NLP Financial Management Ltd

Coronavirus Update

19th March 2020

Economy, Financial Markets and our Portfolios

The Coronavirus continues to spread on a global basis with over 200,000 identified cases and over 8000 dead as of today. In the UK, over 100 people have died and the infection rate is increasing at a faster rate than anticipated. Our daily life is being impacted by self-isolation, social distancing, school closures, increasingly working from home and hoarding of essential goods such as rice, noodles and toilet paper. While the coverage in the media is scary with reports of the global pandemic, there is little panic in the streets, rather an attitude of "keep calm carry on".

In the economy we are seeing the first signs of the impact of the Coronavirus with job losses, salary cuts and a small number of bankruptcies already. The government has acted swiftly with major assistance provided firstly in the budget last week (£30bn) and the extra ordinary measures (£330bn) with deferred taxes, loan guarantees and business rate holidays. The new Chancellor of the Exchequer Rishi Sunak repeatedly used the sentence "we will do whatever it takes" echoing the famous words used at the height of the European crisis by former ECB present Mario Draghi in 2012. In addition to the bold fiscal policy, the Bank of England cut rates last week and the new Governor Andrew Bailey also confirmed to do more in terms of rate cuts (limited in our view as base rates are now at 0.25% after last week's cut of 0.5%) and more quantitative easing (monetary intervention by buying government and corporate notes and bonds to provide liquidity). As we write, the Bank of England has announced further rate cuts to 0.1%, and increased its bond buying programme by £200bn. In the US we saw similar bold moves by the Federal Reserve and the US Treasury. Overnight we also had news that the European Central Bank would launch its own €750bn bond purchase programme.

In the financial markets we have seen dramatic price falls in all equity markets, in the high yield bond markets and commodities, and most notably in oil (US crude oil down from $65 per barrel at the beginning of the year to $21 at the time of writing). Sterling has fallen to a low of 1.15 to the $ and 1.06 to the €, the lowest since the Plaza Accord of 1985. The US Treasury has vowed to keep money markets liquid (injected $1 trillion in the last few days) and US equity markets open. In another development, the Philippines announced the temporary closure of their bond, currency and equity markets. Despite the strong commitments by politicians and the bold moves by the central banks, markets continue to be stressed.

In the property markets, major property fund management houses Aviva, L&G, Kames, Janus Henderson, Aberdeen Standard and Columbia Threadneedle suspended redemptions due to a lack of reliable valuations from independent sources. This is a repeat of the suspensions we saw in 2016 after the Brexit vote.

These are extraordinary times never experienced by many market participants and investors before, with echoes of past crises such as the Global Financial Crisis of 2008 and the Great Crash of 1929. However, governments, national (central banks) and international institutions (IMF) have reacted strongly - lessons learnt from the mistakes of delayed policies in 1929 and 2008. As such, the financial architecture and the political will are sound and give comfort. The unknown is the potential length of the Coronavirus pandemic and the cost of life. Hence the economic consequences cannot be estimated here.

Regarding our portfolios we have been de-risking over the past months by reducing equity risk and building up cash. Our bond funds are diversified in government and high-quality corporate bonds with little exposure to high yield or low credit quality. Our currency exposure is spread over mainly £, $ and €, again diversifying risk. We reduced equity risk last week by selling Japanese and U.K. Equity funds. Earlier this week we considered a further reduction but decided against, as the extreme volatility and poor price finding mechanism could adversely affected the rebalancing of our client portfolios. Your positions – the funds managed by major fund management houses - are held safely in custodian arrangements via the major platforms.

On the operational side, the majority of the NLPFM investment analyst team is now working from home, fully set up to follow markets, keeping in constant contact with the fund managers and with each other via major video and communication technologies.

In conclusion, these are extraordinary times and uncharted territory requiring us to stay vigilant and calm.

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On behalf of the Investment Committee

NOTE: This material has been written for information purposes only and must not be considered as financial advice.

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