

Tipping point

– Alex Harvey, CFA

When the seeds of the Arab Spring were sown in 2010 in a market in Tunisia, few would have foreseen the chain of events that followed. The resulting wave of civil protest and unrest that rippled across north Africa led to the collapse of regimes and leaders that had been in place for many decades, most notably Muammar Gaddafi. Roll forward nearly a decade and 9,123 kilometres and another otherwise unremarkable marketplace finds itself at ground zero for the current bout of volatility in markets. In reality there is little to link these events, but the pattern of snowballing and onward contagion is perhaps not so different as camels' backs get broken.

On Friday when meeting clients I was reminded how quickly a chart becomes out of date. Looking at our screens this morning that could not be more clear with asset prices reacting sharply to the largest percentage fall in oil prices since the first gulf war. As I write equity markets are down significantly and haven assets such as quality sovereign bonds, the Japanese Yen and gold are higher; the latter to levels not seen since the height of the aforementioned Arab Spring. Treasury yields have plummeted as investors have fully priced a three-quarter point cut at the Fed's next meeting – that coming on top of the emergency 50bps cut effective March 3rd. These are extraordinary times.

I'd argue today's moves are not due to the Coronavirus itself, but to the second and third order reactions to it; OPEC wanting to cut production and the Russian decision not to play ball. The Saudis quickly countered with the decision to increase production, potentially flooding the market with oil and driving down prices in a move reminiscent of 2014 when the same protagonists tried to drive US shale producers out of business. That episode resulted in more efficient US

shale extraction and saw the US leapfrog Saudi Arabia as the world's largest producer of crude oil. In the years that followed we have witnessed a shift not only in where power is concentrated within the kingdom, but on their economic focus and intent to become less reliant on oil revenues going forward.

What we are seeing several months on from the virus's first appearance is akin to a metaphorical mutation as the global economy becomes infected, crossing supply chains and sectors as well as geographies. In the same way that street vendor Mohamed Bouazizi was 'Patient Zero' for what became the Arab Spring, COVID-19 is likely to be identified as the root cause of what is fast becoming a much broader issue beyond the scientific sphere. As nations strive to both contain the virus and protect their economic interests, we should expect frictions to surface. How this plays out remains to be seen but there are likely to be further second order effects that would not otherwise occur.

Price moves have been extreme, not dissimilar to those seen during the depths of the financial crisis, albeit cumulative equity drawdown is some way off that. Our role as fiduciaries is to navigate safe passage for our clients through waters that will inevitably at times be challenging as they are today. Our seasoned investment process and experienced team allows us to carry out this role effectively, ensuring the overall portfolio construct remain robust, while staying focused on our clients' longer-term outcomes. We remain mindful that risk also presents opportunity and are continually reappraising our portfolio positioning as the situation evolves.

The Marketplace

- Global equity markets volatile in response to the coronavirus
- Bond yields tumble as investors go risk-off
- Brent crude tumbles around 30%, currently at \$36 a barrel
- Gold rose 5.6% ending the week at \$1665.9 an ounce

Market Focus

US

- The US volatility index remained above 30 for its longest run since 2011 as turbulence in the markets continues. The major US equity index has moved by more than 3% in six out of the last nine sessions
- Tech stocks, utilities defensives and healthcare outperformed; the major US equity index ended the week up 0.6%
- The yield on the 10-year Treasury fell as low as 0.34% today whilst the yield on the 30-year bond fell below 1% - a record low
- The Federal Reserve announced a surprise 0.5% rate cut last Tuesday in an effort to boost economic activity. Further rate cuts are still priced in.

Europe

- Continental European equities fell -2.1% last week, with a further 7.7% drop at time of writing, their biggest drop in four years

- Italy, which has been the heaviest hit country in Europe by COVID-19 has launched a EUR7.5 billion stimulus package to help the economy. Germany and France have indicated that they are prepared to follow suit if necessary
- The ECB have announced that they will take 'appropriate and targeted' measures to mitigate the impact of slowing growth.

UK

- UK equities have entered bear market territory this morning after finishing the week down -1.6%. They are currently down 6.5%
- The Bank of England has indicated they are willing to provide emergency funding for businesses struck hardest by the effects of the coronavirus, though stopped short of announcing a rate cut
- The EU's chief negotiator, Michel Barnier has indicated there were 'serious divergences' in the first round of talks on the future EU/UK relationship. They hinge on the role of the European courts and the so-called 'level playing field' in trading arrangements.

