INVESTMENT COMMENTARY

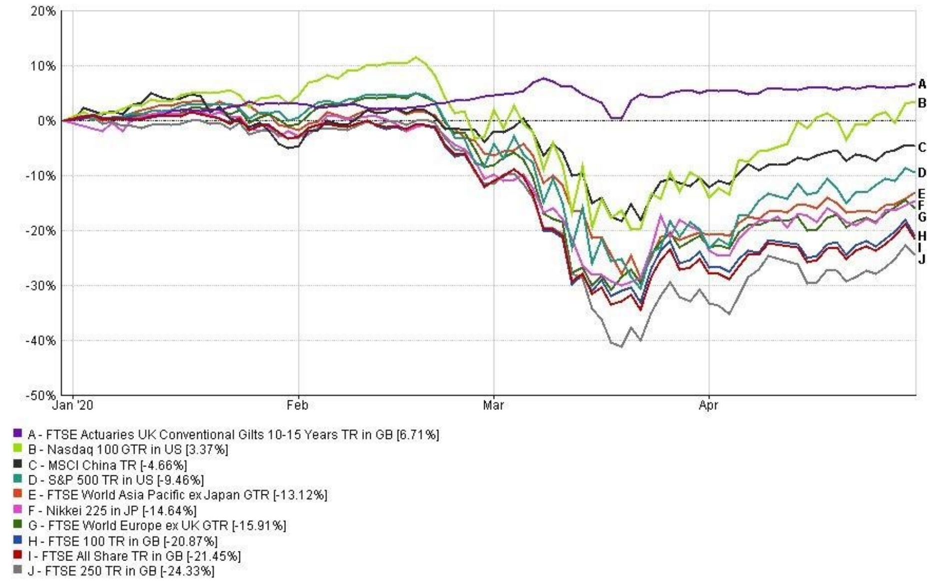
1 May 2020

Equity markets have sustained their recovery over the past week as credit markets continue to function and uncertainty has lessened. The major central banks have maintained support of their economies and each day, scientists know a little more about COVID-19 and how it spreads. As countries see their infection rates come under control, attention is now turning to how to exit lockdowns whilst protecting against a second wave of the virus. Economic growth figures around the world have plummeted during the lockdown, with worse expected in the second quarter, the challenge is now to re-open economies safely. Volatility is likely to continue in markets as other factors may impact on confidence too. For example, the threat of US tariffs on China is unsettling markets today, as relations between the two over COVID -19 have become strained. The trade negotiations between the UK and Europe are also ongoing.

The Bank of Japan (BoJ), the US Federal Reserve (Fed) and the European Central Bank (ECB) all held monetary policy committee meetings this week. They are committed to accommodative, low interest rate monetary policies to support the recovery when it comes. Their asset purchase programmes (buying government and corporate bonds and in some cases equities) are key to ensuring liquidity in economies and markets. Government aid packages to support workers and businesses will endeavour to ensure that economies can reopen when health risks lessen.

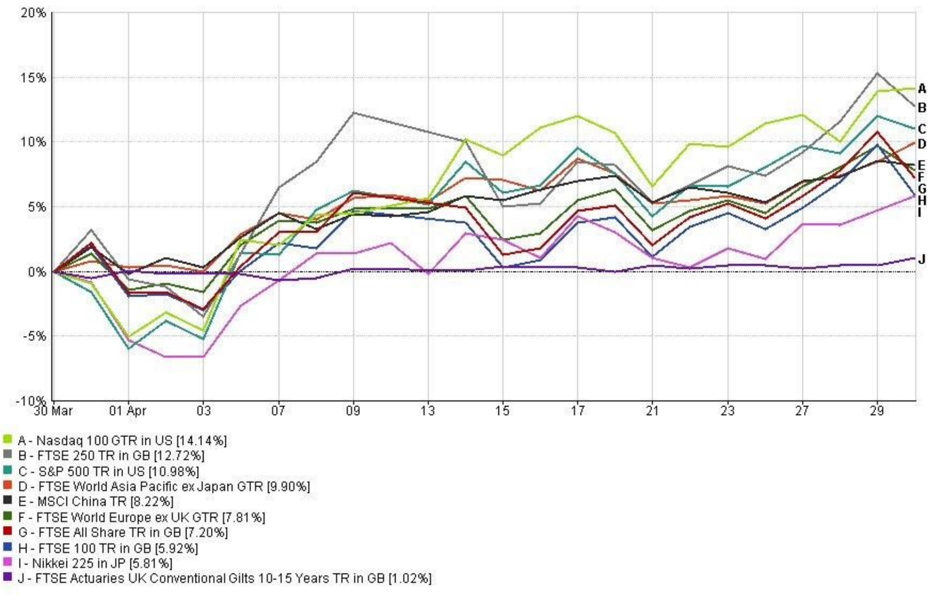
Following the gradual winding down of lockdowns in China as the spread of COVID-19 was contained, European countries (which have thankfully seen a fall in virus cases and deaths) are now starting or considering how to reopen their economies without a significant rise in the infection rate. Approaches differ by country. The UK is a few weeks behind some of its Western European neighbours and the Prime Minister is due to announce initial lockdown exit plans in the next week. Any opening of the economy will see growth figures improve. The development of effective treatment of the disease and/or finding a vaccine are key in supporting confidence. Just as we have seen record falls in economic growth as lockdowns impacted, we could see significant rises as lockdowns are carefully reduced.

Investment Market Returns in Local Currencies Year to Date



31/12/2019 - 30/04/2020 Data from FE fundinfo2020

Investment Market Returns in Local Currencies One Month



30/03/2020 - 30/04/2020 Data from FE fundinfo2020

Equity markets have been supported this week by ongoing central bank initiatives, progress on fighting the infection rate of COVID-19, as well as movement on lockdowns. The US equity market has recovered dramatically from its March 2020 lows, due to the performance of some of the tech companies which announced results this week. Alphabet, Amazon, Facebook, Microsoft and Tesla all reported strong earnings. The NASDAQ electronic stock exchange comprises 3000 of the leading technology and biotech companies in the world including the US mega-tech companies. The NASDAQ index has now recovered to a level above that at the start of 2020. Technology companies have been well placed to support people and companies during the lockdown as goods are bought online and people work from home. Biotech companies are crucial in finding successful treatments and vaccines for COVID-19.

REASSURANCE

As pressure has grown on cash-flows during the global lockdown, we have seen companies raise money on capital markets and dividends cut. This week saw Royal Dutch Shell, the biggest dividend payer in the FTSE 100, cut its dividend by two-thirds – the first time it has done so since WWII – reflecting the dramatic fall in the oil price. Against this weaker outlook for dividends, we will seek to include funds in portfolios which invest in companies with strong balance sheets and longer term growth prospects. For those taking income from portfolios, we are likely to supplement dividend income to a greater degree with capital returns during this period.

Our fully diversified portfolios are designed to provide a strong level of upside returns whilst limiting the downside. As of 30 April 2020 over 6 months, a typical balanced portfolio shows a loss of 5.93% compared to the FTSE All Share index falling 17.81% and the MSCI PIMFA Balanced Index falling 7.81% (Source FE Analytics/CM % Growth Total Return UK £). We continue to monitor funds and portfolios closely.

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

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