Alpha Beta
PARTNERS

**“Coronavirus” COVID-19 – update for Investors. 14th April 2020.**

It is common knowledge that this exogenous shock is slowing the world economy. When lock downs are lifted, perhaps partially to begin with, we can naturally expect markets to breathe a sigh of relief and deliver a strong rally.

Since 2008 most markets have performed strongly, fuelled by a central bank inspired strategy of financial repression. This strategy has deployed quantitative easing at its core. This measure has boosted the value of stocks and bonds persuading many investors out of cash deposits.

The Covid-19 market correction has stimulated central banks around the world to deliver an even stronger commitment to ongoing quantitative easing. Jerome Powell the Head of the Federal Reserve has delivered strong commitments to deliver “whatever it takes” to support markets in the wake of the Coronavirus impact and stock market falls. The first $3 trillion package provided a much-needed boost to the interbank markets. Market falls were arrested following this move and began to recoup some lost ground. Ahead of the Easter recess the Federal Reserve announced an additional package of measures designed to help Municipalities and large corporates. Again, this has been warmly received by markets.

The chart shows the S&P 500 Index over the past 12 months.


Looking out from here we do expect finance ministers to relax fiscal policies as the lock downs are lifted. This will be aimed at reducing taxation and “red tape” to stimulate a resurgence in economic activity. Quantitative easing at even higher levels will hold-down interest rates for even longer. This debt is easier to service of course with rates at or close to zero. Notably, the implications to risk assets are positive over time and one would realistically expect the environment for equities to be supportive. As ever, there will be winners and losers.

Alpha Beta portfolios benefitted from overweight cash positions as markets fell heavily and we took the opportunity to add to equities in a modest way once markets reached technically oversold levels. Federal Reserve actions have halted stock market falls so far and by providing overwhelming reassurance markets have staged a strong rally. Alpha Beta portfolios have benefitted. Equities and investment grade fixed income have shown some recovery and the all-important VIX [volatility index] has fallen. We are holding onto around 5% of cash within portfolios as some insurance against potential for a market relapse but will add to risk assets when appropriate to do so.

Our portfolio performance has been decent relative to the peer group so far throughout the Covid-19 crisis. A cautious stance has paid off - vigilance and "Risk First" remain our watch words. We are encouraged Spain is relaxing its lock down with a partial return to work during the weeks ahead. We are well positioned for a further rally but hold some insurance against the potential for negative surprises, should they come. As we know, markets always turn ahead of the economics and the belief we may be close to a peak in infection rates has created some optimism along with action from the Federal Reserve.

**Written by the Alpha Beta Partners Investment Team.**


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Important Information: