INFORMATION FOR INVESTMENT PROFESSIONALS

COLUMBIA THREADNEEDLE INVESTMENTS

Your success. Our priority.

Market updates

Investment team updates | 25 March 2020

UK equities

- The best time to invest can be when it feels most uncomfortable
- Sharp market moves like we have been seeing trigger forced sellers and liquidations - only serving to exacerbate near-term selling
- We aim to be on the other side of this stress, to the advantage of our clients
- Our sense is that after years of debt build up, the behaviour of credit markets is the key concern.

European equities

- Markets have as expected been very volatile
- We continue to apply our processes and approach, which are working well to protect client capital in very difficult times
- Recent weeks have merely exaggerated a lot of existing trends. Sectors with commoditised pricing – those dependent on overall economic growth rather than competitive advantage for their returns – are challenged
- The advantages of Porter's Five Forces and economic moats are even more important – they are excellent gauges of business quality.

Fixed income

- Many of the ingredients of a rally are falling into place: cheap valuations; aggressive easing of monetary policy; a significant fiscal response; and a hint of reductions in new cases of COVID-19 (in Italy at least)
- The combination of the US Fed's policy of buying corporate bonds and the fiscal initiative has helped
- US index spreads are all tighter after the 24 March rally in derivative markets. Although this has yet to come through in the euro or sterling indices, we suspect the latter may be out of date when compared to reality
- US corporate and high yield spreads are tighter (as well as European high yield) as are emerging markets
- High-quality credit is outperforming for the first time in weeks
- At a Fixed Income Asset Allocation level, we have gone from 'market underweight' to 'very overweight.'

Multi-asset

- Valuations are much cheaper. Corporate credit spreads appear to be compensating investors for default rates that far exceed the maximum recorded this century. Equity markets are trading at or close to their book values, suggesting asymmetric upside returns from here
- Monetary and fiscal policy response cannot cure COVID-19, but they can prevent fixed income market dislocations from throwing the financial system into another global financial crisis. And central banks have announced actions of mindboggling magnitude and with stunning speed
- We know that the shock to economic activity is going to be huge in the short run, as sectors of the economy simply shut down. But what really matters is how the world emerges in 2021-2022
- We continue to characterise the COVID-19 pandemic as a serious but temporary shock, and policymakers have demonstrated a determination to prevent the public health crisis develop into a global financial crisis.
- Most recently, we upgraded investment grade credit from neutral to favour, where the additional yield above government bonds offered has tripled this year to around +300bps. We have also increased our overall appetite for risk to favour, expecting any portfolio risk we deploy to be compensated with super-normal returns over the next 12-18 months.

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