

## Stock markets will downturn if this continues

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The [FT has reported this morning](#) that:

*Sales of active equity funds sold in the UK dropped by more than 90 per cent last month after the coronavirus outbreak in China led to a sharp deterioration in investor confidence.*

*Actively managed equity funds registered inflows of just £78m in January, down 93 per cent on the previous month, according to Calastone, the global funds transaction network.*

They added:

*Sales of index-tracking equity funds were less severely affected with inflows dropping by about half last month.*

I think most readers know that I am deeply cynical about stock markets. The supposed growth in value that they appear to deliver, to which the media gives much over-excited attention, is nothing more than the inevitable consequence of the steady inflow of funds on a regular and recurring basis from the likes of pension funds and others chasing a fixed or even declining pool of assets (which is what the market authorities engineer to be available) meaning that, absolutely inevitably, markets usually rise as an excess of money tries to buy shares that are in limited supply. Every now and again the equally inevitable consequence is that there has to be a crash when it is appreciated that shares have become entirely disconnected from any real value that they can deliver.

What causes that appreciation of over-value can vary, of course. That's why knowing when it might happen is not a science. The anticipation of widespread realisation of the truth that has been veiled by deliberate deceit of a co-ordinated market that gains from that opacity is always going to be guesswork.

There are though certain indicators that can suggest that the chance of that appreciation is more likely than not. One of those indicators is a sharp fall of the inflow

of funds into the market. At the very least that means that demand for shares falls. And so does the price in that case. That can happen for a short period with little consequence. But if it is protracted - and that can mean weeks, and not months given the dependence of the financial markets on the regular inflow of funds to keep the voracious appetite for returns for the City satisfied - then the risk of a downturn grows, very rapidly as liquidity in the market declines.

We may not be quite there yet. It's hard to tell, as I have already noted. But novel coronavirus does not seem to be going away, and nor has it even been contained. The impacts of it are not really being felt in many commercial markets as yet, but it looks likely that they will be. And the stock markets have already noticed. If the mood changes - and it could, very easily - the chance that this will signal a major change in sentiment are high.

Those who did not send their funds to the stock market last month thought there were safer savings media in the world. They may well be right.