Asia/Rest of The World

- A price war initiated by Saudi Arabia has sparked the biggest fall in the price of oil since the first Gulf War in 1991. Demand is set to tumble by 90,000 barrels a day
- Japanese equities ended the week down -2.6%. The yen strengthened 2.5% against the dollar as investors seek safe havens
- Confirmed worldwide cases of the Coronavirus now exceed 109,000 with around 3,800 known deaths.

Asset Class/Region	Currency	Currency returns			
		Week ending 6 Mar. 2020	Month to date	YTD 2020	12 months
Developed Market Equities					
United States	USD	0.6%	0.6%	-7.8%	8.7%
United Kingdom	GBP	-1.6%	-1.6%	-13.5%	-6.7%
Continental Europe	EUR	-2.1%	-2.1%	-10.3%	2.7%
Japan	JPY	-2.6%	-2.6%	-14.5%	-6.6%
Asia Pacific (ex Japan)	USD	1.1%	1.1%	-6.8%	0.4%
Australia	AUD	-3.0%	-3.0%	-6.0%	3.9%
Global	USD	0.4%	0.4%	-8.6%	5.4%
Emerging markets equities					
Emerging Europe	USD	-1.1%	-1.1%	-18.6%	-1.0%
Emerging Asia	USD	1.6%	1.6%	-5.7%	1.9%
Emerging Latin America	USD	-5.1%	-5.1%	-21.2%	-14.4%
BRICs	USD	-0.3%	-0.3%	-8.0%	-0.5%
MENA countries	USD	-2.9%	-2.9%	-10.4%	-7.9%
South Africa	USD	3.8%	3.8%	-17.6%	-14.2%
India	USD	-4.1%	-4.1%	-13.2%	-4.9%
Global emerging markets	USD	0.7%	0.7%	-9.1%	-1.7%
Bonds					
US Treasuries	USD	3.0%	3.0%	8.7%	16.1%
US Treasuries (inflation protected)	USD	2.3%	2.3%	6.1%	13.9%
US Corporate (investment grade)	USD	2.0%	2.0%	5.7%	17.8%
US High Yield	USD	-0.4%	-0.4%	-1.8%	5.7%
UK Gilts	GBP	3.7%	3.7%	9.3%	15.7%
UK Corporate (investment grade)	GBP	1.6%	1.6%	3.9%	12.2%
Euro Government Bonds	EUR	0.7%	0.7%	3.8%	9.5%
Euro Corporate (investment grade)	EUR	-0.1%	-0.1%	0.7%	4.9%
Euro High Yield	EUR	-0.9%	-0.9%	-2.6%	3.9%
Japanese Government	JPY	-0.2%	-0.2%	1.2%	2.7%
Australian Government	AUD	0.6%	0.6%	5.0%	11.5%
Global Government Bonds	USD	3.2%	3.2%	6.3%	12.4%
Global Bonds	USD	2.5%	2.5%	4.7%	11.0%
Global Convertible Bonds	USD	0.3%	0.3%	0.1%	6.2%
Emerging Market Bonds	USD	2.0%	2.0%	3.4%	11.5%

Asset Class/Region	Currency	Currency returns			
		Week ending 6 Mar. 2020	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	3.2%	3.2%	-4.0%	6.5%
Australian Property Securities	AUD	0.0%	0.0%	0.7%	3.7%
Asia Property Securities	USD	2.0%	2.0%	-7.2%	-3.2%
Global Property Securities	USD	2.8%	2.8%	-5.2%	5.8%
Currencies					
Euro	USD	2.8%	2.8%	0.7%	0.0%
UK Pound Sterling	USD	1.9%	1.9%	-2.0%	-1.2%
Japanese Yen	USD	2.5%	2.5%	2.9%	5.9%
Australian Dollar	USD	2.2%	2.2%	-5.6%	-5.6%
South African Rand	USD	0.4%	0.4%	-10.8%	-9.1%
Swiss Franc	USD	3.3%	3.3%	3.1%	7.1%
Chinese Yuan	USD	0.9%	0.9%	0.4%	-3.2%
Commodities & Alternatives					
Commodities	USD	-2.0%	-2.0%	-15.7%	-12.9%
Agricultural Commodities	USD	-0.4%	-0.4%	-7.7%	-6.3%
Oil	USD	-10.4%	-10.4%	-31.4%	-31.4%
Gold	USD	5.6%	5.6%	9.9%	30.1%
Hedge funds	USD	0.4%	0.4%	-0.7%	5.0%

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