Portfolio Update 9th April 2020

After a challenging six weeks, this week we have seen some signs of stabilisation in the active cases for Covid 19 in the major world economies, coupled with central bank action that is removing some of the risk in global debt markets. Both elements combined are providing some hope the contagion will be managed and a rally in market sentiment is following through to a rally in market indices and a narrowing in credit spreads on corporate debt instruments (this is good). It is still too early to say where we are in our journey towards managing the pandemic, or whether the actions taken by central banks and governments already will stop a depression from happening, but after another bad week for employment in the US (now 16.6m in 3 weeks) and a continuation of lock downs globally, economically from a corporate perspective, we still feel there is a long way to go and much of this story yet to be told.

What has been positive, is the pick up in investment grade debt and narrowing of credit spreads we saw over the week, with spreads moving back to levels seen around the 12th March. We therefore came to the conclusion that with central bank action taken previously and with more in the pipeline, there is a great deal of logic in implementing stage 1 of our reinvestment strategy as we are investing into assets within the portfolios whose risks are in the main reducing from the peaks seen a few weeks ago. As detailed in last week's market commentary, this is a defensive allocation which is only the first step towards a return to 'normal' investing and 'normal' conditions. It is clear that we are not there yet, but we are encouraged by the recent turn in the news flow as we move further through this crisis. It is our view that despite there still being risks ahead in the short term, current market levels are attractive on a long term basis and as long term investors, we see this as an opportunity to partially re-enter equity markets at levels between 10-15% lower than we sold at. Away from the equity markets, after the significant sell off experienced last month in bond markets which was initiated by market panic and a move to cash as risks increased, we are starting to see the risks reducing in bond markets. As a result, bond yields are now looking attractive as risks have been overdone in the higher quality end of the bond spectrum.

This does not mean as we said last week that we in any way think we have seen the market bottom, and still believe the lows seen Mid-March will be re-tested in the coming weeks ahead as new chapters and stories in this ongoing saga unfold. We are though hedging the risk and rebuilding a balanced portfolios – gradually - and we still hold a great deal of powder dry to deploy again as markets start to take in the data that will come through from corporates in the coming weeks and we have some clarity on the real impact this will have in Q2 2020 and Q3. Overall this roller coaster has not ended and we are just trying to balance the risks.

Stage 1 - Defensive						
	OBI 3	*OBI 4*	*OBI 5*	*OBI 6*	*OBI 7*	*OBI 8*
Cash and Core Assets	70.00%	70.00%	66.00%	61.00%	54.00%	51.00%
Multi Asset	30.00%	30.00%	24.00%	24.00%	18.00%	15.00%
Directional Equity	0.00%	0.00%	10.00%	15.00%	28.00%	34.00%

Stage2 - Balanced						
	OBI 3	*OBI 4*	*OBI 5*	*OBI 6*	*OBI 7*	*OBI 8*
Cash and Core Assets	60.00%	55.00%	53.00%	45.00%	36.50%	31.00%
Multi Asset	40.00%	40.00%	32.00%	30.00%	18.00%	15.00%
Directional Equity	0.00%	5.00%	15.00%	25.00%	45.50%	54.00%

Stage 3 - Aggressive						
	OBI 3	*OBI 4*	*OBI 5*	*OBI 6*	*OBI 7*	*OBI 8*
Cash and Core Assets	44.00%	42.00%	39.00%	29.00%	25.00%	25.00%
Multi Asset	50.00%	50.00%	40.00%	36.00%	24.00%	15.00%
Directional Equity	6.00%	8.00%	21.00%	35.00%	51.00%	60.00%

Taking this approach does mean that clients will again be exposed to a level of market volatility, which may feel uncomfortable if the markets don't immediately go our way after our re-entry. This is a risk, however we ask that clients trust in the strategy and take a long term view. The levels we are re-entering at are attractive, and whether we see lower levels in the near term simply gives us an opportunity to add more exposure at more attractive levels. We cannot hope to perfectly time the markets, we can only determine when market levels are attractive based on the risks ahead and take the opportunities as they arise.

What do we expect to see from here?

While we are encouraged by the recent newsflow on the health side, we see further economic weakness ahead which will continue to influence intraday movements in equity markets, so we expect market volatility to remain high in the near term, particularly given expectations that lockdown periods will be extended. As it stands, we are waiting to see market reactions to surging jobless numbers and reductions in corporate earnings. This may give us more confidence in a pickup in equity markets if the news is already priced in, or may result in a downward movement if the data surprises to the downside. As we gain more clarity on this, we will look to implement the next stages in our return to 'normal' investing. As this is a very fluid situation, the speed of the implementation of the next stages from here will be data and market dependent, however we are not waiting for a perfect scenario. As long-term investors, we will continue to assess markets and current valuation levels, and will look to add exposure at attractive levels.

Looking forward

Going into the bank holiday weekend, particularly given the movement in bond markets we have seen today on central bank movements, we are content in our decision to implement the first stage towards returning to more normal investing. Remember, we are only back in the car and driving in the slow lane, and we will need a lot more clarity before we feel confident in speeding up from here. We will come out of this challenging period, and we remain optimistic on the long-term outlook moving forward.

As always, if you have any questions, don't hesitate to get in touch.

Have a great weekend and stay safe,

Jason & Gina

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Important information