
Market Review

July 16, 2020

Market Commentary

The second quarter will mark the bottom in economic growth and corporate profit growth. Countries have gradually reopened their economies and accordingly economic conditions have improved albeit still significantly below pre-crisis levels. Many consumers are receiving substantial financial support from government programs, masking the severity of the decline in household income. Forbearance by financial institutions on mortgage payments is also helping to alleviate financial distress.

The resiliency in global equity markets reflect optimism for ongoing policy support and medical advancements to treat the virus. For now, the financial burdens that have been incurred by governments are being ignored.

Corporate profits are expected to be down significantly in the second quarter and for the whole year. The impact of social distancing will hamper the profit recovery of many businesses, suggesting the recession may be more protracted than expected. As fall approaches, there will be increasing focus on the U.S. election and the implications of various outcomes.

Given the difficulty in forecasting the shape of the global economic recovery which is largely dependent on the path of the pandemic as well as the uneasy political landscape in many countries, inevitable pullbacks will occur providing opportunities to purchase companies at attractive prices.