INTERNATIONAL FUND SOLUTIONS
STRATEGY UPDATE
March 2020

FEARS OF GROWTH

Equity markets had a poor month with global equities down more than -8% in US dollar terms, the S&P 500 down by -8.2%, the FTSE 100 down by -9% and emerging markets down by -5.3%. Fears about the impact of the COVID-19 Coronavirus had been relatively muted whilst the infection remained confined to Asia, but the news of cases developing in mainland Europe and the US led to significant sell offs in risk assets such as global equities. Corporate and high yield bonds also succumbed, with their yields rising and prices falling as risk aversion took hold. In contrast western world government bonds rallied with yields on developed market sovereigns, particularly US treasuries, testing lows as they benefitted from their ultimate safe-haven status.

The fact that rapidly rising fears surrounding a possible pandemic of a disease that inflicts a significantly higher mortality rate than seasonal influenza or bird flu has impacted global markets is of little surprise, especially as consensus positioning of our industry was aligned to 2020 being a year of further economic growth and equity market gains. The initial thoughts on COVID-19 were that it would follow approximately the same path as SARS, namely a serious and deadly virus but one that can be swiftly contained. However, it appears from current data that this virus is developing more on a par with bird flu, if more harmful. How the contagion develops and what the short and longer-term result of it will be on people's lives is, frankly, beyond our reckoning but we are required to make a judgment on whether the impact on client portfolios is reasonable given the information that we have.

This brings us back to a piece we wrote last year on the vulnerability of growth. In short, the core of the piece was that what you pay for something has a direct impact on the returns you can expect to receive back in the future and that the higher the valuation of an asset the more vulnerable it becomes to any disappointment. In essence this is due to the simple law of compounding; if you pay 5x earnings for a company then the long-term impact of a quarterly fall in earnings is limited, but if you pay 30x earnings then the compound effect of any shortfall is much larger due to the longer investment timeframe. Following the fantastic equity market gains enjoyed during 2019, a year which saw low to no earnings growth and narrow market leadership, this vulnerability to a COVID-19 led disappointment in earnings growth is now even more pronounced than when we first wrote about it.

There will, of course, be growth companies that are net beneficiaries of the COVID-19 related disruption but there will also be those that are disproportionately impacted by a fall in economic activity that started in their growth markets (China) and may now be affecting their core markets. These are the holdings to be concerned about.

We do not know how the spread of COVID-19 will work out, or what the full impact of its economic impact will be, but what we can control is what we pay for the companies in our client portfolios, and on this level, we are comfortable that our style agnostic portfolio construction has embedded a margin of safety for our clients that is above that achieved by many of our peers. In the very short term this will not be a comfortable time for anybody with a global view, but we are positive that our focus on companies with strong fundamentals that are not excessively priced will offer reasonable downside protection in the short-term, whilst affording the desired longer-term growth.

Last month, though we refrained from increasing our allocation to maximum overweight equity, the overweight positioning negatively affected the performance of our multi-asset portfolios. This month we have made no change to our positioning given ongoing COVID-19 uncertainty which is likely to lead to ongoing volatility in the short-term as investors swing from reacting to negative news to anticipating supportive central bank led policy response.

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TACTICAL ASSET ALLOCATION UPDATE

Asset Allocation Committee Commentary: **US Dollar - Leading Indicators**

- The exposure to global equities has been maintained at Overweight
- Emerging Market equity remains uninvested given Coronavirus uncertainty
- All equity leading indicators remain positive

Categories	Equity			Fixed Income
	Domestic	Developed ex US	Emerging	
Monetary and rates	▲	▲	▲	▲
Economic	▲	▲	▲	▼
Trends	►	▼	▼	▲
Total	▲	▲	▲	▲

Overweight Equity

Asset Allocation Committee Commentary: **Sterling - Leading Indicators**

- The exposure to global equities has been maintained at Overweight
- Emerging Market equity remains uninvested given Coronavirus uncertainty
- All equity leading indicators remain positive

Categories	Equity			Fixed Income
	Domestic	Developed ex UK	Emerging	
Monetary and rates	▲	▼	▲	▲
Economic	▲	▲	▲	▼
Trends	▼	▼	▼	▲
Total	▲	▲	▲	▲

Overweight Equity

Asset Allocation Committee Commentary: **Euro - Leading Indicators**

- The exposure to global equities has been maintained at Overweight
- Emerging Market equity remains uninvested given Coronavirus uncertainty
- All equity leading indicators remain positive

Categories	Equity			Fixed Income
	Domestic	Developed ex Europe	Emerging	
Monetary and rates	▲	▲	▲	▼
Economic	▲	▼	▲	►
Trends	▼	▼	▼	▲
Total	▲	▲	▲	▲

Overweight Equity

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