NLP Financial Management Ltd

Coronavirus Update

26th March 2020

The Coronavirus continues to spread rapidly on a global basis with over 470,000 identified cases and over 21,000 dead as of today. Europe and the US are now the epicentres of the outbreak. In the UK, over 465 people have died and the infection rate is increasing at a faster rate than anticipated.

We are expecting Chancellor of the Exchequer Rishi Sunak to announce new details today of a support package to help the many thousands of self-employed and freelance workers impacted by the situation. This follows the major assistance provided in the budget (£30bn) and the extra ordinary measures (£330bn) with deferred taxes, loan guarantees and business rate holidays, and offers to subsidise up to 80% of the wages of employees. The new 0.1% level means rates are at their lowest for 300 years.

In the US, this week the Senate finally agreed to a massive $2 trillion disaster aid package of benefits and support to businesses. This will include writing cheques to almost everyone of $1,200. We also had news that the European Central Bank would launch its own €750bn bond purchase programme. Germany announced its own domestic €550bn fiscal support package.

In the financial markets on Tuesday, the markets rallied sharply on news of the US package. The Dow Jones rose 2112 points, some 9.4%, which is its biggest ever one day move. The UK market was up 9%, again the biggest single day move since the crisis in 2008.

Governments, national (central banks) and international institutions (IMF) have reacted strongly – with lessons learnt from the mistakes of delayed policies in 1929 and the Global Financial Crisis of 2008. The economic consequences cannot be estimated here but they will be deep.

Portfolios

Regarding our portfolios we have been de-risking over the past month by reducing equity risk and building up cash. Last month we took the decision to reduce our exposure to Emerging Market equities, as a means of alleviating the impact of the outbreak on performance. A further decision was made to further de-risk our core portfolios (except Adventurous) by exiting a position in Japanese equities and a UK equity fund focused on cyclical businesses. The proceeds from this move were parked in cash, short-dated bonds and gilts to protect the portfolios as much as possible.

Last week we considered a further move to reduce risk but decided against, as the extreme volatility and lack of accurate security pricing would have adversely affected the rebalancing of our client portfolios. This week we decided to proceed with the move as central bank support and huge fiscal packages injected much needed reprieve into markets.

We have therefore reduced our equity weightings across our core models significantly whilst still maintaining reasonable exposure and a sensible spread of assets. In the Balanced portfolio, the equity portion now comprises 40%. We also took the opportunity to remove funds that we believe will be most exposed to the downturn and that would struggle in the coming months in the recession such as smaller companies and midcaps but bolster larger companies. We have trimmed holdings in Europe, UK, and our generalist global holdings too. We also removed an Asian fund which has quite high volatility.

We have added most of the proceeds simply into cash and money market funds as the safest option for now. We have also introduced a new UK gilt fund within our bond holdings. Our bond funds are diversified across government and high-quality corporate bonds with limited exposure to high yield or low credit quality. Our currency exposure is spread across the main developed market currencies in Sterling, Dollar and the Euro, thus diversifying risk. Holding liquid assets such as cash and short-dated bonds gives us the flexibility to reinvest when the market panic has abated, and significant opportunities present themselves. We remain highly vigilant in the short-term as events continue to unfold.

Andrew Graham
On behalf of the Investment Committee

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