BREWIN DOLPHIN

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Brewin Dolphin & Winchester Team Insight

Market Commentary

Given that the news flow continues to be negative, dominating headlines on a daily basis, I wanted to share with you my current thoughts on the impact coronavirus is having on markets. The current situation is unprecedented and we are in uncharted waters. There has not been such a scale of social disruption since the second world war and, as the coronavirus continues to spread across the world, global stock markets have continued to struggle. The news outlook feels especially bleak at the moment - a seemingly endless stream of negative information, as country after country shuts its borders or imposes almost unthinkable restrictions on personal movements and abilities to "live".

Market falls like this are extremely uncomfortable, but they are a feature of stock market investment. In times of market stress it is important not to panic and remain invested. By selling now you are effectively crystallising losses. Over the last 30 years, even by missing out on the best five days of the market would have left investors significantly worse off than if they had remained invested.

This is a different kind of crisis and is unfolding differently to some of the more recent ones. The 2000-2003 Bear Market was characterised by its almost glacial pace. The 2007-8 Financial Crisis took several months to run. This has been very short, very sharp and very painful. Its characteristics have been a series of downward legs which, at each stage, felt overdone based on the information that we had available at that time.

However, at some stage this bad news flow will stop. China has already reported a slowdown in the rate of infection and warmer weather has, traditionally, seen more traditional flu epidemics die away. At some stage, Italy, France and Spain will emerge from their lockdown periods and will, hopefully, have their infection rates under control. Economic life will begin to recover. Interest rates have been cut further and a statement from the G7 leaders has vowed to do "whatever is necessary" to support the global economy. In the heat of the moment, these actions are lost, but as markets get a glimpse of blue skies ahead through the clouds, any market recovery is likely to be just as quick as the recent falls. Indeed, after the last month, it definitely feels that the market is nearer the bottom than the top. I cannot say quite where or when the bottom will be - there may be further falls as we will, undoubtedly, have some difficult days ahead. However, I do feel confident in saying that markets will recover.

We remain very focussed on the quality of investments that we hold and our overall asset allocation. While portfolio values have fallen over the last two months, this is not by anything like the size of the falls in the stock market indices normally quoted. We are optimistic for the medium term: the global economy is in better shape than when it experienced similar falls in 2008. It also looks like equity market panic has exceed what is going to be justified by the economic fallout. Against this backdrop, combined with sizable fiscal and monetary support as well as lower oil prices and attractive relative valuations, we should see stocks move higher on a twelve-month view. Our current advice, therefore, is to hold one's nerve. I cannot promise you that markets will not fall further, but I do believe that we have a good portfolio of assets that, when a recovery comes, will participate fully.

Portfolio Activity

Generally across portfolios we went into this downturn with a higher than usual level of cash, after taking some profits from strong performing investments in February; mainly from our American, infrastructure and property funds. We also saw the return of cash from investments we had in JPMorgan Indian Investment Trust at a significant premium to the share price at the time (804p per share). Given the market falls, in our medium and higher risk portfolios we bought some of these shares back at 579p at the end of last week.

Finally, yesterday we sold our Lyxor US Treasury positions (tracker funds of US government bonds). We held a tracker of shorter duration treasuries (1-3 years) in more cautious portfolios and medium duration (7-10 years) in medium risk portfolios; these have gained around 15% and 17.5% respectively since the start of this year, aided by falling interest rates and the strength of the dollar. This has provided some welcome protection in portfolios and we are currently looking to hold this as cash to provide a further buffer in the portfolio as we await some greater certainty before reinvestment.

Going forward, whilst we would be prepared to move more cautious if required, we are happy with our current asset allocation and feel that we are in a good position to take part in any recovery whilst having the ongoing comfort of holding a little cash in the meantime, which could be deployed if required. Once we start to see some more concrete evidence that the worst is behind us, we can then look to potentially reduce our bond and alternative exposure further and rotate into equites which have much greater growth potential, however for now we would prefer to err on the side of caution.

Finally, I believe it is worth pointing out that stocks typically rise starting 3 – 6 months before a recovery. We are already potentially in that window. What history has shown us time and time again and what we have learned through experience is that markets recover, and when they do it tends to happen both quickly and unexpectedly. These kind of dramatic market events are mercifully rare; indeed, volatility has only reached these levels four times in the last 40 years. In all but one of these cases (the financial crisis) markets were up more than 10% within 6 months. In every case they were up within 2 years, by an average of 36%.

I trust my comments provide some reassurance during these difficult times. We will continue to keep you updated about the performance of portfolios and our latest thoughts on markets.

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