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"Coronavirus" COVID-19 – update for Investors. 18th May 2020.

In our late April article, we pointed to an increased risk of "whipsaw" action in equity markets caught between further bouts of Quantitative Easing (QE) and moves towards a softening of the lockdowns on the plus side. To balance this, the tough reality of the economic cost to Covid-19 in the near term and on-going concerns of a virus second wave as we move into the autumn.

As we get to grips with what the new normal looks like, there have also been signs of a shift in the geopolitical landscape over the past few weeks, with President Trump ramping up the rhetoric and squarely putting the blame on China for the outbreak of Covd-19 in order to "encircle and contain China". Recent border clashes between China and India and a defence treaty signed between the US and India, are all linked to the same strategy.

The unfolding economic picture is challenging, and markets are now primed to expect a further sharp downturn in Q2 economic data across the globe, with unemployment rates between 16% to 25% and GDP down double digits. Federal Reserve Chair, Jerome Powell pointed to this reality in his interview over the weekend, pointing to at least a 30% decline in US GDP this quarter. Smaller enterprises are not able to benefit from central bank support in the same way as larger corporations and are more exposed to the lockdown implications to supply and demand. Loan delinquencies are clearly correlated to unemployment so we cannot, yet, signal the all clear to a possible issue in the banking sector although central banks are providing support in the form of "whatever it takes".

Usually, under normal circumstances, one would expect equity markets to struggle against such a bleak backdrop. For now, however, fundamentals have firmly taken a backseat. The main driver behind this exuberance is free money in the form of wave after wave of central bank quantitative easing and asset purchases which creates a form of artificial buoyancy for listed stocks. In Japan, Mr Kuroda Governor of the Bank of Japan has given an open-ended commitment to central bank support for the economy and markets, without limit. However, in Germany the Constitutional Court has cast doubts over the European Central Bank's activities in support of Germany in particular. Meanwhile the Federal Reserve continues offering robust support and asset prices reflect such interventions. Markets and valuations are looking through the current set of challenges to a point in the future where economic activity resumes in a more orderly fashion. As we set out last time, the journey ahead is likely to offer more corrugated progress until the economics begin to stabilise.

With interest rates and bond yields close to record lows, equities do still have some relative appeal, despite the recently announced dividend cuts. Ongoing central bank activity will have an impact downstream with the likelihood of some inflationary pressure in due course. In

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fixed income markets, yields stand lower than projected medium-term inflation. Investors are likely to prefer equity exposure to fixed income with the onset of inflation and the prospect for rising yields – albeit in the medium term. We continue to monitor this as events unfold.

Alpha Beta portfolios continue making solid forward progress. We are keen to position portfolios for the likely corrugated performance of markets in reaction to a wide range of positive and negative data as lockdowns ease and, so far, unidentified issues float to the surface. We are keen also to benefit from a reawakening in China which could prompt an increase in precious metals and energy related commodity prices. We remain focused upon a balance of risks and opportunities at this time and will report again when appropriate to do so.

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