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Dear client,

Markets opened significantly lower around the world on Monday morning following a weekend of negative headlines about the spread of the Coronavirus.

As we write, some of the falls in the share prices in otherwise stable well-run companies is almost inexplicable, other than the fact that indiscriminate selling has seen good companies sold along with the bad.

This is a classic case of throwing out the baby with the bath water in our view, and we believe is a consequence of the way people throughout the developed world save and invest in the modern world. Exchange traded funds, or ETFs, are a case in point. These instruments could be described as baskets of stocks (or bonds) that allow investors to own a whole sector, or index, all at once in one single investment. Trading them is cheap, easy and quick to do during the same market hours as other single stocks.

In the 12 years since the Great Financial Crash in 2008, ETFs and other funds that closely track the market, were attractive because, give or take the odd Greek debt crisis or natural disaster, rising markets, backed by central bank liquidity, were a rising tide that lifted all boats. Indeed, during the most bullish years, it became less relevant which individual stocks one owned because the more important decision was whether you owned the market at all. That is to say, "was one "in or out" of the stock market".

The same works in reverse. An investor who wants to sell their FTSE 100 ETF is selling the entire index of 100 shares. Unless they are a highly experienced investor employing expensive technical tools and trading accounts, they do not have the luxury of stripping out those companies whose businesses could be relatively unaffected by the impact of Coronavirus or, furthermore, a beneficiary of it. Some companies in the pharmaceutical sector, for example, spring to mind as having a relatively rosier future than the restaurants and travel sectors over the next 12 months or so.

Monday mornings can often see large scale indiscriminate selling as a reaction to negative news over the weekend. In the USA, weekly mutual fund data showed very large net selling of stocks, as expected. What was slightly perverse was that the selling of bond funds was equally large.

In a rational world, and this is not where we are this morning in our view, bonds should go up when interest rates fall – which is exactly what has been happening in the last week. The US Federal Reserve has cut interest rates to essentially zero from a recent range of 1.00% to 1.25% and the Bank of England cut from 0.75% to 0.25% and possibly looking to move to zero. We know from experience that the recovery from the Great Financial Crisis of 2008 was made possible by this kind of aggressive loosening of monetary policy. In the long run, we expect this underwriting of risk to give investors confidence to back a recovery in stocks, but it is impossible to say exactly when.

We are all following the official statistics of the spread of Coronavirus and there is little value in reiterating them here. What we can say is the impact to economic activity in China, where containment has been largely successful, may be limited to six months. A major impact for sure but well within the stock market to build into their forecasts for 9 months and beyond and which should eventually feed through into a recovery in share prices.

The fall in the oil price was covered last week in our FACETOLOGY newsletter and is worth mentioning here because we believe the event (ie: a price war between Russia and OPEC) is being conflated with Coronavirus.

Both the oil price war and Coronavirus have come at a time when stock markets were hitting new highs every week. It has been, after all, the longest bull market in history. We warned that something could give and had positioned the client portfolios to a more defensive strategy than we had in previous years. Of course, we couldn't reasonably have foreseen the perfect storm that has unfolded in just a few weeks.

This has been a crash unlike any other. There has been no preceding collapse of an asset class such as the bursting of the Japanese property bubble in 1991 or the failure of banks in an over-extended financial derivatives market. There are some parallels with October 1987 – Black Monday, but even here, nobody was overly worried about interest rates rocketing through the roof. Quite the reverse.

Sentiment is a big factor in this crash, in our view, and bares more resemblance to 9/11 and the immediate aftermath where there was a great deal of confusion about what it really meant for the economy.

The similarities are there, such as the willingness of central banks to come to the assistance of the financial system to maintain stability.

In hindsight, the resulting stock market crashes caused by these external events and others like them, were some of the biggest buying opportunities of the last 100 years. It intrinsically feels the same now and we must be mindful not to panic and throw the baby out with the bath water. Many of the stocks and bonds in client portfolios are still yielding the same as before. The actual percentage yield they are paying are remarkably high by any standard.

We want to try to send a reassuring message with this letter because we are, as an investment team, past the point of analysing the Coronavirus itself. We know what it is and the impact it is having on markets. Our job now is to look forward to the recovery which will inevitably come and make a judgement call on whether the opportunities which now exist are worth the risk either now or in the months to come.

We would be very happy to answer any questions you may have. Please feel free to get in touch with us should you wish to discuss any part of either this letter, or your personal financial circumstances.

Yours faithfully

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