this period of disruption and the expenditures required to survive.

UK equities tumbled (**FTSE All Share -25.95%**) as efforts to deal with the coronavirus pandemic hit economic activity indiscriminately and simultaneously. Earlier in the quarter, domestic politics and Brexit had dominated the narrative around UK assets and the economy. At the height of the market sell-off, all assets (including government bonds) fell amid fears around the stability of the financial system. Against this backdrop, sterling hit multi-decade lows versus the US dollar as investors sought safety in cash, particularly US dollars. In line with other central banks, the Bank of England materially reduced interest rates, cutting by 65 basis points to 0.10%. This response was co-ordinated with the UK government, which unveiled an unprecedented series of fiscal support measures, in line with initiatives by many other developed nations. Oil and gas was the worst performing industry groups over the period, selling off on concerns about falling demand in the wake of the virus, as well as the failure of negotiations between OPEC (the Organisation of the Petroleum-Exporting Countries) and Russia to control the global supply of oil. The consumer services sector also performed very poorly as investors sought to calibrate the effect of a sharp fall in consumer demand as the UK and other governments introduced lockdown measures. The second round of EU/UK talks on a post-Brexit trade deal was cancelled with most of the countries involved in lockdown. Meanwhile, it was confirmed that UK Prime Minister Boris Johnson and Michel Barnier, the EU's chief Brexit negotiator, have both tested positive for Covid-19. With governments' attention focused on dealing with the pandemic, it's likely that the Brexit talks could stretch well beyond the original deadline of end 2020.

The Japanese market fell steeply in late February and early March before recovering some ground ending with the **TOPIX down -18.49%**. Smaller companies suffered, despite some recovery in late March and value stocks underperformed. The Q4 GDP growth estimate was much weaker than expectations even allowing for the October typhoon season. In terms of COVID-19, Japan has fared better than most developed nations with a slower spread and lower mortality rate. This has resulted in a less stringent response from the authorities so far. From late March, there have been more forceful requests from both central and local governments to curtail social activities and it is possible that more severe restrictions on movements will be imposed on Tokyo in the near future. The postponement of the Tokyo Olympics until July 2021 is a blow to pride but not significant economically, with around 0.2% of GDP shifted into 2021, but there may be political implications as the Games are just before the end of Mr Abe's term as Prime Minister.

Asia ex Japan equities declined sharply (**FTSE Asia Pacific ex Japan -18.34%**), as Covid-19 became a pandemic and US dollar strength dragged on returns, but the region outperformed the World Index. ASEAN (Association of Southeast Asian Nations) markets were notably weak and India also suffered as the number of Covid-19 cases began to increase, and the government announced a national lockdown for at least three weeks. South Korea also lagged despite progress in their response to the crisis as the weaker outlook for global trade and growth weighed on the market. China and Hong Kong were the only markets to outperform the index. China, was seen as ahead of the curve as the lock down the city of Wuhan and strict measures to contain the spread were deemed a success as the number of active cases of Covid-19 in mainland China appeared to peak in February, and subsequently fell sharply. Meanwhile, the spread of the virus appeared to be relatively contained in Hong Kong.

Emerging market (EM) equities fell heavily in Q1, negatively impacted by the Covid-19 pandemic. The spread of the virus beyond China led to lockdowns globally and resulted in sharp falls in economic activity. A global recession is now expected this year. Against this backdrop, a stronger US dollar was a further headwind for EM. The FTSE Emerging Index fell -20.54%. Brazil was the weakest market with currency amplifying negative returns. The central bank cut rates by 75bps to 3.75%, announced reductions in bank reserve requirements reductions and agreed a foreign exchange swap line with the Fed. The government also took fiscal measures to help households and businesses. Colombia was another underperformer as it was additionally impacted by the fall in crude oil prices following the failure of talks to limit oil production. Greece, South Africa and Pakistan all underperformed.

Government bond prices rose in late-February and March as countries went into lockdown, seriously depressing economic activity. Investors favoured the perceived safety of government bonds due to fears of a global recession creating sharp declines in yields and extreme daily swings in assets prices on a scale comparable to the crises of 2008 and 2011. In response, governments and central banks announced unprecedented support programmes for businesses, households and the financial system, helping to stabilise markets later in the month. The US 10-year yield dropped from 1.92% to 0.63% over the quarter, German 10-year yield fell from -0.19% to -0.49%, France's from 0.12% to 0% and UK 10-year yields fell from 0.82% to 0.32%. The Italian 10-year yield rose from 1.41% to 1.57% and Spain's increased from 0.47% to 0.71%.

