

– Michael Clough

When we talk about risks to our investment outlook, we always warn of the threat of ‘unknown unknowns’, events that come seemingly out of nowhere that can’t be predicted or planned for. All we know is at some point they will arise. As all readers will be aware, two have already arisen in the early stages of 2020, firstly with the tragic incident in Iran when a civilian plane was shot down and secondly with the outbreak of the new coronavirus in China. Understandably, we have received numerous queries from clients, notably on the latter, and this Global Matters Weekly seeks to clarify our current stance on recent events.

As at the time of writing the virus has killed 361 people, with more than 17,000 confirmed cases. Fears have naturally escalated across the globe with cases now confirmed in a host of countries where the patients had not even visited China. Indeed, last Thursday the World Health Organisation deemed the outbreak a global emergency, the sixth time it has made such an announcement since 2009. Fears also stem from the memories of past outbreaks, including SARS (severe acute respiratory syndrome) in 2003 which caused the death of 774 people, Ebola in 2014 which killed over 11,000 people and even the 1918 influenza pandemic which killed an estimated 50 million people. At this stage the current outbreak has not hit the levels of those stated previously and, without meaning to downplay the developments and acknowledging the ever-increasing number of casualties, far fewer people have died compared to the tens of thousands who die each year from seasonal flu. Though the recent developments have of course been frightening, we do think it is important to keep them in a historical context.

Sectors deemed to be most sensitive to this outbreak are luxury retailers, alcohol producers, leisure, airlines and selective commodity producers with these sectors directly

impacted by a fall in customers’ propensity to consume. We are receiving regular updates from the Chinese equity managers we have met with. One has described the situation in China’s largest city: “Shanghai remains quiet with most streets fairly empty. Transport has largely stopped with people staying at home and only going out for food and other necessity shopping.” Chinese consumption, economic growth and certain company earnings are certainly going to take a hit in the first quarter of 2020, though this slump is currently only expected to be short lived, as was the case with SARS in 2003. An announcement over the weekend from China’s central bank that it has now pumped the equivalent of net \$22bn into the economy confirms the economic significance and safe haven assets have moved to price in a negative outlook. US 10 year real yields are now sub-zero and currently sit at their lowest level since 2013. Gold has also bounced up 4% so far this year and has shown its tail risk hedging qualities. Times like this show why we typically have an allocation to the precious metal, and always to safe haven assets more broadly, in portfolios.

Sharp market moves in the crescendo of such events provide opportunities for those who can be active and nimble. Our current approach, as it has been since the outbreak of these events, has been one to not panic. We have not made any alterations to portfolios as a result. As the situation continues to unfold that of course may change as opportunities are presented. Events such as these will come up again in the future, as they have in the past, and markets will be volatile in the short term. Nonetheless we don’t believe they should distract us from our long term objectives for clients. We remain diversified across asset classes so as not to be too affected by large swings in individual companies and sectors.

## The Marketplace

- The UK departed from the European Union on Friday, after more than 47 years of membership
- Global markets continued to fall as the coronavirus concerns dominated sentiment
- Brent crude fell 4.2% ending the week at \$58.2 a barrel
- Gold rose 1.1% ending the week at \$1589.2 an ounce

## Market Focus

### US

- US equity benchmarks lost ground over the past week as coronavirus fears weighed on global trade outlook.
- Despite the broad equity falls, Amazon, Apple and Microsoft all posted positive Q4 earnings and rallied strongly in the week.
- As expected, the Federal Reserve voted to keep rates unchanged at 1.50-1.75% with their post meeting statement remaining mostly unchanged from December.
- Over the week, the S&P 500 fell 2.1%, whilst in fixed income markets US Treasuries gained 1.0%.

### Europe

- Europe was also negatively affected by rising coronavirus fears, with the continental European equity index falling 3.0%.

- Euro-area unemployment fell to its lowest level in over a decade.
- The European Commission's economic sentiment indicator rose in December to a five-month high, showing higher confidence in the industrial and construction sectors

### UK

- The Bank of England voted to maintain its base rate at 0.75%, pointing to improved business sentiment and the stabilisation of global growth.
- Nissan announced that it may abandon EU operations and increase UK operations following Brexit.
- The UK allowed Huawei a minority participation in the UK's growing 5G industry, despite the potential negative consequences on a US-UK trade deal.
- UK gilts returned 0.4% over the past week, with equity markets falling 4.0% due to falling global trade sentiment

### Asia/Rest of The World

- The World Health Organisation declared the coronavirus an international public health emergency.
- In response to the coronavirus, Chinese equity markets opened over 7.0% lower this morning after the Lunar New Year break (their worst daily fall since 2015). China's central bank, the People's Bank of China, injected \$22 billion into markets to provide liquidity

