COVID-19

Market Update

We know this is an unsettling time for our clients, as it is for everyone. That's why it is more important than ever for us to be by your side and keeping you informed. We want to ensure you have direct access to our experts, whether by phone, email, video or our website.

We are watching indicators very closely and constantly looking at all aspects of our clients' investments. For our clients' discretionary portfolios, we are carefully trying to pick the right time when making any adjustments.

Here we answer some of the many questions we are being asked by our clients during these troubling times.

Why are markets behaving the way they are?

Indefinite lockdowns and quarantines around the world have meant markets simply can't price in corporate earnings for the next couple of quarters. So they have sold indiscriminately, selling tracker and ETF investments, and this has exacerbated the declines in individual stocks. This means even good or 'safer' investments, such as gold, have been part of the collateral damage.

Should I be worried about this?

Not if we look at the long-term future. Yes, this is one of the biggest societal shocks the world has seen in a generation, and our deep analysis of the last few weeks has drawn us to a more cautious outlook for markets. But that's not to say there can't be a full (and possibly extraordinary) recovery. Ultimately things will get better; we just think a full market recovery may take longer than expected.

With interest rates at zero following central bank measures – and governments committing to monetary and fiscal policy at rates never seen before in peace time – long-term earnings today should be worth a lot more than is being priced in. All these measures are good news for markets in the longer term, so there is a considerable degree of potential upside.

What needs to happen for markets to reach a turning point?

Until we are able to resume a normal life, unfortunately our economy will be at a standstill. Governments are saying they will lift the shutdowns soon, but we don't know when that will be and they don't know themselves. Therefore, we cannot estimate the length of the crisis. A short and sharp drop can be recovered very easily, but a longer period of quarantine will leave some lasting damage on businesses and jobs.

If we can see the end of the lockdown in western countries, and in particular the US, then we can estimate the extent of the damage to the economy and to corporate earnings, which is what matters for the markets. There is therefore a way out.

The investment opportunities on the other side of this virus are likely to be exceptional, maybe even the best in a generation and – as is often the case during a bear market – we will at some point suspend our concerns and look for these opportunities. If you happen to be underinvested or sitting on cash, this may be one of the greatest times to invest.

Of course, one caveat is that somewhere along the way a large company could go under. That's why we are continuing to carry out a massive amount of due diligence on our investee companies – on behalf of our discretionary and advisory clients – to do our best to avoid investing in any company that is likely to meet that fate.

Can markets keep falling forever?

No, because governments are committing so much in terms of monetary and fiscal stimulus. The US has started with a US$2.3trn package (10% of the US economy) and is already discussing another one. More such packages are likely to be forthcoming from the US, the UK, Germany, and other European countries. It means there is no risk of a 1930s Depression because the cavalry is already here.

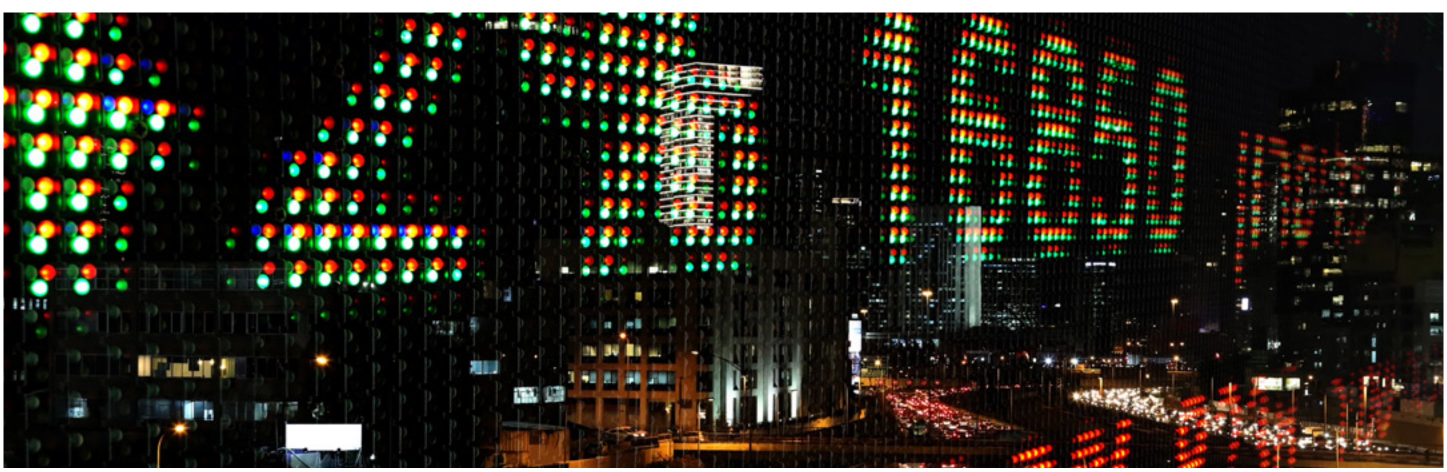
Who will be affected the most?

There will be inevitable damage for certain businesses – for example, those in hospitality, travel and events. Some may even go bust. Banks will also have to bear losses and energy companies will continue to suffer following the oil price war that started a month or so ago. The question is, how much of the financial packages will be able to help ailing businesses and industries so they don't close and lay people off?

Even for banks however, their capital positions today are much better than they were 12 years ago. Since the financial crisis, they have built up their capital buffers, while their balance sheets and assets have been de risked. Banks are in a strong position, particularly in the US and the UK, giving them leeway to weather this economic storm.

Are there any areas which might benefit?

Yes. The technology sector is likely to benefit from a change in our way of life after the virus, as social distancing changes our habits, potentially for good. Healthcare could also be transformed – particularly in the US, where there has been anger that individuals have to pay such high prices for routine



matters. Following 9/11, there were a lot of investments in security. Logically, the core of the crisis is the area that people will invest in afterwards.

Infrastructure will be another important theme. In the US, both Republicans and Democrats will want to spend money, although right now some areas are doing better than others. Airports and toll roads, for example, are suffering in the short term, while utilities and mobile towers are benefiting.

Environmental, social and governance (ESG) issues will remain very important to societies and communities around the world. Fund managers who manage ESG portfolios have tended to outperform over the last couple of years and ESG issues are unlikely to go away. Companies seen to do the right thing will continue to be rewarded by consumers and markets.

On this theme, China's suspension of industrial factories to curb the spread of coronavirus has resulted in massive pollution level reductions. Chinese citizens will be reluctant to go back to those levels and will be looking for more environmentally friendly solutions and a better quality of life.

Our conclusion and next steps

Markets today are still extremely volatile and it is not surprising that investors feel unnerved. As we have seen, even traditionally safe-haven investments such as gold and bonds have suffered collateral damage.

It is not totally impossible that when markets do see a proper inflection point in virus cases, the type of volatility we've seen on the downside could be mirrored on the upside, but from what level neither we, nor anyone else, can tell.

While we can already start to see the future investment opportunities, we just need to wait for the right time to take them up. Rest assured, we are focused on the durable potential rebound. Fortunately, we are poised and nimbly prepared to reinvest back into the market on behalf of our discretionary and advisory clients, when volatility comes down and risks are more evenly balanced. Our team has a long list of great stocks, great funds and great bonds which we are updating every day as the economy changes and we can see how certain investments become much more attractive.

How can we help you?

As a business, we are fortunate to be in a strong position to weather this storm, so please draw on this for calm and reassurance. We have seen these corrections before and change does bring great opportunity.

All our lines of communication are open, so if we haven't answered all your questions here, please give call your Investment Advisor directly and they will be happy to speak with you.

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