**Coronavirus: looking beyond the market turbulence**
March 2020

There is no escaping this in the media at the moment. We hope that it will be resolved soon but the effect it has had on economy is going to take a while longer to rectify. Ben Johnson, Head of Regional Sales at Rathbones has provided us with this useful update.

"Last week we experienced the worst market shake-out since the collapse of Lehman Brothers in 2008, triggered by a pickup in coronavirus cases outside of China. US equities are down 10% from their peak last week, and markets across the world are down between 6% and 12% this week. For the first time today there have been more new cases of the virus reported in the rest of the world than in China, and investors are worrying that as nations around the world impose quarantine measures this will impact economic activity. Already analysts are revising down global growth estimates and slashing earnings numbers in the US and Europe.

We believe the key to navigating these troubled times will be to look beyond the short-term turbulence and emotional reaction in the markets, and gauge what economic and market impact the virus outbreak will have on the medium to longer-term.

In the very short-term markets are likely to trend lower as uncertainty reigns supreme and the number of cases heads towards pandemic proportions. However, markets are to a degree now pricing in a mild global recession.

The big question for investors is how long it will be before the virus peaks outside China and, although a vaccine is some way off, will the warmer weather in the northern hemisphere see the virus spread slow as spring approaches. Ultimately, the question is how much damage will be inflicted on company profits before this peak in new cases and subsequent recovery occurs.

Since the Second World War, there have been four previous 10% falls in the S&P in a single week: the October 1987 crash, the April 2000 bursting of the TMT (technology, media and telecoms) bubble, the September 2001 terrorist attacks and the October 2008 Lehman's bust. In all cases the authorities reacted by implementing major monetary and fiscal stimulus packages.

Expectations for a rate cut from the US Federal Reserve in the next month are already being priced in, with Treasury yields falling substantially, and fiscal stimulus packages are expected from the EU and UK. The Chinese government has already started its own stimulus operation and Hong Kong has engaged in 'helicopter money', supplying large amounts of cash to its citizens.

As bond yields and cash rates move significantly down from already historically low levels, this has the effect of reducing even further the prospect of future returns from these assets. When markets eventually stabilise and postponed spending and economic activity is unleashed, this is likely to increase demand for the higher returns that equities offer over less risky assets.

What we know so far suggests the right approach is to keep a steady hand on the tiller, and avoid selling amid short-term turbulence. British, American and supranational agency doctors and officials seem to be very complimentary of the way Chinese authorities are handling the outbreak. But the coronavirus episode will damage global growth over the next few quarters, and the continued deceleration of global activity together with the attendant risks of a more severe scenario suggest a bias toward defensive areas, with good quality earnings that are less vulnerable to the economic cycle, continues to make sense."

Ben Johnson
Head of Regional Sales (UK)

As always, our advice remains to stay calm at times like these.  A recent example of why was highlighted to us by the analogy of “on a roller coaster ride, you will only hurt yourself when jumping off”.  The same applies to most investment journeys.

As always, if you would like to discuss any of the above please do not hesitate to get in touch.