Corporate bonds, emerging market debt and currencies declined significantly, mainly in March, and underperformed government bonds. For several days, companies were unable to issue bonds although this improved when the US investment grade new issue market opened again the week beginning 23rd March and in the first two days issued nearly $40bn in new supply. which matched the entire supply for the previous week in two days. This was a positive start to the week for a bond market that had been ravaged with dislocations and volatility. A functioning bond market is important for the stabilisation of financial markets. High yield credit was hit hard given the heightened risk aversion. The sell-off was sharper in more vulnerable sectors related to travel and retailing, as well as in energy as the oil price plummeted (Barclays Global High Yield -14.06%). In emerging markets, local currency bonds saw the heaviest falls. Currencies more sensitive to growth and oil prices, and also those with more liquidity, saw double-digit declines, in some cases of around 20% (**JPM GBI EM Global Diversified -15.21%**).

Commodity prices fell sharply over the quarter (**Bloomberg Commodity -23.29%**). As countries around the world halted activity to try to bring the spread of the virus under control, demand for most commodities declined, hitting prices. Oil was caught in a perfect storm with an agreement between OPEC and Russia to constrain supply breaking down just as the outlook for demand fell. This led the oil price to fall by more than 60%. Industrial metals also fell, led by copper, as the demand outlook deteriorated. The agriculture component posted a negative return with cotton and sugar prices falling heavily. Conversely, precious metals generated a small gain, Gold delivered positive returns YTD, up nearly 5%.

Sterling weakened against other major currencies ending -6.98% vs USD, -4.52% vs EUR and -7.78% vs JPY improving foreign asset returns.

Please Note: All quoted returns are on a price basis in local currency terms.

LOOKING FORWARD…

"The market can stay irrational longer than I can stay solvent" – JM Keynes

Following the longest expansion on record, the global economy is currently plunging into what could easily become one of the deepest but also shortest recessions in modern times. However, there is no precedent for the global recession that is currently unfolding so history offers few clues for what is likely to unfold over the next 12-month which is the period which we normally consider at our ISC meetings, making the outlook even more uncertain than usual. Our last commentary suggested that the global economy was basking in a goldilocks scenario with growth not too cold, inflation not too hot and central banks committed to defending against slowdowns. The chance of recession was seen to be low. That was before we felt the full effect of an unfortunate meeting in a Chinese livestock market.

Recessions are usually caused by severe economic or financial imbalances which build while the economy is expanding and a typical late cycle tightening of monetary policy. This time is very different because the underlying cause of the downturn is a truly exogenous shock that originated from outside the economic and financial sphere. The real fear is that the COVID-19 pandemic may overwhelm healthcare systems in many countries around the globe over the next few weeks and months. Most governments have responded by aggressively curtailing economic and social activity in order to suppress the further spreading of the virus as quickly as possible. This has already led to a sharp drop in aggregate output and demand in many Western economies during the second half of March, shown by plummeting composite purchasing managers' indices. This will continue as lockdowns remain in place. In effect, we are seeing the first-ever recession by government decree – a partial shutdown of economies aimed at preventing a humanitarian crisis.

Despite the record length of the expansion, there were no major domestic economic imbalances in most advanced economies: Consumers were more restrained than in the previous cycle, firms hadn't overinvested in capacity, most housing markets didn't overheat, and inflation was generally low and stable. The hope is that when the virus is under control and the recovery comes, it will not be hamstrung by economic legacy issues that would require a prolonged period of cleansing and adjustment. The humanitarian, social and economic legacy of the Pandemic is still to be seen. More of that later……

Given the speed and enormity of the monetary and fiscal policy response and the absence of major imbalances in the real economy, once the spread of the virus is under control and the restrictions are being lifted, our core view is for the global economy to transition from severe short term pain created by the lockdowns, into a gradual healing process over the next six to 12 months. Much has been written about the "shape" of the recovery and at present we feel that a U shaped rather than V shaped recovery is most likely because the restrictions on economic activity are likely to be lifted gradually and be sector and region specific. We do not underestimate how long it will take for supply chain, logistical and transport bottlenecks to be sorted out which we expect will mean that the bottom of the U may last a few months after lockdowns are lifted, before output and demand begin the climb back up towards more "normal" levels aided by fiscal and monetary support. It may well be that the shape of the recovery is more akin to the Nike Swoosh stripe with the bottoming and exit taking longer in the event that the battle against COVID-19 takes longer than current government projections suggest.

