Alpha Beta
PARTNERS

"Coronavirus" COVID-19 – update for Investors. 18th May 2020.

In our late April update, we pointed to increased volatility in equity markets which could serve to catch out speculative investors. Further bouts of central bank support for markets and economies and a gradual relaxation of lockdowns was encouraging news. To balance this, the realisation of a severe economic impact caused by Covid-19 and the lingering threat of a possible viral "second wave" later during 2020 are very much calming influences.

We know unfolding economic data is likely to be challenging and markets are primed to expect this news during the second quarter. Unemployment rates somewhere between 16%-25% are likely and during a weekend speech Mr Jerome Powell, Chair of the Federal reserve, pointed to weak data likely to show US GDP down 30% during this quarter cannot be ruled out. Larger corporations can be bailed out by central banks but smaller and some mid-sized enterprises cannot. This fact leaves them somewhat exposed to severe swings in supply and demand driven by lockdowns. Central banks for most developed market economies have pledged to deliver "whatever it takes" to support the economy and markets.

Without central bank support, in more normal times, one would reasonably expect markets to struggle against such severe headwinds and negative news flow. However, for now fundamentals have firmly taken a backseat. Markets have proven to be more resilient than many expected given the overwhelming support of quantitative easing and asset purchase programmes instigated by the Federal Reserve and other central banks to support economies and markets. In fact, Mr Kuroda, Governor of the Bank of Japan has pledged full support, without limit, and current stock prices more broadly owe much to central bank intervention.

Technology stocks have performed very well year-to-date and very much bucked the downward trend as digital solutions and communication becomes increasingly accepted and common place. For many Covid-19 has fast forwarded their application and use of digital media. This looks set to continue along with healthcare service and provision.

With interest rates and bond yields at or near to record lows, equities do still have some relative appeal, despite recently announced dividend suspensions. Whilst progress from here is likely to be somewhat corrugated, offering good and bad days, we do feel a recovery is underway which will accelerate once lockdowns are relaxed further and the economics can begin to normalise. We must remain alert to any potential to relapse.

Looking forward, the large amounts of money printing supplied by central banks could lead to inflation downstream. We note forecast medium term inflation is higher than many of today's bond yields. We are monitoring this scenario closely albeit unlikely to manifest for some time to come. There is much water to flow under the bridge before inflation becomes a problem.

Alpha Beta portfolios continue to make steady forward progress. We will be positioning portfolios appropriately once again over the coming week. As a recovery begins to set-in and China reawakens, we are likely to see an uptick in the value of precious metals and energy related commodities. Our portfolios will benefit when this results. For now, we remain focused on a balanced and well controlled approach to the market's risks and rewards. We will report again when it is appropriate to do so.

Written by the Alpha Beta Partners Investment Team.

Contact Andrew Thompson for further details:

at@alphabetapartners.co.uk

07968 934127

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Important Information: