

**“Coronavirus” COVID-19 update for investors. 9<sup>th</sup> March 2020.**

Denial usually is followed by fear and panic. As we have covered in our recent commentary and updates, the markets are finally starting to treat the COVID-19 phenomenon as an exogenous shock to the system. Over the weekend we have seen another casualty of the ongoing crisis; Oil. Demand slowdown has created a supply glut and OPEC+ could not agree on production cuts. This has triggered a reaction by the heavyweights in OPEC to “keep on pumping”. The timing of this spat is far from ideal. This move is just going to compound problems for the highly leveraged shale sector, or perhaps that is the OPEC goal? This, however, has a wider consequence as credit spreads are already fracturing and equity markets will react with huge swings.

Just to put in perspective today's moves (as I write):

- Brent Oil: -22.86%
- FTSE 100 Index: -6.89%
- S&P 500 Index (Futures) : -4.96%
- 10Yr US TSY Yield : 0.48%

These are all 3+ standard deviation moves, mostly synonymous with panic.

As these exogenous shocks gather pace and play out, there is a real and evolving risk to the Credit and Repo markets. Central banks stand ready to help, but what is obviously needed is a vaccine, both for the virus and for the markets. Investors are taking cover in Treasuries and there is a flight to quality with US 10Y bonds at 0.48% - an all time low.

The question now is where we go from here? For almost 2 quarters now we at Alpha Beta Partners have been running a high cash and a cautious stance within our portfolios. As markets revert to fundamentals and revisions in EPS become baked in, there will undoubtedly be opportunities. For now, we will keep our powder dry and wait for the right opportunity to layer the cash in once more. We suspect there will be no choice but for central banks to become drawn in to deliver support. Finance ministers will almost certainly pledge fiscal support in some countries. This will have a positive impact on high quality bonds in the short term.

The construct of our AB Portfolios is such that we do not carry idiosyncratic risk, this allows us to concentrate on systematic risk mitigation and to respond to it. As the markets unwind themselves, we wait for the right opportunity to take advantage with the next 10 years in view.



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