

The Noise, the Numbers & the Nuance

Weekly Market Update | 17 April 2020

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



The Noise

- The US Federal Reserve is taking an unprecedented move and buying high-yield bond exchange-traded funds. Lifting the lid on the jargon, this effectively means that the Fed is buying risky high-yield bonds en masse from the market. Expanding their quantitative easing programme into the high-yield space drives down borrowing costs for the companies who issued these bonds in the first place, but places a risk at the Fed's front door as they invite large quantities of junk bonds onto their balance sheet.
- Thousands of shops in Italy and Austria have reopened as some countries now seek to ease restrictions brought in to slow the spread of the Coronavirus. As cases and deaths fall, a relaxation of rules is starting to appear on the horizon. Angela Merkel announced yesterday that schools in Germany can reopen "gradually and very slowly" after 4th May.
- In a press conference yesterday, UK Foreign Secretary Dominic Raab announced that the Coronavirus lockdown will remain in place for at least another three weeks, stressing that unwinding any measures now would undo the progress made so far. Raab also listed five factors the government must be satisfied of before considering changes to the lockdown. These include a sustained and consistent fall in the death rate and that testing capacity and personal protective equipment supply is in hand to meet future demand.



The Numbers

GBP Performance to 16/04/20	1 Week	YTD
Equity GBP Total Return (MSCI)		
UK (MSCI UK)	-3.8%	-24.9%
Europe (MSCI Europe)	-2.8%	-19.2%
US (MSCI USA)	0.5%	-7.2%
Japan (MSCI Japan)	1.0%	-9.6%
Emerging Markets (MSCI Emerging)	-0.2%	-15.0%
Fixed Income GBP Total Return		
UK Government (Barclays Sterling Gilts Index)	0.0%	8.9%
Investment Grade Hedged (Barclays Global Aggregate Corporate Bond Index)	1.9%	-0.6%
High Yield Bonds Hedged (Barclays Global High Yield Index)	1.7%	-11.3%
Currency moves		
GBP vs USD	0.0%	-6.0%
GBP vs EUR	0.8%	-2.8%
GBP vs JPY	-0.6%	-6.7%
Commodities GBP return		
Gold (in £)	2.1%	20.5%
Oil (in \$)	-12.6%	-64.7%

Source: Bloomberg, data as at 16/04/2020



The Nuance

As we look back on the last few weeks, we can now see that markets have bounced back about 20% from the depths they sank to in March. Those who remained invested have recovered much of the losses they experienced only a few weeks ago. Our increased equity weighting has allowed us to participate in this recent rally. The recovery has been almost exclusively experienced by those companies that were unjustly sold down to nonsensical lows at the time of largest panic in markets. These good quality assets have bounced back as markets have restored them to more sensible valuations.

However, there is still uncertainty for a significant number of companies. Those with debt problems and large fixed costs haven't participated in the rally as investors evaluate whether a liquidity problem will become a solvency problem as these companies continue to battle on with depleted revenues. This once again stands as testament to our investment philosophy focused on high-quality companies with strong balance sheets.

Bond markets now have strong support as quantitative easing measures continue to buoy fixed income asset prices. Fixed income portions of portfolios should be relatively stable as government intervention in these markets looks set to continue. As equities continue to recover from their lows, we feel they may be running slightly ahead of themselves. A small pull back is to be expected if this optimistic V-shaped recovery that markets seem to be predicting fails to materialise.

This week, we sold out our position in SAP (a European multinational software company) allowing us to realise a profit having purchased the stock at the lows of late March. Based on our above analysis, we're trimming a few of our other positions, freeing up some cash to be able to buy on weakness in the event of a pull-back. Our longer term position remains unchanged: that companies with pricing power in their markets, selling products which will remain in demand, are a vital part of a portfolio and are what allows investors to grow their wealth.



Quote of the week

"I feel fine. I hope you're all feeling fine too." 99-year old war veteran, Captain Tom Moore.

Captain Moore spoke those words as he finished the 100th lap of his garden yesterday having now raised £18m for the NHS. The war veteran has become an internet sensation over the last week after committing to raising £1,000 for the NHS by completing 100 laps of his garden before his 100th birthday. With the aid of a walking frame, he completed 100 laps of the 25-metre loop around his garden. Tributes and messages have poured in from politicians, celebrities and NHS workers whilst a petition for him to receive a knighthood has been signed by over 300,000 people so far. Downing Street said Prime Minister Boris Johnson would "certainly be looking at ways to recognise" him.

Source: [bbc.co.uk](https://www.bbc.co.uk)

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