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INVESTMENT NEWS

Covid Crisis Week 11

During the current crisis we are trying to keep our clients up to date with what is happening within the investment world. It's 5 weeks since our last update so we have collected together some insights and ideas which we hope you will find interesting.

Covid-19

The social exclusion measures in the UK continue to mirror what is happening elsewhere. As predicted, we have now seen the R value fall below 1.

To give it its full name the 'Reproductive Value' basically tracks how many people, on average, will be infected for every one person who has the disease. According to modelling published by Imperial College London at the start of April, the R value stood somewhere between 3 and 4.6 in Europe before lockdowns came into effect.

Since the lockdown, scientists in the UK estimate that the UK's R value has dipped below one, and probably stands at a figure of between 0.5 and 0.75. This is good news because it means that every infected individual will pass the disease on to less than one other person, which ultimately means the epidemic dies out.

The extent to which the lockdown is eased will depend upon the effect it has on the R value. Clearly the aim is to maximise the economic and social effects of easing the restrictions whilst at the same time to keep the R value below 1.

Of major concern to many businesses is the probability of a second or even third need for lock down before the crisis is over. Until a vaccine is effective, every time measures are reduced to improve social and economic circumstances, there is every chance the R rate will jump again to pre lockdown rates forcing the government to step on the brakes with all the consequences that a repeat set of restrictions will have.

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Longer Term Effects From CV19

The Prudential set out some interesting thoughts concerning the long-term effect of the current global pandemic:

Deglobalisation

The provision of PPE is one good example of the UK realising that we should shorten supply chains and retain our own capacity to manufacture essential items.

A Shift In Leadership From East To West

The policy responses for CV19 have further shackled developed economies with more debt and lower productivity. With much lower levels of debt and social spending the Eastern economies are better placed to grow.

Greater Consumption In Asia And Developing Markets

China and others will generate far more production for domestic rather than export markets.

Automation And Digitisation

A much bigger push for automation and digitalisation of public services, education (distance learning) and healthcare (online doctor and prescription services). This could ultimately lead to an increase in the productive capacity of economies in aggregate, and at the very least new ways of working and changing attitudes to flexible working and demand for office space.

Ecological dimension And ESG principles

The improvements to the air we breathe and the lack of vapour trails in the skies are hard to ignore. Whilst we may go back to our old bad ways, this shock to the whole globe may have lasting effects in terms of global warming and the destruction of our world.

INVESTMENT NEWS

Central Banks Update

The unprecedented borrowing to try and stave off the worst economic effects of the Lockdown put us right back at government borrowing levels we have just spend 12 years trying to reduce.

Hong Kong's monetary authority has set a new precedent for monetary policy. Permanent residents over 18 will receive a cash hand out of (US) $1,200 funded by central bank reserves.

The following table is where central banks are now:

Country	Rate Cuts?	QE Purchases?
US	150 bps to 0-0.25%	Initially at least USD 700bn of Treasuries & MBS
UK	65 bps to 0.1%	GBP 200bn new purchases of Gilts and non-financial CP
Europe	unchanged at -0.5%	Total of EUR 870bn asset purchases; short term flexibility
Canada	150 bps to 0.25%	First ever QE of min. CAD 5bn/week of government debt
Australia	50 bps to 0.25%	Asset purchases to control yield curve, targeting 3yr yield at 0.25%
Japan	unchanged at -0.1%	Doubling of upper limit for ETF purchases to JPY 12tn/year
China	40 bps to 1.95%	No QE
India	75 bps to 4.40%	No QE

Source: M&G, Central Banks, IMF, Goldman Sachs

Right now, the government are paying the wages of a huge swathe of the UK workers, not to mention massive grants to small businesses. With interest rates on borrowing close to zero that isn't an issue in the short term but what happens if inflation returns (a standard prediction of 'printing money') and interest rates need to rise?

We are again going to see a number of governments defaulting on their debts or perhaps declaring "haircuts" on their debt (i.e. where the debt is valued at say 60% of it's face value).

Taxes will have to rise to pay for the increased government spending.

There is an argument to suggest high inflation for say 10 years would in effect discount the current debts and bring us closer to normality.

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INVESTMENT NEWS

Where Are Asset Values Now?

