020 3755 3235 or 01473 384858
contact@swallow-financial.co.uk

INVESTMENT NEWS

Covid Crisis Week 16

During the current crisis we are trying to keep our clients up to date with what is happening within the investment world. It is 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 Lockdown has started to ease and many businesses (ourselves included) are now planning to re-open.

The concern remains that the R Value will start to rise as social contact increases, leading to a second lockdown with all the financial and social consequences that would bring.

The UK experience seems to be matching Italy. Imperial College research suggests a series of mini spikes in the virus over the next two years. With this longer term prognosis individuals cannot stay isolated for ever regardless of their risk profile.

Between 5% and 10% of the UK population have had CV19, which is way below the 70% needed for herd immunity.

The Effect On GDP

Of the many estimates I have seen, the consensus is that in the UK GDP will fall by 18 to 20% in the first half of the year. It will begin to recover in the second six months and ***if*** there isn't a second crisis then we will be back to around 95% of pre Covid-19 GDP by this time next year.

The Chinese economy contracted by an estimated 10.7% over Q1, relative to Q4 in 2019.

Fast-growing emerging markets are more likely to reverse the losses in GDP than their slower growing advanced counterparts. Advanced economies, especially those in Europe, are likely to see the most protracted recovery due to the larger scale of the Covid-19 outbreak and the need for more stringent lockdowns.

In economic terms the cure continues to be worse than the disease.

Overall, Oxford Economics expects global GDP to shrink by 4.7% in 2020. This is despite a strong rebound in the second half of the year where they project a 7.4% rise in the last two quarters of 2020. To put this in context, in 2009, the worst year for GDP growth during the global financial crisis, global GDP fell by 1.1%.

As we move into next year, Oxford Economics expects GDP growth to reach 7%, the strongest annual growth rate since the 1950s post-World War II economic expansion.

Despite the robust resurgence in activity in late 2020 and throughout 2021, Oxford Economics expects the level of global GDP by the end of 2021 to still be 2% below the level they had expected in January before the pandemic emerged. This shortfall will continue beyond 2022, reflecting a permanent scar on the global economy

Thanks Grandchildren

Oxford Economics expects government debt levels will rise by 10%-20% of GDP by 2021 in most advanced economies.

Who is going to repay the £300 billion debt mountain we are now creating in the UK? Current predictions are that public sector debt will end up being repaid by tax payers in the second half of the 21st century. I am sure they will thank us!

As Eugene Farma states “every dollar of a government bailout has to be paid back by the people.”

Inflation

The general consensus is that near term we are more at risk from deflation than inflation. Looking to the medium term however inflation remains a very real threat. If I were the chancellor I would welcome some devaluing of debt by inflation. Inflation is of course the destroyer of cash and fixed interest funds as well as the reducer of debt.

The Value Premium

Our current recommended basket of funds favours the “Value” sector over the “Growth” funds. It is well known that Value shares (shares which represent companies with better net book values, greater dividends and higher profits to share price) usually generate higher returns than Growth shares over the longer term.

However, as with all economic statistics, the Value “Premium” (better returns) turns negative from time to time. Dimensional research suggests that on a 10 year rolling average Value produces better returns than Growth 83% of the time. Over the last 10 years Growth stock has had a great run meaning Value has under-performed.

I attended a virtual lecture from Wei Dai of Dimensional Singapore. She confirmed that there is no reason to suggest that the Value premium will not return going forward. Premiums turn around very quickly. Value has produced positive performance after downturns in the past and in the last 10 years Growth stock out performance has widening of valuations between Growth and Value.

So we will maintain our Value Bias although as with out other asset "calls" we will keep the position under review.

Stockmarket Valuations

At its worst stock markets fell 35% from their previous peak. Valuations moved from stretched to fair value.

Looking at the level of the FTSE today (6,440) I can't help but feel that prices are optimistically expecting the best medical outcomes.

Markets are however fragile and it will not take a lot to see equities falling to recent lows.

Swallow Financial Planning

020 3755 3235 or 01473 384858

contact@swallow-financial.co.uk

INVESTMENT NEWS

Where Are Asset Values Now?

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

Week	1	16
Market Movement Since	**19/02/2020**	**04/05/2020**
All World Equities	(6.31%)	10.87%
Emerging Markets	(8.48%)	11.51%
Global Value	(15.16%)	16.32%
Global Min Volatility	(13.57%)	5.49%
UK FTSE 100	(14.82%)	8.67%
UK FTSE 250	(18.56%)	10.60%
UK FTSE All Share	(16.24%)	9.35%
UK Higher Yield	(23.41%)	13.42%
UK Smaller cos	(20.22%)	10.34%
UK Value	(23.00%)	12.70%
UK REITS	(19.28%)	8.68%
International REITS	(19.35%)	9.38%
Managed Bonds	(2.96%)	0.56%
Short Dated Bonds	0.09%	0.09%
Cash	-	-
Gold	9.71%	0.59%
Silver	(.13%)	18.17%

The first column shows the return from the 19th February to the 5th June (16 weeks).

The second column shows the market returns from the 4th May (when we last issued a bulletin) to the 5th June. As you can see, we have had a classic oversold market which was very quick to recover (at least in part).

In the last 5 weeks we have therefore seen a continued strong recovery. 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.

Equities

In summary, we are surprised at the speed of the recovery in asset prices and believe the current valuations expect the most optimistic of outcomes.

Commercial Property

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

It is worth mentioning that these suspensions are a direct result of FCA requirements. Every valuation contract with a fund provider has an "uncertainty clause" which means that if the valuers instigate the clause the fund must be suspended.

The suspension is usually reviewed every 28 days and the fund must remain suspended until the valuers regain confidence in their valuations

Legal & General report that self-storage and care homes are proving to be more resilient vs. hotels and car show rooms. Hotels, Gyms, Restaurants and similar social businesses have been particularly badly hit.

Industrials remain in a better place, especially for the logistics and distribution warehouses.

Rent collection remains an issue, as at the 31st March quarter day 76% of rents were received. This did however hide a huge variance: 88% of required rent from Offices, 81% from Industrials, 76% from Alternatives, 61% from Retail, and 15% from Leisure.

Residential Property

Valuations have just restarted so it is too soon to see if there has been any immediate effect on valuations. There is still a lot of demand at present so we may see no change in the short term. However, if the recession doesn't recover quickly, one would expect prices to fall.

Fixed Interest

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

Due to the shear scale of government borrowing there is a risk of a bond market rebellion where lenders demand higher interest rates to continue to hold sovereign and private debt.

INVESTMENT NEWS

France and Germany are trying to head off such a situation by creating a £500 bn Euro support fund for hard hit euro countries such as Greece, Spain and Italy.

Currencies

As 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.

A concern for emerging markets is the lack of liquidity the current circumstances are creating.

Structured Products

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

Summary

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 more significant capital gains over the next 18 months.