"Coronavirus" COVID-19 update for investors. 26th February 2020.

One of the most unexamined aspects of the COVID-19 phenomenon so far and indeed any other epidemic in modern times is the human psychology of risk assessment. Our default and seemingly natural responses are one of denial. We somehow ignore obvious global connectivity of businesses and populations. We saw a similar response during the early stage outbreak in January and for most of February. There was a belief that this was a "market problem" and with Central Banks ready to support markets, the issue would go away - or alternatively a view was formed that the virus would not spread beyond China. Of course, the world's manufacturing hub, comprising 40 cities has been locked down under quarantine. The problem surrounding the integrity of data flowing from China cannot be underestimated. The impact of the virus in China hits the manufacture of widgets across the whole value spectrum of consumer related goods. Clearly this is not a markets problem, it is a fundamental economic problem. Only now that the virus has spread to developed markets, a response other than denial is setting in. Yesterday we began to detect a fear related response in developed markets.

The virus spread will almost certainly become a pandemic. The impact in developed markets which relies upon free movement of people and many "just in time" processes are likely to be affected and we should certainly anticipate a reduction in economic output and a falloff in GDP across several economies. The implications for countries with a poor medical and health infrastructure are worrying. However, by and large markets are callous only caring about productivity and profits.

This morning's data from China is more encouraging. It is clear the number of infections and deaths has peaked, and many cities are beginning the "back to work" process. The World Health Organisation data is supportive of the general trend which shows the virus DNA has not changed, the number of deaths and infections has so far peaked and is slowly receding. A tested vaccine is still months away. The impact to economic growth in developed markets should not be underestimated and we would expect banks to help support businesses if the virus creates the necessity for quarantine periods. However, economies are fundamentally sound in developed markets and once we see a containment and decline in the number of infections, we would anticipate a V shaped recovery in GDP and the value in many stocks. Of course, the process of containment may take longer than expected.

The markets are down again as I write with volatility the highest in the last 12 months. So far UK markets have been impacted heavily with both the 65 and 200 day moving average indicators having been breached on the leading FTSE 100 benchmark. The S&P500 has been impacted to a lesser degree so far. US valuations have naturally fallen but are a long way from being cheap. At Alpha Beta Partners our truly global and *Risk First* approach is certainly paying dividends for investors. We recently held back from re-entering the equity market fully based upon technical indicators which have been proven accurate, although we obviously did not foresee the incidence of COVID-19. Portfolios are holding upwards of 10% cash which is naturally acting as a buffer. Other defensive asset classes are working in line with expectation too. Portfolios remain anchored within their allocated risk categories as agreed between the Financial Adviser and his/her client. Our Dynamic Asset Allocation methodology is so far performing more strongly than the mass market Strategic approach. We will deploy our cash in the equity market once when we anticipate the recovery can begin in earnest and remain vigilant and alert to further threats and prospective opportunities.

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Important Information: