Client Webinar Video
Investment Strategy & Portfolio Tips
Date: 26th March 2020

Let me start off the first slide and talk about asset class performance so far this year.

Now the market impact of the coronavirus has been severe. If you look at the left hand side of the charts, all the bars pointing downwards are the various stock markets around the world and they have all sold off clearly. The mirror image of the various bars pointing upwards on the right hand side are basically government bond investment that investors have perceived as even remotely secure.

But let's talk about equities first. The global stock market is down about 30% for the year now, and the US is officially in a bear market [data as stated 26th March 2020]. What started out as an Asian concern, is now very much a global one, with all countries impacted by the spread of the virus. No stock market has been spared with the different geographies all significantly down for the year now.

European stocks in particular have been the hardest hit –they have not been able to control the spread of the virus in the same way as some Asian countries. Also, while the European Central Bank has been very aggressive with quantitative easing, there are still concerns around the ability of the different European countries to coordinate a fiscal response.

Interestingly, the Asian markets, although they are still negative, they have actually performed less badly than the western ones. This could be because of a combination of different factors – firstly, Asia is arguably further ahead of the curve in terms of the spread and management of the virus because they started a few months earlier before the West. Secondly, the policy response has been aggressive to try and rescue those economies. Last but not least, there are lots of structural things to continue to like about Asian markets, and the investors are probably recognising this, but I'll talk more about this later on.

On the flip side, supposed safe haven government bonds have done very well this year. For example, the 10 year US treasury bond is up about 15 percent for the year now. And all this has been because investors have fled into supposed safe haven assets. But this means that the yields, or interest, available on these instruments are now even lower than they were before.

Let me just move to the next slide.

Market psychology is set up like a weighing scale right now. On one hand, investors are fearful about the world that we live in today. The virus is clearly a very scary thing with serious humanitarian implications. From a financial market perspective, it's scary because it's very difficult to predict or forecast. And markets just don't like something they can't forecast – we saw this in the global financial crisis for example.

On the other hand, you have got the measures authorities are taking to manage the crisis. The response has been very significant so far with central banks around the world that either cutting interest rates to zero or close to zero. And in some cases, they are re-launching quantitative easing.

Further to this, governments have all delivered a series of aggressive fiscal packages to try to keep businesses and the consumer alive during this tough time.

The question is which one will tip the balance?

Let's go to the next slide.

So we have prepared 4 themes to help you navigate the volatility that we are seeing in the markets. I want to jump straight onto the first theme.

Unfortunately, at the moment, fear is winning. Simply because the implications of new developments are not clear, and the instinctive reaction is to sell.

So please take a breath and don't panic. One of the worst things to do now is sell everything. Especially if you have suffered large losses already. You would be doing the opposite of buying low and selling high – you are effectively selling low, which is not a good thing for your portfolio.

It is difficult to predict the bottom of the market. By definition, during volatile times, the swings downwards and upwards are larger than normal. So it can be harmful to your portfolio if you miss the large rebounds typically seen after a selloff.

The chart that you have here on the screen shows how getting market timing wrong can really harm your portfolio. Now, on this slide I have chosen the decade from 2004 till 2014 because I wanted to capture the volatility from two volatile events, the global financial crisis and the European debt crisis.

And over this period, if you had resisted the temptation to sell, if you didn't touch your portfolio, you would actually have done very well. The left most bar shows you would have made almost 8% per year even though there were significant crises during this time. The right most bar shows that if you sold at the wrong time, particularly at the bottom of the market, and you missed just the top 20 performing days over the decade, your portfolio would have lost almost 2% per year.

That's a very big difference in outcomes. The key message here, is don't time the market. Instead, it's time in the market for your strategic investments that is important.

I'll go to the next slide.

Prepare for volatility. On this chart, I have shown The VIX [index] which is basically implied volatility on the US stock market, the S&P 500, and you can immediately see that the volatility we are seeing in the market is similar to the volatility that we saw in the global financial crisis so it is pretty real and pretty serious.

I talked about how important it is to stay invested and I stress, we still like the prospects of equities for the long-term investor. That hasn't changed.

But we do expect volatility to persist and markets to continue to see-saw in the short-term. Hence, we have made some changes to our investment views over the next 3 months.

Firstly, we downgraded global equities to Neutral from Overweight. Like I said, we still think that equities are an attractive investment over the long term but caution is warranted right now. I stress this is a modest reduction and NOT a call to sell everything.

Instead, we are upgrading investment grade corporate bonds to Neutral from Underweight. Corporate bonds are now cheaper and more attractive after the sell-off. I want to stress that corporate bonds are not true safe haven investments because they are still sensitive to the weaknesses in the economy. However, the yields or interest on these investments are now more attractive and they do offer some diversification benefits to equities because they are more defensive – but please don't buy them thinking they are safe haven investments. They are actually not.

Let's go to the next slide.

Look for smart ways to diversify your portfolio

Investors should optimise their portfolios. High quality bonds - a mix of high quality government and corporate bonds should be included, even though bonds issued by governments like the US are now even more expensive than before. Even though they are expensive, they are worth including as a form of insurance against volatility.

But the key thing here is to make sure you have the right level of diversification in portfolios. A traditional multi-asset strategy where the risk management is handled by the professionals is a sound investment.

And finally, let's move on to the last slide.

Consider opportunities for the long-term. This is important.

With uncertainty comes opportunity, and the stock market is now cheaper than a few months ago. It's very easy to succumb to fear and to sell everything. But instead, consider the investments that are structurally attractive but maybe just too expensive a few months ago. Because these investments are almost certainly cheaper now, having fallen more than 20% since the start of the year.

This said, we are not advocating buying everything out there. It's still important to be selective.

For example, even though European equities suffered the most, down more than 30%, we still don't like it compared to other options because these markets have less ammunition from a policy perspective. Europe's interest rates were already negative before the crisis and they were already doing quantitative easing. This means it's less clear whether more monetary policy measures will be effective. Also, there are doubts as to whether they will be able to sufficiently coordinate a fiscal response to manage the crisis.

We like Emerging Markets equities for a long-term investment compared to Developed Markets, particularly in Asia. Asian authorities have taken aggressive monetary and fiscal action to combat economic weakness and actually for these markets, lower oil prices are a good thing for them. Emerging markets valuations, whether you look at price to book or price to earnings ratio, are cheaper today compared to their 10 year averages. For example, emerging markets Price to Earnings ratio is

about 11.4X compared to a long-term average of 11.6X. Same for Price to Book at 1.4X compared to a long-term average of 1.5X.

Asia also had to confront the coronavirus outbreak before the rest of the world, and is arguably closer to returning to some semblance of normality than the developed markets. This can only be a boon to their economy and would be positive for EM and Asian investments.

I just want to talk a bit about sectors for a moment. From a sector point of view, it is worth mentioning that during this volatile period, the sectors most exposed to the selloff have been the usual suspects like the banks, insurance companies, industrials. In other words, those most exposed to the risks in the global economy. The sectors that have been most defensive during this period have been ones like the food producers, utilities, pharmaceuticals. In other words, those least exposed to the risks in the economy. These are the sectors that will have a captive business regardless of what happens. Everyone needs food, electricity and medicine.

There are a few sectors which have been quite uncorrelated to the volatility – and its these sectors where fund managers can cherry pick their individual success stories – technology is the most obvious one, where some companies have done quite well actually during this volatility, for example, those technology companies that provide remote working or communications technologies, they have actually down well. And communication technologies like the one we are using right now, is a service that is obviously in high demand when everyone is staying home.