Borrowing heavily from our economist Andrew Hunt, it would be sensible to take a little time to consider

the policy response needed to steer the global economy out of this crisis. His four stages of policy response are:

1. Save the banking system, maintain the safety and security of customer deposits.
2. Get money from the banking system (including the Fed) into the real economy
3. Support international credit markets and in particular those countries that are short of dollars
4. Fund the US Treasury's deficit and control long term yields.

Each of these aims need to be met, if there is to be a sustainable post COVID recovery.

1. has been completed successfully.

2. is where QE ultimately failed and this time round it is essential that the transmission mechanism into the real economy, to businesses and the pockets of the many, actually happens. The UK seems to be having some success here, and the small business grants, CBILS, furloughing, support for self-employed etc are certainly along the right lines. However, in the US the signs are mixed. On the one hand at a headline level the supply of credit to the corporate sector surged around the 20th March, yet the unemployment data suggests that the unincorporated business sector has been forced into austerity due to a lack of access to credit to support their businesses. Andrew's research suggests that much of the increase in credit was with a very few select names who then simply deposited the funds back into banks as short term/overnight deposits just in case. The nature of the deposits has a negative effect on the domestic banks' balance sheets by inflating their liabilities (the deposits), but the short-term nature of those liabilities is restricting their ability to lend, thereby preventing funds going to where they are actually needed. This led to credit & liquidity pressures building in the corporate sector in the first week of April, and the Fed launching its lending support program with the Treasury and banking sector.

3. is a work-in-progress. The USD exchange rate is no longer rising (good), foreign sales of Treasury holdings has normalised, and the Fed has not had to lend directly to Foreign Central banks although it provided temporary U.S. dollar liquidity arrangements (swap lines) to some central banks including Australia, Brazil, Denmark, Korea, Mexico, Norway), New Zealand, Singapore, and Sweden. These facilities (like standing agreements with other central banks) help reduce strains in global U.S. dollar funding markets, improving the supply of credit to households and businesses, domestically and abroad. Despite this action it seems that global liquidity is static rather than expanding.

4. Here there seems to be some odd almost Schizophrenic behaviour as the Fed seemed to switch from offering only begrudging support to massively accommodating in a matter of hours which suggests they continue to show a lack of feel/understanding of what the market needs and are still reacting behind the curve in the way that first showed itself during 2018 when Quantitative Tightening (QT) started, and again last September when the repo rate spiked massively. From the second week of March into early April, the Federal Reserve shifted from a level of relative inactivity into an almost hyper state taking the rate of money base growth from close to zero to a massive 150% + annualized rate and then more recently become a little less accommodative again. This behaviour makes us wonder if they are struggling to arrive at a happy medium of what is needed. This lack of clarity cannot help financial markets to settle and we hope that the central bank is able to be more consistent in this respect.

The pandemic has also meant that by accident rather than design, we have started a Modern Monetary Theory experiment, by which central banks fund higher levels of state activity with little regard to the cost in terms of accumulating debt. Modern Monetary Theory (MMT) is a school of thought whose ideology differs from mainstream economics and one of its core tenets is the idea that countries like the United States that use a fiat currency - money issued and backed by the government instead of gold - should be able to print as much money as they need to stay solvent. I am sure that few will argue with their actions at this time, but what are the longer-term implications of the response to COVID-19?