Asset Class/Region	Currency	Currency returns			
		Week ending 31 Jan. 2020	Month to date	YTD 2019	12 months
<b>Developed Market Equities</b>					
United States	USD	-2.1%	-0.1%	-0.1%	21.0%
United Kingdom	GBP	-4.0%	-3.3%	-3.3%	8.5%
Continental Europe	EUR	-3.0%	-0.8%	-0.8%	18.9%
Japan	JPY	-2.7%	-2.1%	-2.1%	10.2%
Asia Pacific (ex Japan)	USD	-4.8%	-3.7%	-3.7%	7.0%
Australia	AUD	-1.0%	5.0%	5.0%	24.7%
Global	USD	-2.2%	-0.6%	-0.6%	17.7%
<b>Emerging markets equities</b>					
Emerging Europe	USD	-5.2%	-3.6%	-3.6%	14.4%
Emerging Asia	USD	-5.2%	-4.5%	-4.5%	6.1%
Emerging Latin America	USD	-4.9%	-5.6%	-5.6%	-3.5%
BRICs	USD	-4.7%	-4.4%	-4.4%	6.9%
MENA countries	USD	-1.5%	-0.7%	-0.7%	1.0%
South Africa	USD	-5.9%	-8.8%	-8.8%	-10.6%
India	USD	-2.7%	-2.1%	-2.1%	10.9%
Global emerging markets	USD	-5.1%	-4.7%	-4.7%	3.8%
<b>Bonds</b>					
US Treasuries	USD	1.0%	2.6%	2.6%	9.4%
US Treasuries (inflation protected)	USD	0.9%	2.3%	2.3%	9.7%
US Corporate (investment grade)	USD	0.5%	2.3%	2.3%	14.5%
US High Yield	USD	-0.3%	0.0%	0.0%	9.4%
UK Gilts	GBP	0.4%	3.9%	3.9%	10.4%
UK Corporate (investment grade)	GBP	0.1%	2.9%	2.9%	12.1%
Euro Government Bonds	EUR	1.3%	2.5%	2.5%	8.3%
Euro Corporate (investment grade)	EUR	0.3%	1.2%	1.2%	6.3%
Euro High Yield	EUR	-0.3%	0.2%	0.2%	9.1%
Japanese Government	JPY	0.4%	0.5%	0.5%	2.1%
Australian Government	AUD	1.1%	3.2%	3.2%	10.7%
Global Government Bonds	USD	1.3%	1.8%	1.8%	6.5%
Global Bonds	USD	1.0%	1.4%	1.4%	6.9%
Global Convertible Bonds	USD	-0.7%	1.5%	1.5%	9.2%
Emerging Market Bonds	USD	1.1%	2.2%	2.2%	9.6%

Asset Class/Region	Currency	Currency returns			
		Week ending 31 Jan. 2020	Month to date	YTD 2019	12 months
<b>Property</b>					
US Property Securities	USD	-1.6%	1.1%	1.1%	12.5%
Australian Property Securities	AUD	-0.7%	6.4%	6.4%	14.2%
Asia Property Securities	USD	-2.2%	-4.0%	-4.0%	0.5%
Global Property Securities	USD	-1.7%	-0.4%	-0.4%	10.8%
<b>Currencies</b>					
Euro	USD	0.5%	-1.3%	-1.3%	-3.2%
UK Pound Sterling	USD	0.9%	-0.5%	-0.5%	0.6%
Japanese Yen	USD	0.8%	0.2%	0.2%	0.4%
Australian Dollar	USD	-1.9%	-4.7%	-4.7%	-7.9%
South African Rand	USD	-3.8%	-6.7%	-6.7%	-11.1%
Swiss Franc	USD	0.7%	0.3%	0.3%	3.1%
Chinese Yuan	USD	-0.1%	0.8%	0.8%	-3.0%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	-3.2%	-7.4%	-7.4%	-3.2%
Agricultural Commodities	USD	-2.3%	-3.1%	-3.1%	-5.2%
Oil	USD	-4.2%	-11.9%	-11.9%	-6.0%
Gold	USD	1.1%	4.4%	4.4%	20.2%
Hedge funds	USD	-0.4%	0.5%	0.5%	6.9%

## Important notes

This document is for information purposes only and does not constitute any investment advice. This document is only intended for use by Newport Distribution Ltd and their clients. This does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the

underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

*Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, EC4R 1EB*

*Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.*

© Momentum Global Investment Management Limited 2020