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Coronavirus market volatility: performance update

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Markets are very weak and volatile, as you would expect with such uncertainty around the Covid-19 outbreak. Some days the moves are indiscriminate and everything plunges to a broadly similar degree, on other days our higher quality names are outperforming. As markets have slumped, and governments and central banks have tried to make sense of what is going on, our portfolios have so far coped very well. Companies that are operationally impacted – restaurants, airlines etc – are seeing severe weakness. Parallel to this is the interplay in the oil market between Saudi Arabia, Russia and the US which has led to sharp weakness in the oil price, and that means the energy sector is also suffering.

We have not needed to undertake much dealing in funds since the end of February – and what we have done has been very much "business as usual". There have been no major liquidity issues and we have been able to satisfy all client requirements (there is currently no question, for example, of having to "gate" any of our European equity funds). In our smaller companies strategy we have reduced some positions where stocks have performed well in relative terms as they breached our 3% limit on exposure to any stock. We also reduced some of the larger capitalisation names: for example Takeaway.com became a large company following its merger with Just Eat. Mostly we did this just to fund withdrawals.

Looking to the future it is difficult to judge the final macroeconomic or medical outcome with any great certainty. We do not have much strong insight, but nor does anyone – including doctors and governments. China at least is going back to work and seeing very few new cases, with the country reporting no new cases for two days[1]. Europe, however, is way behind on this trajectory, with Italy and Spain posing big problems. If Germany and the UK go the same way, this will be an even tougher problem short term. But China seems to show that this virus is perhaps not going to last a long time, and there are signs of a peak in some areas of Northern Italy.

We still believe that longer term the effects should generally help our investing style and after some short-term shock maybe a recovery will be in train. Value funds will be having a tough time currently if they are holding banks, for example, as interest rates inflation and growth will remain very low. Instead, in a recession you want hold strong business resilient business models –

[1] The Guardian, China reports second day with no domestic cases, 20 March 2020

which we do. Even our cyclicals will win market share as they are strong enough to survive and win market share as competitors disappear. Generally, in a market like this it can be a good idea not to be too active if you are well positioned at the start of the phase: a volatile market means low trading volumes, which means it is expensive to trade, and we would be wasting clients' money by trading at the wrong price and paying large amounts in transaction costs.