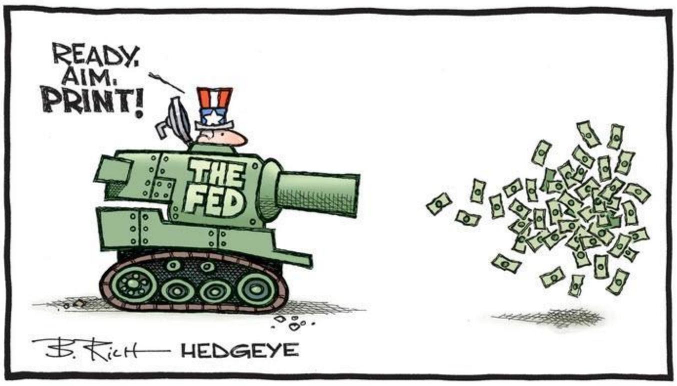
"Coronavirus" COVID-19 – update for Investors. 24th March 2020.

Last week Donald Trump put the US on a war footing in the fight against the Coronavirus with the Federal Reserve responding accordingly, unleashing an unprecedented amount of monetary policy easing. Use of tools such as the CPFF (Commercial Paper Funding Facility), outright purchases of both US treasuries and now MBS (Mortgage-backed securities) are all part of "QEterinity" and beyond! This combined with a recognition that fiscal policy also has an essential part to play from here too, to protect workers, their jobs and businesses in the difficult few months ahead.



Whilst this all is good from an investment point of view and is aimed at keeping the markets afloat, the side effects of Covid-19 episode will be felt for some time to come. With all this unprecedented money printing and debt issuance, the US is expected to cross the $28tr debt mark shortly. Once the dust settles along with the scramble for US dollars, the longer-term outlook for the Greenback looks less rosy.

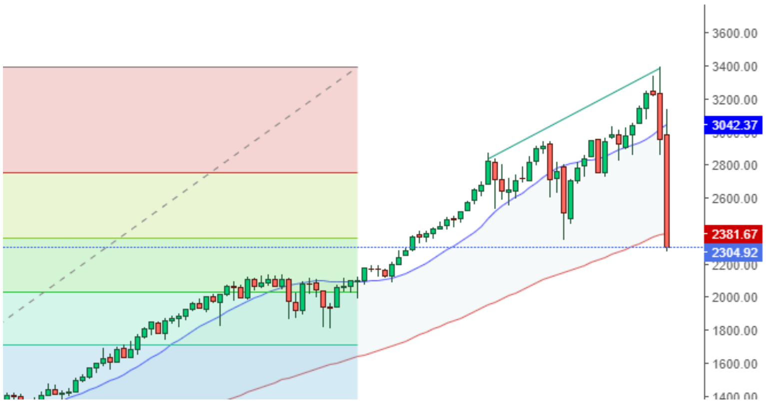
From the Geopolitical aspect, what we see is a potential change. Europe is understandably in deep trouble now with the number of virus cases increasing exponentially. Italy and Spain are receiving active help with "doctors on the ground" from China and Russia. A post Covid-19 world may look very different with markets decoupling, supply chains being rearranged and a potential for an area of influence change. This, however, is a slow process and there is much more to unfold.

Identified risks such as interbank liquidity, credit risk in investment grade bonds and dollar appreciation, have all been addressed so far by recent measures implemented by the Fed. Of course, no central bank can address investor psychology and behaviour. There is still some time before panic converts to buying optimism even though some of these risks have been materially downgraded.

In our interconnected world, liquidity rich markets could well see greater volatility. As we witnessed this time, corrections are faster and deeper. Think of it as a boat with evenly distributed ballast (people). In the past, information flow between people was slow, hence running from one end of the boat to the other took time. In 2020, information sharing is almost instant. Markets fuelled by years of excess liquidity could well be running on high octane fuel. If we reapply the analogy, the speed at which people can run to extreme ends of the boat will be quicker and this could perhaps cause some destabilisation.

We should always keep in mind the fact that markets are a "discounting mechanism" and along with other catalysts such as behaviour means one can perhaps now believe that markets have already discounted the Covid-19 inspired macroeconomic slowdown. The virus has provided markets with an opportunity to shed the froth of overvaluation and exuberance of sentiment linked to the longest running bull market in history. We now have a leaner market more able to legitimately extend a strong recovery, when the time comes. A more supportive governmental framework exists and a commitment to low rates for an even longer period plus a likelihood of supportive fiscal policy and infrastructure spending must provide a sensible environment for equities to prosper. With these facts in mind we are surely reaching a positive inflection point after this very painful interlude.

Recently we increased our equity exposure slightly, in US and Emerging Markets as our four-dimensional scorecard indicated an entry point was approaching. The markets ended in green today (24/03/2020) with a strong push up and some dampened volatility. Whilst these are uncertain times, we do envisage the "QEternity" is starting to have a positive effect.



In summary – we are in a far stronger position in terms of liquidity, monetary policy and favourable fiscal support supplemented by committed governmental spending. The Covid-19 phenomenon remains uncharted and of course this dictates prudence and caution on our part and this mindset must remain our focus and modus operandi.

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Important Information: