Sanlam Wealth

The Noise, the Numbers & the Nuance

Weekly Market Update | 20 March 2020

Welcome to our weekly newsletter, where we summarise the key market developments over the last seven days.

The Noise

- This week, the UK government took the extreme measure of closing all schools from today until further notice. Some schools will be kept open for the children of key workers, such as NHS staff or police. Despite the disruption that this decision will cause to many, it's encouraging to see that the government is willing to go to such measures to slow the spread of the virus.
- The Bank of England cut interest rates again this week, bringing them down to 0.1% from 0.25%. This marks the lowest interest rate ever set in the Bank's 325 year history. The move follows the US Federal Reserve's decision to cut rates by a full percentage point to between 0% and 0.25% last Sunday. The UK also announced the expansion of its quantitative easing scheme (an unconventional monetary policy tool used to stimulate the economy in the wake of the 2008 financial crisis), following in the footsteps of both the Fed and the European Central Bank.
- The UK Chancellor Rishi Sunak has unveiled a £350 billion bailout to keep Britain's businesses and workers afloat through a coronavirus crisis that could last more than a year. "We have never in peacetime faced an emergency like this," the Chancellor said upon his announcement of the fiscal stimulus.

The Numbers

GBP Performance to 19/03/20	1 Week	YTD
Equity GBP Total Return (MSCI)		
UK (MSCI UK)	0.5%	-30.0%
Europe (MSCI Europe)	3.5%	-23.9%
US (MSCI USA)	5.8%	-14.4%
Japan (MSCI Japan)	-0.1%	-15.4%
Emerging Markets (MSCI Emerging)	-5.1%	-20.9%
Fixed Income GBP Total Return		
UK Government (Barclays Sterling Gilts Index)	-7.4%	0.5%
Investment Grade Hedged (Barclays Global Aggregate Corporate Bond Index)	-8.5%	-9.3%
High Yield Bonds Hedged (Barclays Global High Yield Index)	-12.0%	-20.8%
Currency moves		
GBP vs USD	-8.6%	-13.4%
GBP vs EUR	-4.4%	-9.2%
GBP vs JPY	-3.3%	-11.7%
Commodities GBP return		
Gold (in £)	2.3%	12.1%
Oil (in $)	-12.6%	-52.1%

Source: Bloomberg, data as at 19/03/2020

The Nuance

We are gradually starting to see some cause for optimism emerging in the global fight against the Coronavirus. This week, we have observed countries starting to recover from the effects of the virus and their populations returning to work. China reported no new cases on Thursday, proof of the ongoing success of China's ubiquitous, top-down efforts to control the virus. Likewise, cases in South Korea dropped sharply this week. Here in the UK, we are observing increasing commitment from the government to combat the spread. Though these measures are causing significant short-term disruption, the long-term benefits are clear given the evidence from China and South Korea. We have a high level of confidence that in a few months' time we will be starting to return to business as usual.

One strategy being enacted is the government's encouragement that people work from home. Despite the short-term headache, this may well bring some long-term benefits. With a large fraction of the UK population now working from home en masse, there seems to be a good chance that the workforce emerge from this pandemic better skilled and more flexible, offering a significant potential for improved long-term efficiency. Globally, the UK is behind the curve relative to many other nations. However, as the people of these nations return to work and their economies pick up again, proof is arising that although significant, the effects of the Coronavirus on economies are ultimately short-term.

As an investor, valuations are attractive. Prices continue to fall in the sell-offs which seem to be motivated by two key factors. Firstly, companies have started to ramp up their borrowing from banks in order to secure sufficient cash to get through these tough times. This dash for cash has caused investors to sell and mark down financial assets. The second reason is the persistent fear which seems to be haunting markets, causing valuations to fall well below what would be considered reasonable from an analysis of these companies' fundamentals. As such, we have started topping up on equities, buying positions in high quality businesses in a measured step to take advantage of longer-term attractive returns.

This week we have also produced a video in which CIO Phil Smeaton reflects on what has happened to markets in the last few weeks and what it means for us as investors.

Quote of the week

"LVMH (the owner of Louis Vuitton) will use the production lines of its perfume and cosmetic brands... to produce large quantities of hydroalcoholic gels from Monday" a statement from LVMH. *Source: bbc.co.uk*

Amongst the gloomy headlines, it's a welcome relief to read a news story with a positive message. The luxury goods owner LVMH, which owns Louis Vuitton, Christian Dior, Moet & Chandon and Tag Heuer, this week announced its own efforts in response to this time of crisis. The company will help tackle a nationwide shortage of anti-viral products across France by using the production lines of its perfume and make-up products to make up this shortfall. The gels will be delivered free of charge to health authorities amidst calls from governments across the world for manufacturers to help make products that are running low during the virus outbreak.

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in @SanlamUK   SanlamUK   @ marketingrequests@sanlam.co.uk