• Coronavirus and the impact on your investments

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The coronavirus crisis is unprecedented. Risk assets of all varieties have suffered due to the COVID-19 pandemic with global stocks declining as much as 33 % from their February peak. These are highly unusual times where low-to-mid single-digit percentage moves in the major equity indices almost feel like a quiet day. It is likely that the coronavirus pandemic will escalate further in coming weeks, while the measures taken to slow its spread are leading the world into recession.

Equity weightings still significantly reduced

From today's perspective, there is a lot to suggest that we have at least put most of the stock price declines behind us. However, it is by no means certain that we have already seen the absolute lows on the stock markets and based on all historical experience, this seems rather unlikely. It is still too early to sound the all-clear on the stock markets, even though we may witness some more stock market advances in the coming days and weeks. The imponderables and risks for economies, companies and financial markets will remain extremely elevated for the time being and, so will price fluctuations, in all likelihood. There is no visibility yet with respect to the evolution of the pandemic or the extent and duration of containment measures. Hence, growth and earnings prospects for companies are highly unpredictable. The only thing that seems certain at the moment is that the slump in growth worldwide will probably be much greater than in the global financial crisis of 2008/2009. While the global economy is still digesting a supply and demand shock emanating from China, it is now China, too, that is facing new shocks from Europe and the USA as well as from major emerging markets on both the supply and the demand side.

Markets – March 2020

Equity indices	Mar 2020	2020
MSCI ADWI	-13.73%	-21.74%
MSCI World	-12.84%	-20.10%
S&P 500	-12.51%	-20.00%
Euro Stoxx 50	-16.30%	-25.59%
DAX	-16.44%	-25.01%
FTSE 100	-13.81%	-24.80%
Nikkei 225	-10.53%	-20.04%
OMX 30	-11.17%	-16.33%
OMXC 25	-7.57%	-10.16%

Bond indices	Mar 2020	2020
Global Treasuries	-0.88%	1.38%
Global High Yield	-13.55%	-15.02%

Currencies	Price	Mar 2020
EUR/USD	1.1031	0.05%
EUR/SEK	10.9286	3.26%
USD/SEK	9.9052	3.13%
USD/DKK	6.7679	-0.14%

Interests	Mar 2020
US T-bill 3M	0.090
Euribor 3M	-0.363
Libor Fix 3M	0.570
Stibor Fix 3M	0.313
Cibor Fix 3M	-0.133

Other	Mar 2020	2020
Gold	-0.54%	3.95%
Brent Crude Oil	-54.99%	-65.55%
HFRX Index	-5.93%	-6.90%

Focus on risk management to remain for now

In recent weeks, our Investment Committee meetings have been dominated by risk management considerations, and for the time being it will remain this way. Extreme volatilities everywhere, even in otherwise low volatility asset classes such as US Treasuries, are not a suitable environment for aggressive new risk taking and instead argue for reducing and managing risks. After considering all relevant factors and recent developments, the Investment Committee will therefore stay put for the time being, maintaining significantly reduced equity weightings or significant hedges of equity exposure, respectively.

March action points

In addition to the action points taken in February and described in the March Market letter we have reduced by 50 % positions in the Invesco US & European Senior Loan Funds, Partners Group Infrastructure & Fiera Global Equity Fund as well as a 20 % reduction in the Global Value & Growth Equity fund. The latter only being reflected in the April portfolio statements.

Generally the positions we have reduced or exited entirely are all down between 5-15 % since we sold.

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- ## Market outlook

Fixed income

We have experienced significant stress and illiquidity in the High Yield, Junk, Emerging Market debt space but also many Investment Grade bonds have shown sign of illiquidity. This goes hand-in-hand with our strategy of switching into higher quality holdings. On a more general note it is important to note, that the prices quoted by our custodian banks for individual bonds are nothing more than a good indication, and these prices are usually not realistic sale prices. Spreads between bid and ask prices have been wide during the two stress weeks 9-23 March, however narrower spreads and better liquidity has started to come into the market.

Equities

The S&P 500 dropped into bear market territory at a record pace. It took only 16 trading days to reach bear market territory. If you consider recent reports that annual GDP growth will contract sharply in Q1 and Q2, rebound in Q3 and Q4 there may be some reason to start considering equities as a sensible bet, given that bear markets tend to bottom out 5 months prior to the economies hitting a bottom. There is however a big but here, and that is how will COVID-19 impact the USA and India ? If Q3 shows contraction rather than expansion than it may still be pre-mature to buy equities on a large scale. We will continue avoiding sectors such as : airlines, hotel groups, gaming and casino, car manufacturers. Our preferred sectors are : technology, biotech, specialised healthcare, internet security, robotics & automation and stable consumption.

Needless to say we are ready to deploy cash into equities as soon as we have more clarity at company level as well as governmental / macro level.

Forex

The US dollar gained against the EURO roughly 8 % between March 9th to 20th due to funding stress and liquidity issues and weakened again 3 % up to March 27th.
The Japanese Yen strengthened substantially beginning of March and suddenly weakened again during the second half of March.
Currencies which remain under pressure are likely to be AUD, SEK, NOK

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