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Dear Client,

Since our previous bulletin to you, on 3 March, the Coronavirus and its devastating impact worldwide has continued to dominate the headlines. This is first and foremost a humanitarian crisis and we hope that you and your family are safe and in the best possible health.

The increasingly strict containment measures taken by governments, to prevent healthcare systems becoming overwhelmed, are dramatically changing our way of life. Most of ISGAM's staff are working from home; due to the digitalization of our business this means no disruption to our workflow or the services we provide.

Markets continue to be extremely volatile. This has been the most rapidly evolving bear market in modern history, with the exception of October 1987. No asset class has escaped volatility, large drawdowns and bouts of illiquidity, not even the usual safe havens such as money market instruments, gold and high-quality bonds.

This is a sign to us that Central Banks have not yet done quite enough to stabilize markets, though they are getting there – having clearly learned the lessons from the 2008 financial crisis they are quicker to react this time. Once they have managed to restore the proper functioning of credit markets the groundwork for a broader recovery will be laid.

Having lived through a number of bear markets in our history, the one that felt most "similar" in many aspects (including lack of liquidity in fixed income markets) was 2008. Then, as now, it took a concerted and coordinated effort from global central banks to provide unlimited liquidity, and a special effort by the US Federal reserve to establish ample US dollar liquidity to global markets – this is now being accomplished. Next, governments need to step up to the plate with sufficient and targeted fiscal packages to help companies and households bridge the economic "demand shock" and prevent lay-offs and corporate bankruptcies.

The fiscal response now also seems to be coming together; there remains some political bargaining to be done both in the US and in Europe but, as in 2008, eventually there will be a resolution as no political party will want to be seen as obstructing the economy. Where the current crisis differs from the Financial crisis, is

1) The virus is a humanitarian crisis and cannot be “blamed” on a government or industry (such as the financial institutions in 2008, or “irresponsible governments” in the 2011 eurozone crisis). Therefore, fiscal aid will be seen in the light of human solidarity rather than a “bailout” of a specific industry or country, and probably more easily agreed upon.
2) The eurozone, though not yet as fiscally cohesive as one might wish, has achieved better unity than it had in 2008 and the ECB has more tools at its disposal, including targeted lending programs for companies. The EU seems more open to joint action, has been quick to waive countries’ budget restraints and there is even talk of joint euro-zone bond issues.
3) The Financial system is much stronger than it was in 2008; banks are better capitalized and less leveraged, and households are less indebted. Governments on the other hand have higher debt levels, but at ultra-low interest rates these are likely to be sustainable.

With much uncertainty around the length of lockdowns and depth of recession we cannot yet say that markets have bottomed. We do see however that Central Bank policy and fiscal policy is starting to come together in a meaningful way, faster than in 2008.

We will need to see a decrease of new virus infections outside of China for markets to be able to estimate the length of the economic downturn and see light at the end of the tunnel. As in early 2009, the first leg of recovery in asset prices will be unexpected and swift and will only be experienced when still invested. As portfolios were underweight their “neutral” equity weighting going in to the downturn, we have some “dry powder” to put to work once we feel a market bottom has been established – at that point seriously attractive levels of future returns will be available. We also reiterate that portfolios are invested in high quality assets, that may “bend” during market volatility but not “break”.

Year to date declines in major stock indices have been significant:

S&P 500 -30.75%, Eurostoxx Index -32.68%, FTSE All Share Index -34.3%.

To put this in perspective we attach an interesting piece from Pimco and Morningstar on the development of bear markets in general.

We will include more in-depth comment and analysis in our 31 March quarterly report. Until then, please do not hesitate to contact us should you have any questions.

ISGAM Portfolio Management Team