Since the peak of the Market on the 19th February markets have moved as follows:

Market Movement Since	19/02/2020	04/04/2020
All World Equities	(15.49%)	9.32%
Emerging Markets	(17.93%)	4.31%
Global Value	(27.06%)	14.83%
Global Min Volatility	(18.07%)	4.36%
UK FTSE 100	(21.62%)	6.17%
UK FTSE 250	(26.36%)	14.56%
UK FTSE All Share	(23.40%)	6.65%
UK Higher Yield	(32.47%)	11.68%
UK Smaller cos	(27.69%)	15.45%
UK Value	(31.68%)	6.25%
UK REITS	(25.73%)	9.50%
International REITS	(26.26%)	10.92%
Managed Bonds	(3.50%)	2.73%
Short Dated Bonds	(.00%)	0.47%
Cash	-	-
Gold	9.07%	2.46%
Silver	(15.49%)	1.72%

Bricks and Mortar funds have been suspended so data isn't available. The above funds are all actual passive tracker results within the areas described after charges.

The first column shows the return from the 19th February to the 2nd May (11 weeks).

The second column shows the market returns from the 4th April (when we last issued a bulletin) to the 2nd May. As you can see, we have had a classic oversold market which was very quick to recover (at least in part).

We expect the markets to be very volatile with further significant falls and rises on a daily basis.

Equities

There was a useful graph from the Prudential last week confirming that Oil and Gas had been hardest hit in the current down-turn, followed by International REITs, Financials, Materials and industrials. Unsurprisingly Health Care, Telecom and technology seemed to be fairing best.

Longer term we need a greater emphasis on international rather than domestic investments.

On a micro basis, we feel value shares should come out of this liquidity crisis better than pure growth stock.

Commercial Property

Many property funds remain suspended to prevent excessive redemptions affecting the long-term investors who wish to retain their holdings.

Notwithstanding the liquidity issue, The Time Investments fund revalued on the 30th April and have confirmed the value of the Fund's shares has fallen by 0.77%. The Fund's 12 month total performance to 30 April 2020 was 2.92%.

Hotels, Gyms, Restaurants and similar social businesses have been particularly badly hit.

Office space could be affected in the longer term with many businesses reconsidering the home / office lifestyle balance meaning less need for places to house staff.

Some tenants are looking for landlords and lenders to assist during this period by using tools such as making changes to the rental collection period (i.e. quarterly to monthly). One client has been told by a multinational food franchise that rents are "abated" until further notice. At best this means a long-term loan to get the rent back, at worse it means giving up rents for a period of time and reducing ongoing rents until trade is normalised.

For the quarter ending March rent receipts were around 60%, rental predictions for the June quarter are nearer 40% to 50% of normal. Some sectors where premises have been closed are much lower.

The fact does however remain that commercial rents give massive yields in today's zero interest environment and we expect the commercial valuations to recover once CV19 is fixed.

Residential Property

I was at a ‘Zoom’ meeting of the great and good last week, where a partner in one of the national estate agents stated that ‘transactional activity’ ceased from the start of social distancing. He also confirmed 90% of staff were on Furlough.

The property market is paralysed until valuations for lenders and buyers can start again. At this time no one knows how much values need to be adjusted to allow for the uncertainty and there is evidence that some lenders have reduced their maximum loan to value to 60%.

From a personal perspective we have agreed a lower rent for one of our properties where the tenant has been made redundant because he was not employed on the last date for Furlough. We are also buying a let property for a family member but cannot continue as the current owner cannot guarantee vacant position due to the protections introduced due to CV-19. This is I gather typical of what is hapening throughout the UK market.

Fixed Interest

Bond markets are pricing in close to zero interest rates and weak inflation for the foreseeable future. We remain very negative.

Currencies

Like in all times of uncertainty one would expect the US dollar will be king, driven in part by the shortage of dollars in offshore markets.

Structured Products

Josh Lamb has just produced some recommendations on structured products for those who are interested. Email him on josh@swallow.financial for further information.

Summary

As stated previously, you need to defer access to savings if possible, for 3 to 5 years.

If inflation returns, having asset backed savings will be the best hedge against losing the real value of your savings.

It is essential that we review client portfolios to restore portfolio weightings, spread risk and help our clients to best benefit from the upswing whenever that may occur.

The current market pricing seems optimistic if, as mentioned above, there is a second lock down. If there is no lockdown and a quick vaccine is created, then expect significant capital gains over the next 18 months.

The information and statistics provided in this bulletin have been taken from several sources and are available upon request. The figures are approximations and conjecture and should not be relied upon. You should not act on any comments made herein without a personal consultation and discussion with your financial adviser. Figures given today will change tomorrow. ADLS 04/05/2020.

Investments are subject to market risk, including the possible loss of the money you invest. Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. Diversification does not ensure a profit or protect against a loss in a declining market. Performance data shown represent past performance, which is not a guarantee of future results. Note that hypothetical illustrations are not exact representations of any particular investment, as you cannot invest directly in an index or fund-group average. E.&.O.E.