



WEALTH MANAGEMENT

Heath House, 156a Sandridge Road, St Albans, Herts, AL1 4AP
Telephone 01727 899 244 Fax 01727 899 244, Email: info@aquawm.co.uk, Web: www.aquawm.co.uk

Good Afternoon,

The impact of the Coronavirus is being felt globally, with markets tumbling in response to the ongoing measures put in place to help prevent the spread of Covid-19. PortfolioMetrix UK Head of Investments, Nic Spicer, looks at why there is already evidence that the virus can be beaten, without destroying the economy, as well as how PortfolioMetrix Portfolios are performing during this period of global uncertainty. Please find his update below and bear in mind that past performance is no indication of future performance, as the price of funds can fall as well as rise.

Can we beat the virus without destroying the economy?

Yes, we can. We know this for certain because some countries hit by the virus have managed to suppress it successfully, at least for the moment. According to the World Health Organisation, China, the source of the virus and by far the worst hit initially, had only 8 new deaths on Friday 20 March (the UK had 33, Italy had 625). After a particularly brutal lockdown, Chinese manufacturing is starting to come back online. It's also not necessary to be an authoritarian country to succeed – South Korea, at one point the second worst affected country, also had only 8 new deaths on Friday. It has done this without implementing a complete lock-down of its economy, but rather through education and communication, large scale testing, contact tracing and isolation of confirmed cases. It hasn't needed to close schools, restaurants or businesses, but it did start quite early.

So, what is a viable route to beating the virus in the West? Unfortunately, it's too late to just rely on methods employed by Korea, but something along the lines of the following would work:

1. Aggressive suppression to get the number of new infections down to levels that don't swamp a country's healthcare system. This involves closing schools, restaurants, gyms as well as aggressive social distancing. This is unpleasant for all involved (and the economy) but, importantly, would 'only' need to last weeks or months (depending on how effective the social distancing), rather than years.
2. Once under control, relaxing most social distancing measures (the ones most detrimental to the economy) but maintaining control through measures akin to what South Korea is employing i.e. education/hand washing, large scale testing, contact tracing and isolation of confirmed cases. This would likely mean figuring out what works by introducing and relaxing measures over time so that on average every infected person infects less than one other i.e. total cases don't increase over time as people recover (or sadly, pass away). This isn't quite 'back to normal' but it is far less onerous than the suppression stage.
3. Step 1 and 2 buy you time, which then allows the world's scientific and medical community to come up with more permanent fixes such one or a combination of the following:
 1. Vaccines
 2. Cheaper and quicker tests (to better identify and isolate anyone affected and hence help prevent further spread and possibly even 'choke off' the virus completely)
 3. Effective treatments for those with the virus (to reduce the mortality rate)

Governments do appear to be moving along a path like this. The UK government has now shifted to a suppression strategy. Italy, Spain and France are already implementing it in the form of a complete lockdown. The US, at a national level, is lagging, but a number of State Governors have picked up the baton and are introducing the tough measures needed.

Importantly, central banks and governments are also acting aggressively to mitigate the damage inflicted by the shut-down to protect the economy during this stage and to ensure it can rebound in the future. Central banks have been lowering rates, restarting quantitative easing and encouraging banks to lend to businesses. The Bank of England, for example, dropped rates to an historic low of 0.1% on Thursday and announced £200bn of additional quantitative easing. Governments are also offering generous loan guarantees for struggling businesses as well as borrowing to spend, to recapitalise businesses and to support employees at risk of losing their jobs and those that have already done so. On Friday, amongst other measures, UK chancellor Rishi Sunak announced a huge commitment to meet 80% of the wages of staff, up to £2,500 per month, if employers agree to keep them on.

The bad news is that it takes time for lockdowns to show results against the virus. It took 12 days from lockdown for Hubei province in China (where coronavirus originated) to show a peak in official cases. This is because although true cases started falling shortly after lockdown, official cases kept rising as previously undiagnosed carriers were tested. And this was under a very strict lockdown – countries with a more relaxed approach (such as the UK) would very likely take longer to show results. Likewise, deaths per day will keep rising for days/weeks after a complete lockdown. A lockdown is a preventative measure to stop new cases but doesn't directly assist those already infected (although it does help indirectly by reducing new cases and hence 'competition' for limited hospital beds).

Unfortunately, we should expect bad news in the form of an increase in cases and deaths in the coming days – and this could roil markets in the near term. But we should expect them to start decreasing at some point, and this has the potential to be quite a powerful catalyst for markets.

How are the PortfolioMetrix Portfolios Performing?

Diversification continues to mitigate against the falls seen in equity indices. Quality growth funds have held up well but the falls in the last week in sovereign bonds, corporate investment grade, emerging market and high yield bonds and, particularly small cap equities, have taken a toll. The portfolios, after management fees, remain well ahead of the FTSE 100.

We continue to monitor and manage portfolios carefully. We are not making any knee-jerk changes as portfolios remain fundamentally sound, but we are continuing to rebalance clients back to target risk weights where appropriate i.e. making very modest purchases of good quality equity funds at these lower levels.

And although we remain very mindful about the short-term, and we acknowledge that it is certainly possible for markets to fall further from here, we are not losing focus on the long-term. We do expect markets to recover eventually and we are positioned for this too.