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Global Stocks and the Economy

Investors entered 2020 with the markets heading higher and a lot of optimism about the economy. Then the latest action in the long conflict with Iran reminded everyone of the many geopolitical risks and the growing tensions that can affect the markets.

Tensions in the Middle East and the geopolitical uncertainty has now moved to the centre stage in January. There's no question this is a new and important wild card and at this point, anything is possible.

In February Coronavirus has dealt a setback to the emerging global economic recovery. Although extended workplace shutdowns in China associated with the coronavirus outbreak have reverberated throughout the global economy, much of China's production may soon come back on line – likely delaying, but not derailing, the growth recovery.

The coronavirus continues to rage in the region of Wuhan and reports of new cases there may be underreported by the health commission. However, the growth rate of new cases everywhere else in China and around the world seems to have peaked, helping to reverse the stock market decline. Huwan is not the core of China's manufacturing, accounting for only 1% of China's integrated circuits and TV's and just 2% of mobile phones. Workers outside of Huwan are set to return to work soon, encouraged by evidence that the outbreak may be contained.

In the US the economy is strong, unemployment is near record lows and the annual GDP is pacing at a better rate than the average annual GDP for this entire record expansion. Consumer confidence is high, corporate earnings continue to impress, and household income is at the highest level in roughly 20 years.

We don't ignore macro headwinds like Brexit, the China virus outbreak, trade concerns, Iran sanctions, Hong Kong protests, slowing global growth, softer economic data, and political drama in Washington.

However, revised and updated trade deals are getting written. While growth is moderating, Central Banks are ready to respond with lower interest rates to spur economic growth. Despite solid appreciation year-to-date, valuations are not overly inflated.

In conclusion we can stated that after the last nine Middle East crisis, the market finished positive a year after. Except for three times which was due to a recession in these years. Our analysis of 13 global pandemics over the past 50 years shows that once the number of newly identified cases start to decline, economic activity and the stock market tend to quickly rebound.

We continue to recommend that investors remain at their long-term strategic equity allocation. We suggest underweighting high-yield bonds and being cautious when investing in emerging-markets bonds.

Stay tuned!

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