When the threat from the virus does recede, we expect there will be a release of pent up demand, particularly in the service sectors and that the level of demand will exceed the supply potential. We also wonder if having let the MMT Genie out of its bottle, suggesting that deficits can be funded in a seemingly costless way (at zero or negative rates), it might be hard for governments to re-impose fiscal discipline, let alone financial austerity that will be blamed for the severity of the health crisis. When the war against the virus is over, just like after a conventional war, there will be pressure on governments to give the population what they want, and expansionary fiscal and monetary regimes may well persist following the crisis. Central banks will be wary of Japan's experiences at unwinding its QE policy in 2006, taper tantrums in the US in the 2010s, and of course the debacle of QT during 2018, and are likely to be very cautious when trying to exit their latest extraordinary measures. This leads us to consider that the developed world may have a bias towards higher inflation post Covid-19. There were of course similar fears that the central banks' response to the GFC would cause an inflation problem which failed to manifest itself in the expected way. However, in a way there was an underlying inflation problem, despite the fact that headline inflation rates remained generally tame post GFC. We experienced three big inflation factors during the period - Western service sector prices; corporate zaitech and equity buybacks (inflating equity prices); and North Asia's capital stock. Much of the money created post-GFC ended up funding a massive expansion of China's capital stock which paradoxically, created an excess supply of goods within the global economy. This excess of supply deflated goods prices which offset the service sector inflation. Headline inflation rates appeared reasonable, but inside these composite indices there was both inflation and deflation occurring.

We think that the developed world may emerge from the Covid-19 crisis with an even stronger inflationary bias in service sectors because of damage done through the crisis and the likely continuation of the MMT experiment. Whether this feeds into headline inflation will once again depend on goods prices and we believe that the crisis will force the Asian economies to re-examine their economic models. Simply producing for scale rather than profits and returns may no longer be possible in the world that prevails after Covid-19, and so the traded goods markets may lose their deflationary bias. Globalization may be reversed as firms try to reduce the complexity of their global supply chains, which proved vulnerable not only to trade wars but also to sudden stops caused by natural or health disasters. Some governments may use health concerns to implement further curbs on trade, travel, and migration.

In a world without Asian export price deflation and continuing service sector inflation there may be pressure on low bond yields creating a challenge to central banks who are even more than ever wedded to "lower for even longer". If this scenario arises then it may be that sometime after the crisis ends (2021/2022?) the 20 plus year bull market in core fixed income markets may finally come to an end. As we get further into the MMT experiment policymakers will be forced to create a new playbook.

An unintended consequence of the raft of actions required to navigate this crisis may be to erode central bank independence and reduce the historic dominance of monetary policy (the preserve of central banks) in the management of the economy. As in effect central bankers become increasingly involved in allocating resources to the nonfinancial corporate sector they are being forced into involvement in fiscal policy, normally the preserve of government. It is also important to ensure that the costs of servicing government debt remain low, especially as debt to GDP levels blow out enormously. If governments continue to engage in more expansionary policies even after the crisis, fiscal dominance over monetary policy may (as previously mentioned) lead to higher inflation rates than bond markets currently price in. But with central bank's policy determined to cap the rise in nominal yields that would normally result from higher inflation, real rates would tend to fall as inflation rises.

Markets are forward discounting machines, so it's never too early to think about the potential longer-term consequences of this crisis. Even if more adverse cyclical risk scenarios are avoided and our U or swoosh shaped core scenario comes to pass, this crisis is likely to leave some long-term scars that investors should start considering now. As previously mentioned, Globalization may be reversed as firms try to reduce the complexity of their global supply chains and there may be continuing curbs on trade, travel, and migration. Therefore, companies, sectors, and countries that are very dependent on trade and travel are likely to take more than just a temporary hit to their business models.

Conversely, technology companies are likely to report increases in revenues and earnings at a time when most companies are in a temporary slump. The crisis has accelerated the move towards a digital future, as businesses, friends and families turn to Zoom, WhatsApp video, Skype and even governments work through Microsoft Teams. In a world of slashed investment budgets there will still be a big spend on technology as companies rush to adapt their business models. Progressive return to work will continue to rely on remote working patterns. More customers are online, and more employees are working from home, so it will be the digital leaders and innovators that will be the winners and continue to play a bigger role in our lives.

Above all we feel that this crisis is a test of balance sheet strength and cashflow. Companies that relied on borrowing to fund their growth will have suffered and cashflow generative, strong businesses will emerge from the crisis as winners. Markets have already rewarded the types of companies that our style favours and we think that this will continue as investors seek companies that they are confident will thrive in the post COVID world. Typically, it is value which leads the rally, but we believe that the peculiar nature of the catalyst for this bear market mitigates against this as a broad strategy.

