COVID-19 spreads, equities plummet, opportunity knocks

The Noise

- This week has seen palpable fear in equity markets causing a speed and ferocity of decline, the likes of which investors have never had to deal with before. As the Coronavirus continues to escalate, the sea of red below is testament to the fear and panic which now pervade markets.
- Oil prices crashed by nearly 30% this week in the wake of a price war between Russia and Saudi Arabia. The world's largest exporter of oil, Saudi Arabia, slashed prices at the weekend after failing to convince Russia to participate in drastic production cuts. This sent the price of Brent Crude tumbling and Monday saw the largest one-day fall in oil prices since the 1991 Gulf Crisis.
- President Trump announced that all travel from Europe (excluding the UK and Ireland) to the US will be suspended for 30 days. This major intervention came in response to the World Health Organisation officially declaring the Coronavirus outbreak as a pandemic yesterday. The move comes alongside travel restrictions from a number of other countries, including the Philippines, Slovenia, Switzerland and Australia.

The Numbers

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The Nuance

It’s been one of the worst weeks for markets since records began. Globally, investors will be licking their wounds. Equities sold off sharply in response to escalating economic problems posed by the Coronavirus, the oil price war between Russia and Saudi Arabia, and travel restrictions now imposed worldwide, notably between the US and Europe. The FTSE 100 dropped almost 11% yesterday, the second largest fall in the UK equity index since records began. The only day on which the UK stock market performed worse was on Black Monday in the midst of the 1987 stock market crash.

There has been a panic-induced scramble for liquidity which is putting immense downward pressure on the market. For an investor, the sharp downturns in markets can understandably look scary but we should remember that fear creates opportunity and if we look back on the comparably dramatic crash of 1987, we can see that it proved to be an excellent buying opportunity. In fact, in 1987 markets finished positively over the calendar year (up ~2%), despite a 12.2% and 10.8% drop in the FTSE on two consecutive days in October of that year.

We’ve spent the last couple of months ensuring that the companies we own have solid balance sheets and are well positioned to ride out this period of time in which debt markets are reluctant to fund businesses. As investors, our disciplined focus has always been on companies with well protected balance sheets. It’s times like these that our investment approach shows its strength even if our holdings have not been immune to the price moderation flooding markets.

We do not lightly dismiss the risks that the Coronavirus pandemic poses to the community, the global economy and financial system, but we seek to get the balance right between protecting client assets and investing to secure long term returns. Given the material pull back in equity valuations we have today decided to increase the equity weight in our portfolios. As active investors, we would be remiss if we weren’t now buying good quality, durable companies at these bargain prices.

Quote of the week

“They [the UK and Ireland] are doing a very good job. They don't have very much infection at this point, and hopefully they'll keep it that way.” - Donald Trump.

This was Trump’s justification for exempting the UK and Ireland from his European travel ban. On the one hand, in reality the UK has more cases than a lot of other countries not exempt from the ban. On the other hand, the UK and Ireland are the only countries in Europe home to Trump’s 3 golf courses. We’ll leave you to decide whether or not that’s a coincidence.

Source: theguardian.com