McLaren
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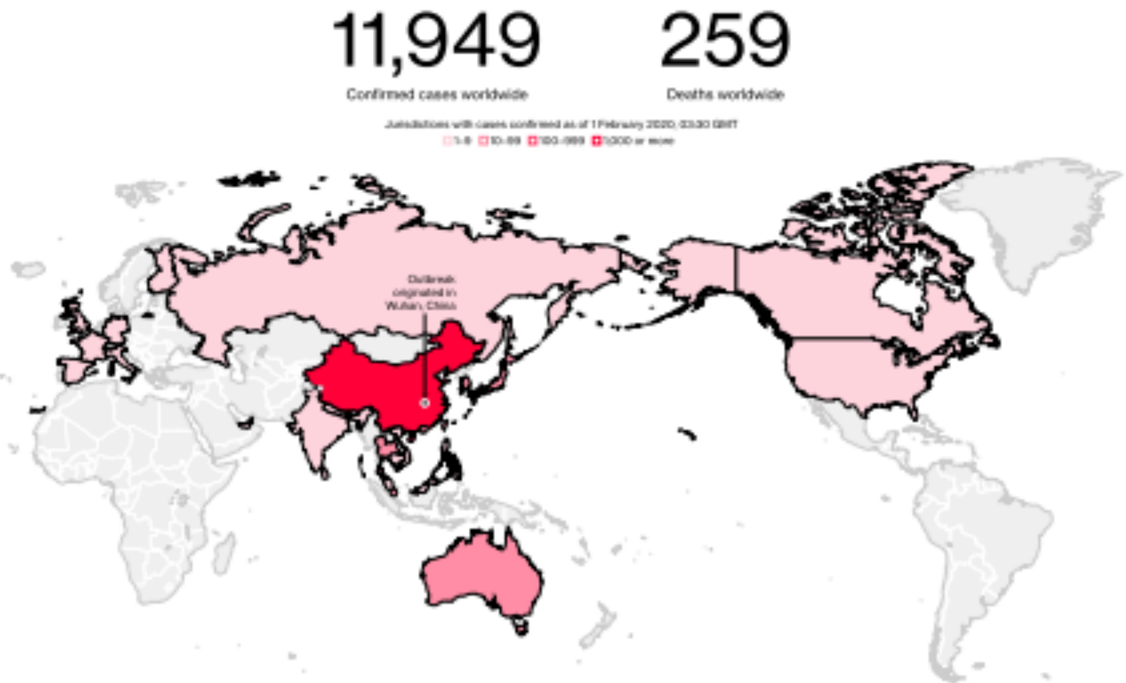
Global Market Strategy – February 2020

China virus halts inexorable stockmarket

No one likes to hear about the spread of a previously unheard of virus but the corona virus emanating from China has thankfully put a break on the equity markets which were beginning to trade on over exuberance.



Source: Bloomberg, February 1st

The World Health Council declared the virus a world health emergency on January31st, and what at first was dismissed by the financial markets is now being treated seriously. All markets are suffering. Cruise ships are acting as offshore quarantine hubs. Airlines are cancelling flights. International freight has been particularly hard hit as shipping rates plummet at what is in any case a weak time of year for cargo movements.

The equity backdrop is nevertheless encouraging. US company earnings for the last quarter surpassed expectations, and share values would under normal circumstances be higher than current [high] levels. Taken as a whole, US markets fell between 2 -2.5% last week. Asia market falls have been more severe. China extended its new year holiday for three days to give authorities extra time to get a handle on the virus but when Chinese equities start trading on Monday, a fall of 8-10% is possible. Shanghai markets fell 6% in May when trading resumed following a holiday break and traders began dealing with fresh news of a reverse in prospects for a US-China trade deal.

The setback to the equity markets caused by the corona virus presents opportunities. Coinciding with the end of the UK tax year, this is a chance for those making pension and ISA contributions across the two tax years to buy stocks at a discount. It is difficult to know where the bottom of this sell-off is, but given the speed of the spread of it the virus, fear is likely to predominate, quite possibly for some weeks. For those invested, it is 'baton down the hatches' and don't panic. Sit this out and if possible take advantage of the opportunity.

With the uncertainty for the equity markets comes greater certainty for precious metals. Roloef-Jan van den Aker writes a wonderful running commentary from his detailed technical analysis on Twitter (what, not got a Twitter account?!) and January 30th he drew attention to positive signs for the silver market: "Silver is bottoming above the MA-50 line at USD/oz.17.48 expect a rally from here. A close above the horizontal resistance around USD/oz.18.70 is required for a durable Buy signal." Silver closed January 31st at $17.93 oz. There is an expectation that silver could soon be testing $21 (https://twitter.com/hashtag/Silver?src=hashtag_click).

Back on US equities for a moment: Roloef comments on the SP500: “The #SPX daily future deteriorates after prices violated the rising trend line below 3,292. Solid support comes in between MA-50 line at 3,214 and horizontal line around 3,210. A close below this area with prices exceeding the January low at 3,181 is required for a Sell signal.”)

Source: Roloef-Jan van den Akker, January31st

Of the eight talks given at the first Personal Finance Society conference of the year, delegates were subjected to three to do with ‘ESG’ - Environmental, Social & Governance: What is the consequence of the generation of a company’s produce to the environment? What is the impact of a business on local communities, on the health and welfare of employees and to what extent if any are animals harmed or tested in bringing product to market? How transparent is the running of the company, to what extent if any is there a conflict of interest (same Chairman and CEO), are men and women treated equally for the same role, do employees have a say in the decision making?

As recently as 2-3 years ago, businesses feared that taking a stance on principal would result in inferior bottom-line performance, but now they are coming to realise that not putting ESG at the forefront of a company’s forward planning will result in investors turning away from them. Conservation of our planet for future generations has become a predominant thought, and Liontrust’s ‘sustainable’ fund range is showing how investment returns can be highly attractive when taking a deliberate stance in favour of ESG. Their Sustainable Future ‘Cautious’ Managed fund in the Market Risk 40-85% maximum equity Multi-Asset sector is first quartile across all five reporting periods, returning 17.6% over the last 12 months.

Favoured investment plays:

Nil risk:	
Cautious risk:	Cash
Balanced risk:	Managed / Multi-asset funds, Corporate bonds
Market risk:	**UK equity**
Adventurous risk:	**Asia, US equity**, **European equity**
Speculative risk:	**Technology, Healthcare, China, India, Other EM, Gold/Silver**

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (all US) 21%, China 6%, Asia 12%, Global Equity 24%, European equity 4%, UK equities 15%, US equities (other than Tech) 6%, Emerging Market equity 8%, Precious metals 4%