



What's happening?

- Weekly unemployment claims in the US have started rising as activity temporarily shuts down.
- Trump and the FDA have been talking at cross purposes regarding Chloroquine, a drug to treat COVID19.
- Despite this, markets had a much calmer day with US equities closing flat and European equities up around 3%.
- UK equities had a better time of it too, but not small and mid-cap names which struggled.
- Domestic names have lagged lately for obvious reasons, but remember they will be big beneficiaries of government support.
- The Bank of England also cut rates – again – from 0.25% to 0.1%. This is the lowest since the BoE was founded in 1694.
- European debt market prices bounced back (so yields fell) after the ECB announced QE amounting to EUR 750bn.
- Credit markets remain the problem child with spreads at stressed levels and liquidity poor, as is always the case during turbulent times.
- Why? Because increased regulation of the banking sector has limited dealing capacity, which has inhibited price discovery.
- And given this space saw meaningful inflows since the financial crisis, it means there are lots of people trying to exit out of a small doorway.
- Central banks are already intervening to enhance liquidity and price discovery in credit markets, particularly by the ECB. More may follow.

Income MAF update

- Owing to declines in capital, the running yields on Income MAF and Income Plus MAF are now 4% and 5%, respectively.
- Regarding the sustainability of payments: i) both portfolios are diversified and ii) underlying instruments have been selected with “balance sheet robustness” in mind.
- In aggregate the equities we hold for income score well on ‘quality’ metrics such as dividend cover and leverage.
- This is a good starting point for continuing to deliver sustainable income to clients, but can't deny that we are entering a period of economic uncertainty.
- If we feel that dividends are coming under pressure we will be active in repositioning portfolios.
- The advantage of a multi asset class approach means that we have flexibility and can find attractive income paying opportunities across assets, regions and sectors.