Investment Team Update

16nd April 2020

The Coronavirus pandemic has had, and continues to have a material impact on the everyday lives of all across the globe. At the time of writing almost two million cases of COVID-19 have been reported to the World Health Organisation, with over 130,000 deaths. The response from governments globally has been sharp and severe as they attempt to flatten the curve. People are urged to stay at home, with the exception of essential workers who must be commended for their admirable bravery and sacrifice to protect others. Despite this, it very much remains 'business as usual' from an operational perspective at NLP Financial Management. Looking at this crisis from an investment standpoint may seem trivial to some, but we are focused on ensuring that your portfolios are in the best shape possible to navigate through these uncertain times and be well placed to recover when the dust settles.

In our last update we noted that the falls in global markets over the first quarter were the worst seen for decades and in some cases, the worst on record. Since then we have seen a raft of coordinated economic stimulus coming from governments and central banks to avoid turning recession into depression. The US Federal Reserve has already promised measures way beyond what was delivered during the Global Financial Crisis in 2008/09 in both scope and scale. The UK government are forecast to borrow an extra £218bn to keep the economic pain as short as possible. There also appears to be some good news on the Coronavirus outbreak, with most of Europe seemingly passing the peak of new cases and the US possibly not too far behind. Investors have been buoyed by this news and the stimuli provided with liquidity returning to markets and asset prices rising from the lows reached in March. The S&P 500 is up over 20% from its trough and in sterling terms is only -8% for the year-to-date. Whilst we welcome the increasing positivity in headlines and the subsequent market furore recently witnessed, we remain cautious over the near-term, for a variety of reasons.

Whilst infection rates in Europe appear to have peaked, shutdowns are likely to be extended until May at the very earliest. In Wuhan where the virus began, the lockdown has ended but life is far from back to normal. Industrial workers are returning but the services sector, which is most affected by social distancing, will take longer to recover. It could be even longer before the West can run at full economic capability as the services sector represents over 80% of the UK and US economy and 74% of the Eurozone economy. The threat of a second wave of infections remains possible, governments will be desperate to get people back to work but cannot risk lives in doing so. The IMF this week estimated that the global economy will shrink by 3% this year and expect the total loss of GDP this year and next to total $9tn, which is bigger than the Japanese and German Economies combined. In the UK, the Office for Budget Responsibility forecasted a 35% decrease in the economy for Q2 and by 13% for 2020. These are levels which far surpass 2008, and the impact on businesses globally will be significant.

We are in the first week of earnings season, which will give a better indication of the state companies are in. If results are below expectations, we could see markets fall back to the lows seen in March. It is too difficult to predict the outcome but we feel that with a lot of optimism being priced in already, the risks to the downside remain very real. Investors have been particularly jittery this year on any news flow, and it is prudent to err on the side of caution until we have all the information pointing to a recovery in near-sight. We are also aware that there will be winners and losers from this crisis. In addition to significantly de-risking our portfolios throughout the first quarter, we reduced our exposure to funds which are invested in the sectors which will be worst hit, and reallocated to funds focusing on companies with the qualities to survive. Our underlying fund managers are looking for companies with strong balance sheets and low debt levels, which will allow them to come out of the other side. We want to avoid falling into 'value traps' by targeting assets just because they are cheap, and thus cut most of our exposure to managers fishing in this pool. On the following page is a chart which shows the difference in performance this year between the MSCI World 'value' and 'quality' indices, with the current gap standing at almost 15%. MSCI defines value stocks as being cheap on three variables: book value relative to price, the 12-month forward earnings to price and the dividend yield. Quality stocks are defined as having three fundamental variables: high return on equity (ROE), stable earnings growth and low financial leverage. Not only have these businesses seen much lower drawdowns, they have also performed strongly in the recent rally. We believe that by having a greater exposure to quality stocks than value stocks through our underlying funds leaves us better placed if there is more pain to come, and also well positioned to steer our portfolios out of the recession and into the recovery longer-term.

