Market Review

MARCH 2020

NEAL KELLY MSC.(HONS) CFP® SIA RPA QFA

March Market Review

3 Year Review

*the returns above are gross of contract, policy or adviser fees

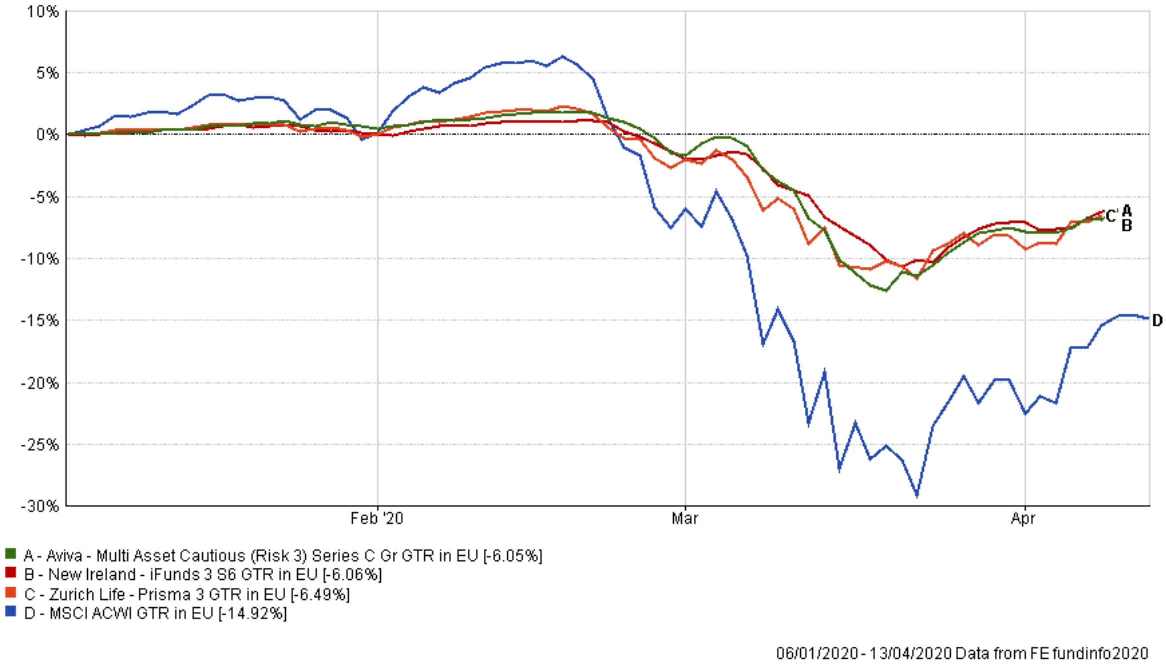
A LITTLE BIT OF CONTEXT

As you can imagine the majority of our conversations over the last number of weeks have been about portfolio valuations and what's the plan of action given the current situation. As you all undoubtedly know at this point is that we have recommended that clients stay the course and not jump out of their portfolios into cash. That was the case a number of weeks ago and remains the case today.

Reflecting on the recent drawdown and the extreme lows achieved, these were without a doubt a result of emotional decision making. Some investors panicked and moved to cash, crystalised their losses and are now waiting to move back into the market. Now as they wait for something to happen, the MSCI All County World Index (MSCI ACWI) grew by 20.13% from its lowest on the 23 March at the time of drafting this note.

That said I am not suggesting that this is the end of this period of volatility. No one can call the bottom of any market cycle, no matter what the reason, and I do believe that volatility will continue while this pandemic plays out. But we must understand that markets will turn on a penny and if you are sitting on the side lines, for whatever reason, you will not benefit from an upward correction.

But let's put this correction into context. For the last number of years Thomond Asset Management has been taking a very cautious position. We believed that we were at the mature end of the business cycle and a correction was inevitable. Our houseview placed the majority of our clients in a defensive position in preparation for a market drawdown. So how did that play out? Representing some of our positions I've taken 3 of the most popular multi-asset funds, rated 3 on the ESMA risk scale and compared them to the MSCI ACWI.