When equity markets return to full functionality, they will have to navigate through a smaller but recovering global economy, possibly higher taxes, and perhaps a reduced tolerance for corporate shareholder value strategies. After COVID-19, the cost of bailouts for companies today may drive an acceleration in the already rising calls for more social and climate responsibility. Post-GFC the banks were expected to pay their penance for their bailouts, and it may well prove the same for companies. Despite these possibilities, we still expect that the key determinant for just how the equity indices behave over the longer term will be whether zaitech is able, or allowed, to return.

Zaitech is a Japanese term describing the large-scale company financial speculation which first appeared in the US during the mid-1980s, rose to prominence during late-1990s and, after a pause during the Dotcom bust, it restarted in the mid- 2000s and came back with a vengeance following the GFC, feasting on liquidity and low interest rates as companies financed share buybacks thereby boosting their own share prices. This encouraged short termism at senior corporate levels as Executives were remunerated by stock price performance. It is clearly a very resilient process, but we wonder whether the regulatory and financial environments will allow it to come back for a fifth time? Interestingly in January around 250 CEOs resigned compared to a usual level of around 25. Have they recognised the tide is turning?

Without zaitech, stocks will be priced according to how their underlying companies perform in the real world, which is what equity markets should do, but we also suspect that old habits will die hard and that the financial sector will always try to revive the borrow & buy-back mentality if it can. If on this occasion zaitech will not be able to fully restart, genuine fundamental stock pickers may finally come back into vogue in this new post COVID world.

With everyone's focus on the daily coronavirus dominated news flow, it would be easy to forget that the start of the market crash was a combination of the disruption to the global economy of the actions being taken to slow the spread of COVID-19 and a rapid fall in the oil price. On 20th April an oversupply of oil combined with a sharp fall in demand as a result of the coronavirus global pandemic saw the price of West Texas Intermediate (WTI) US oil contracts for May fall to -$37.63 a barrel. This is an historic move meaning producers had to pay for barrels of oil to be taken away as they had no storage space available. This was driven by the sharp fall in demand, limited storage and production continues, despite planned supply cuts in May. The oil market is based on future prices, and with May future contracts for WTI oil due to expire on 21 Apr, producers were keen to sell contracts as quickly as possible to avoid taking physical delivery of oil with no place to store it. While oil prices have since recovered somewhat, continuing lockdowns and no sign of travel returning to previous levels anytime soon, oil demand will remain weak for the foreseeable future. Cuts in production will take time to implement causing further pressure on storage and transportation. We should expect volatility in the sector to continue and low oil prices are a deflationary factor, which will serve to balance the inflationary bias that we are seeing Post-COVID. What we don't know is for how long that effect will last.

Another little known consequence of the crisis is a worldwide pandemic power grab while the world's attention is on covid-19. Perhaps it was a coincidence that China chose this moment to arrest the most prominent democrats in Hong Kong. More likely, as with autocrats and would-be autocrats all around the world, it spied an unprecedented opportunity. This is an emergency like no other. Governments need extra tools to cope with it. No fewer than 84 have enacted emergency laws vesting extra authority in the executive. In some cases, these powers are necessary to fight the pandemic and will be relinquished when it is over. But in many cases, they are not, and won't be. Unscrupulous autocrats are exploiting the pandemic to do what they always do: grab power at the expense of the people they govern. It seems possible that a reversal in the trend for smaller government may be another consequence of the crisis as leaders have had to act fast, effectively subverting much of the usual process due to the emergency. This is a trend that will take some turning and greater fiscal involvement and MMT supports this move.

In March, stock markets suffered their two biggest one-day drops since the 'Black Monday' crash in 1987. Two weeks later, the US Dow Jones index saw its biggest one-day gain since the Great Depression in 1933. With no clarity the market is functioning as a gauge of fear of Virus vs Fear of Missing Out (FOMO). Some perceived light at the end of the tunnel has put FOMO in charge, but don't rule out a further test of lows if the virus takes hold or flattening of the curve proves a mirage. Markets are cheaper than they were but perhaps not as cheap as they might be or may become again. Thinking long term is the key.