INVESTMENT COMMENTARY

9 April 2020

CARTLIDGE MORLAND

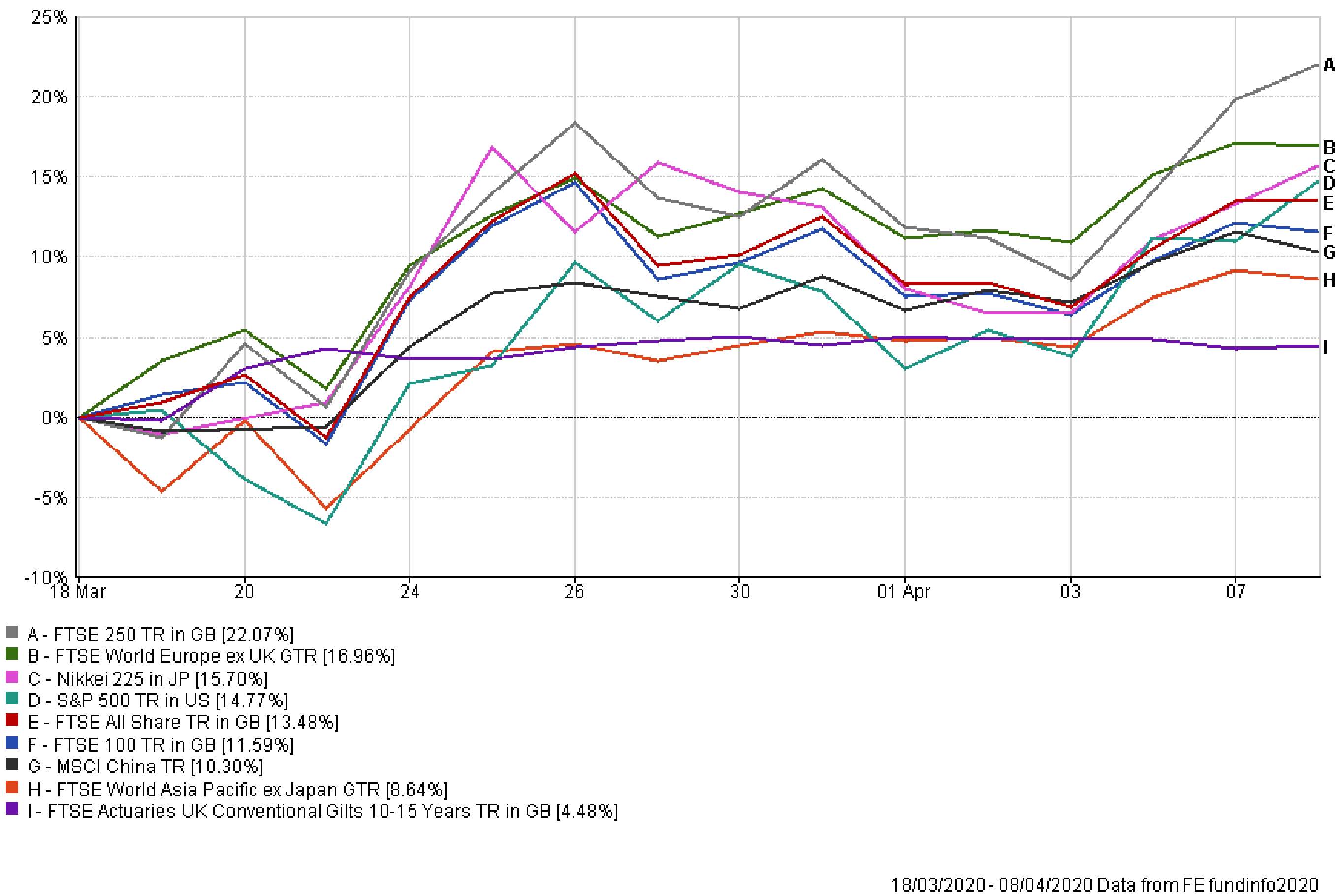
Our ‘Financial Markets – Your Concerns’ bulletin of 18 March 2020 contained the following advice about ‘sitting tight’ through equity market volatility.

> *“If you are a longer term investor and the risk profile of your portfolio is appropriate, you should stay invested. At some point, investor confidence will start to improve and equity markets will begin to recover. You need to be invested in equity funds at that point.”*

Since 18 March 2020, equity markets have recovered to some extent as the chart below illustrates. If portfolios had been liquidated at that point then these returns would have been missed and then the question would be when to invest.

Although most portfolios are showing negative returns over three years following the COVID-19 driven equity market correction, the extent of these losses has lessened as investor sentiment has become less negative. Central banks and governments have stepped in to support their respective economies and the functioning of credit markets, which has proved vital. It has been prudent to stay invested to participate in the equity market upturn.

Investment Market Returns in Local Currencies from 18 March 2020



There are three phases of investing through a global pandemic such as COVID-19 – escalation, consolidation and recovery.

Escalation

The escalation phase is when there are massive increases in reported new infections. The lockdowns that we have seen across the world are intended to slow the levels of new cases so that health systems can cope and contain the virus. Over this phase, investment markets have acted abnormally with a real sense of panic, with few movements in company share prices justified by the fundamentals. For example, the share prices of defensive companies such as utility and healthcare companies have fallen sharply but are likely to only see short-term falls in profits even if economies take a long time to recover. The share prices of economically sensitive companies, such as those in the leisure and travel sector, have fallen so dramatically that they should have greater potential for a sharp rebound.

Consolidation

The next phase is one of consolidation where the statistics point to the virus being contained but the draconian measures have to remain in place to ensure that there is not a second wave of infection. Over this phase, medical science will be striving to conduct more tests either to establish who is infected or who has antibodies and hopefully immunity to the disease. Tailored medical treatments will be developed so COVID-19 patients have the prospect of better clinical outcomes. In this phase, the costs of the pandemic become clearer sadly in human terms and also in economic terms. The actions taken by governments to support the workforce have been taken to ensure that jobs are retained, an economic slump avoided and the workforce ready to return to work when possible.

Recovery

The final phase is one of recovery where the spread of COVID-19 is prevented and society returns to full interaction with lockdowns lifted. The investment markets to some extent anticipate economic improvement. With economic activity having fallen so steeply in recent months, any uptick will have a big impact on growth rates which should be supportive of investment markets. Governments and central banks will then have to take appropriate actions to dial back on their monetary and fiscal programmes.

Looking Ahead

Equity markets are likely to remain volatile, although probably not to the extent that we saw in the initial part of the escalation phase of the pandemic. As the pandemic moves through to the consolidation phase, investors will be looking to when lockdowns are likely to be lifted as the virus is contained and infection rates plateau and then start to fall. It is likely that lockdowns will be lifted gradually and economies then slowly pick up into the recovery phase. The different phases are likely to overlap. We can expect to see economies around the world contract substantially in the second quarter of 2020 but hopefully in the third quarter there will be some improvement as economies re-open leading into stronger growth in the fourth quarter.

We continue to advise clients to be patient through these difficult conditions and look to the longer term.

As always if you have any concerns please contact your usual Cartlidge Morland Partner/Director/Consultant.

We wish you all a peaceful and restful Easter.

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