Coronavirus Update

17 April 2020

We find ourselves in the midst of a striking rally in the S&P 500 which has retraced 27% since the market lows on the 23rd of March, regaining over half the losses since its peak in February. The FTSE 100 has been more pedestrian in comparison being only up 13% from its lowest point. The US government has been busy pulling together packages to help prop up businesses, with Congress releasing $2 trillion to help individuals and businesses directly affected by the virus. The Fed more recently has created a $2.2 trillion bundle of loans and liquidity support to help markets and businesses through these difficult times.

We are now entering the first quarter earnings season, but most investors will be expecting widespread bad news which will largely be ignored by the market. One development that seems to be supporting the market at the moment are signs that the epidemic is being suppressed. We are perhaps passing the worst here in Europe while the US appears to be approaching the peak of this outbreak. However, on a less optimistic note, what is of greater concern is the prospect of several months of stringent controls over population movement and that life will not return to normal for some time. Populations globally still remain very vulnerable to another wave of an outbreak of the virus and this is something that the authorities will continue to monitor very closely.

In our view, the catalyst for markets to have a more sustained rally from current levels is positive news on the development of therapeutic solutions to help people recover if they have been infected by this virus or, more importantly, some sort of vaccine, but that is many months away. Therefore, while markets have risen both significantly and rapidly, it is unlikely that this is anything more than a bear market rally and we can expect markets to give back some of the ground they have gained. As a result, in the short term, we remain comfortable with the positioning of the strategies employed.

Is Now the Time to Buy?

Despite the significant recent global market crash, the anecdotal evidence suggests that investors have been investing both before and after the 2019/20 tax year end.

Whilst it is impossible to predict when the markets have bottomed or what the optimum point of entry is – the markets are considerably cheaper than they were 3 months ago – is now a good time to buy? We highlight below some data that supports some benefits of buying now. You should though speak to your financial adviser before making any decisions.

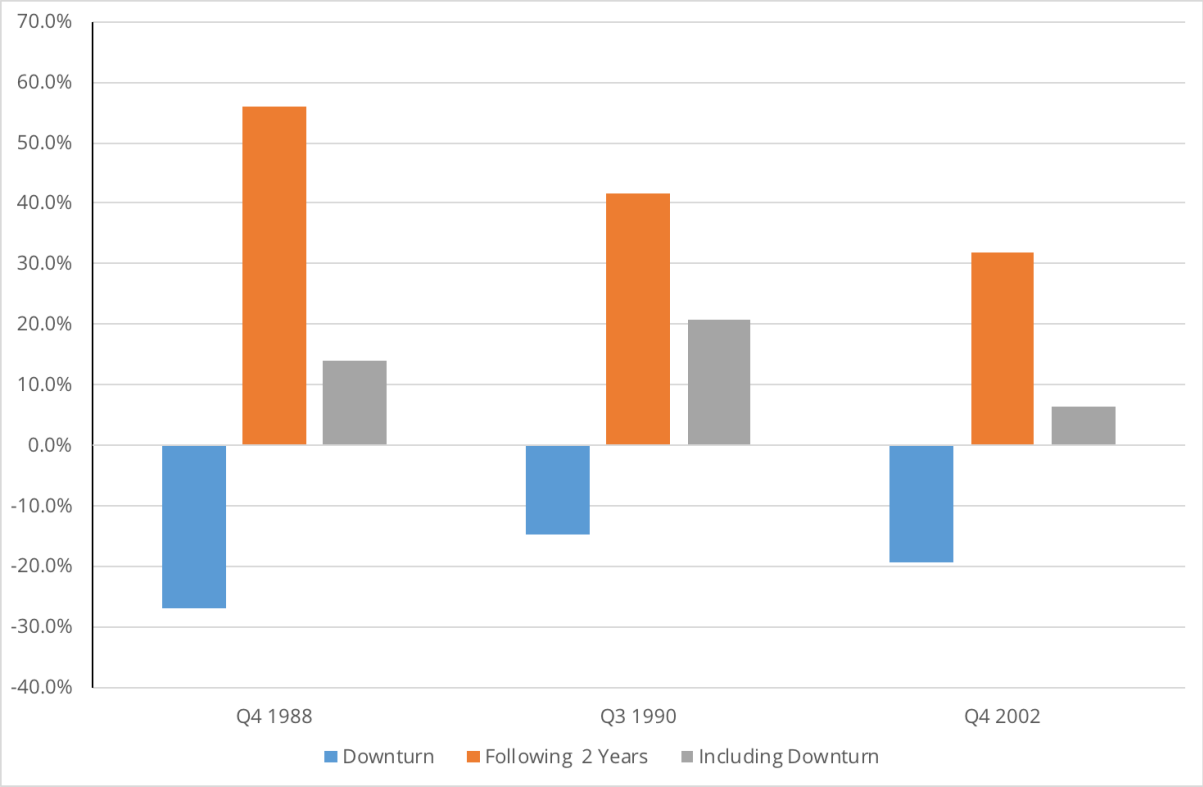
Investing for the long term

January to March 2020 was the second worst performing quarter for the FTSE 100 since 1985. The FTSE 100 was down 23.8% and only in the last 3 months of 1987 when the FTSE fell 27% have we seen a more significant drawdown.

Given this huge fall, many investors may think it's best to take their money out of the market, with an alternative often being the high street bank. However, the emergency cut in interest rates by the Bank of England to 0.1% (£1 in interest for every £1000 of savings) means that while this may seem like a safer option in the short term, you will get very little return. It is also likely that interest rates will remain low for the foreseeable future.

Sticking with investments over the long term may be a better option. The chart below highlights the three worst quarters (excluding this quarter) for the FTSE 100. The subsequent two years shows actual returns in

excess of 30% and on all three of these occasions you would have made back money that you lost in the worst quarter. This shows that if you are already invested, there is argument for sticking with it and if you are not then today might be a good time to invest.



Source: FE Analytics

Some caution should be applied though - past performance is no guarantee of future performance and this pandemic is nothing that markets have seen before. At this point in time we do not know when we will get back to normality and the longer-term impact isolation will have. For instance, will people continue to pay for expensive gym memberships when they can go for a run, or follow Joe Wicks on You Tube for free?

Overall, history would suggest that if you have the ability to invest, then you will be able to make money over the long term and today might be a good time to buy. However, a number of unknowns means that markets may fall further before they bounce back and consideration should be given to your personal circumstances