STONEHAGE FLEMING

5 April 2020

Dear Equity Client

GLOBAL EQUITIES – 1st Quarter 2020

World equity markets were hit by the unexpected global COVID-19 pandemic. The MSCI World Index (including Emerging Markets and dividends) dropped -21.4% (US$ terms, -15.9 % UK£ terms) over the quarter. Our Global Best Ideas Equity Fund returned -13.6% (US$ terms, -7.8% UK£ terms, B-class).

With China taking strong action to contain the virus and delivering positive results in this context, most observers initially underestimated the pace and the scale of the potential infections globally. Most governments were ill prepared for the necessary actions and treatments, with the result that most countries had to lock down social interactions, with immensely negative economic effects. Along with this, following the drop in oil demand and the oil price, negotiations between Russia and Saudi Arabia to limit supplies failed, causing a further collapse in the oil price. This triggered spikes in the cost of higher yielding corporate debt and a further collapse in investor confidence. COVID-19 is a truly 'black swan' event, triggering a deep global recession and pushing equity markets officially into bear market territory.

Because this crisis is about human health and life, all governments and central banks are able to offer almost limitless financial support through various aggressive monetary and fiscal measures. The availability of funds is currently almost of no object to save businesses and feed the nation during the various lockdown measures (although this is logistically difficult to manage). This support aspect is critical and very different from all previous economic crises.

Whilst China is currently in a slow recovery phase, the rest of the world is still in various stages of economic lockdowns. It is absolutely essential to properly contain the virus to lower risk of another pandemic following this one, and we can expect to eventually return to a different social and economic environment than what we were used to. Hopefully a cure for the virus can later be found, but it is too early to predict a timeline on that. In the interim, we expect market sentiment to be guided by new infection rates to quite some degree. A solution to the oil impasse would also be helpful.

The economic outlook is now particularly clouded. It depends clearly on the success in containing the virus and getting economies restarted. No-one can put a timeline with conviction on this either. We, though, also do believe that the world has made co-ordinated progress in understanding how to deal with this monster, the necessary financial support is at hand, that scientists will later develop a successful vaccine and that the world economy will recover.

Whilst this is a painful experience for us to report on, we are also confident that we have the right investment philosophy of owning outstanding quality businesses with a long-term orientation. We have, therefore, not been caught in the specific large casualties of COVID-19 and do not see reason for any material changes in the portfolio. We are considering some of the great new quality opportunities.

We are grateful for all your support.

With best wishes for good health.

Our thoughts are with everyone affected by COVID-19, be it directly or indirectly.

Gerrit Smit
Partner – Head of Equity Management

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