Charlie McCann - On behalf of the Investment Committee

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

Chart of the Week – MSCI World Quality Index vs. Value Index

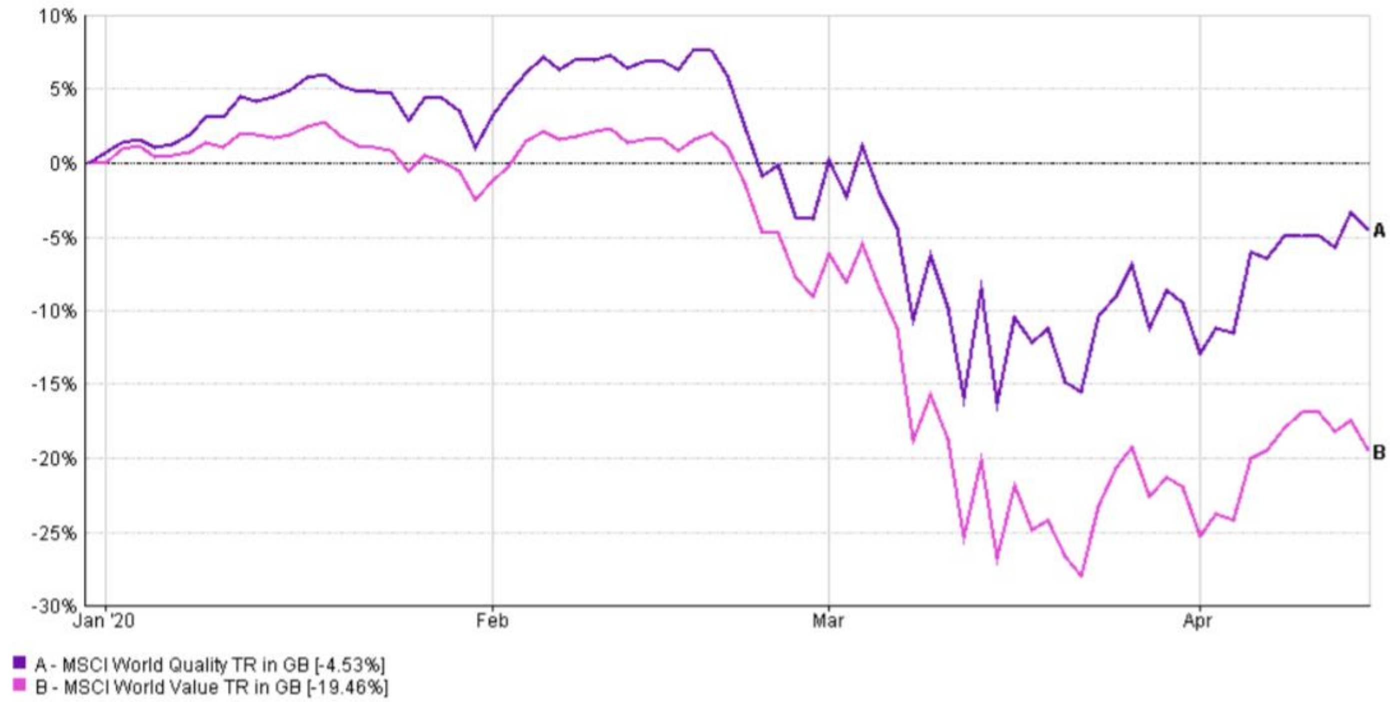
Data from Financial Express Analytics, Correct as of 15.04.2020. Pricing Spread: Bid-Bid, Currency: Pounds Sterling, Total Return Terms

Performance Line Chart

FE Analytics

16 April 2020

Pricing Spread: Bid-Bid ● **Data Frequency:** Daily ● **Currency:** Pounds Sterling



31/12/2019 - 15/04/2020 Data from FE fundinfo2020

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