RAYMOND JAMES

Optimism can be contagious too

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"Perpetual optimism is a force multiplier" - Colin Powell

After a rough, tough performance month in the pan-European equity markets, the instinct is always to look away from the detailed data and conclude in a world of tightening pandemic restrictions and an imminent (and hotly contested) American presidential election, that uncertainty must induce investment caution.

Certainly it is a very challenging backdrop and we should sadly expect unemployment to rise and economic growth levels to be muted, despite the continuing efforts of policymakers to provide support mechanisms. When the history books are written on 2020 there will be few chinks of light and almost everyone will be pleased when the year clock ticks over onto 2021.

We all know that financial markets are a mixture of rationally interpreted hard facts and changeable sentiment and that the latter can play a disproportionate role in price formation in the shorter-term. October's market movements inevitably reflect influence from both these elements as is always the case.

A number of times in investment commentary pieces I have used the phrase 'the darkest hour is before the dawn', as an insight into the over-influence of shorter-term sentiment factors. Annoyingly it appears scientists attest that the hours just after sunset are likely to be the darkest, but the imagery of the saying fits better with market psychology. Whilst precise timing is always important, it was striking to see the juxtaposition of the start of the first UK/ broader western world pandemic lockdown and the 2020 trough (to date) of global equity markets. Certainly some will attempt to correlate October's aforementioned poor equity market performance and the bevy of new restrictions and imminent imposition of new lockdown policies across the European timezones.

The reality however is that all of this is likely to be noise around a deeper truth: the key remains a combination of virus control allowing greater confidence among all economic actors. And for this I also cite October market data, but this time in timezones much further to the east of our own.

It may surprise a few people that Chinese and not American equity markets are leading the year-to-date performance charts among major asset class opportunities. Both have a notable technology sector bias, but the former is also operating in an economic backdrop which is likely to grow this year despite material negative pandemic impacts in the first quarter of 2020.

This is not the place to discuss differing approaches to pandemic control, but very muted official new cases across a number of countries in East Asia have allowed many significant steps back to last year's day-to-day normality. No region can carry the world alone, but one clear trend in corporate earnings statements from

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European and American companies alike over recent weeks, was to note the dichotomy of economic momentum between markets closer to home and those much further eastwards.

Policymakers are currently facing many invidious trade-offs. Very loose monetary and fiscal policy initiatives can never be a panacea but they do buy some time. Similarly the power of information and the profit incentive will drive companies to find workarounds and new innovative techniques. And whilst we should never forget the still-building human tragedies from the times of pandemic, there can be another narrative for 2021 and beyond. Fear can turn into optimism and those dark hours after sunset are eventually replaced by a new dawn.

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