What we are seeing is that yes the market experienced a dramatic drop but the positions we took by comparison did not experience anything like a full correction.

Our advice remains the same, to hold your positions. Ideally we would also suggest that you ignore the news, difficult we know as we are all locked down at home. But news agencies fuel peoples emotional unease with "journalists" commentating and attempting to predict future outcomes.

MARCH OVERVIEW

The European Central Bank did not change interest rates in March but committed to €120bn more of quantitative easing, additional liquidity support for banks and incentives for them to lend to businesses (in particular medium- and small-sized companies). They also launched a €750bn temporary programme of government, corporate bond and commercial paper purchases. In addition national governments announced various fiscal packages, with Germany making a similar commitment to the UK by compensating staff who are sent home during this crisis in addition to underwriting corporate debt. Much like in the UK and the US, the services

PMI tumbled in March to 28.4, an all-time low; manufacturing PMI didn't suffer quite as much, 'only' down to 44.8 (from 49.2 the previous month); overall composite PMIs also reached a record low of 31.4 from 51.6 in February.

In the US, the Federal Reserve had a bit more 'dry powder' to play with but they quickly used this up by cutting rates from the range of 1.5-1.75% to 0-0.25% and effectively committing to unlimited quantitative easing. This included funding to support consumer and business debt and direct lending to large corporations as well as, for the first time, the purchasing of corporate bonds. The US government also pledged to provide $2trn of fiscal support which will include most taxpayers receiving a cheque for $1,200 and additional money for those with children. These measures may not be as effective as what the UK has done to ensure staff stay employed and that has probably been reflected in the weekly unemployment claims for 21st March which spiked to a record high of 3.3m (data released in early April for week ending 28th March shows this has doubled to 6.6mn). Similarly to the UK, US services PMI fell dramatically to 39.1 in March, from 49.4 in February, whilst manufacturing edged into contractionary territory (49.2), resulting in a composite PMI of 40.5 for March.

In order to try and delay the spread of Coronavirus Prime Minister Boris Johnson announced a UK shutdown during March with strict guidance as to what people can leave their house for. The Bank of England acted twice, cutting rates from 0.75% to 0.1%, restarted quantitative easing to the tune of an extra £200mn and introduced funding and purchases schemes as well as capital guidance for banks, all aimed at providing credit to businesses (particularly small and medium-sized). Alongside this, the government announced a large fiscal stimulus which included business loans, paying 80% of employee wages to prevent firms having to lay off staff and covering 80% of the incomes of the self-employed. Data points which show economic activity since the shutdown have been fairly sobering, with the flash composite purchasing managers' indices (PMI) for March slumping to 37.1 (from 53 in February), mostly off the back of a very weak services component as large chunks of the economy ground to a halt (goods can be stockpiled, services can't). Datapoints printed in March but for periods prior to the increase in UK COVID-19 cases had not been favourable either, with GDP growth confirmed at 0% (quarter-on-quarter) for Q4 2019 and unemployment nudging up to 3.9% in January.

To date, Japan has been relatively immune to the COVID-19 outbreak, according to official numbers, although this could change. A decision has been made to postpone the Tokyo Olympics to 2021. Japan's GDP for Q4 2019, was revised down in the final reading to -1.8% quarter on quarter. The composite PMI flash reading for March showed a stark drop to 35.8, the weakest ever figure, as with other countries, this was driven by particularly weak services numbers. The Bank of Japan has also been active during this time by doubling the amount of ETFs and Real Estate Investment Trusts it intends to purchase each year to ¥12trn and ¥180bn respectively, increased corporate debt purchases by up to ¥2trn and offering loans against corporate debt.

China is now showing tentative signs of people going back to work and the economy starting to pick-up slightly and, more importantly, with no noticeable increase in reported cases and deaths. Data looking at January and February showed exports slumping 17.2% year-on-year so there will be a focus on the next few readings to look for any signs of improvement. We have already seen improvements in PMIs with manufacturing jumping to 52.0 – the strongest level since September 2017.

Disagreement over oil supply cuts between Russia and OPEC triggered both Saudi Arabia and Russia to increase supply. This hit oil prices hard and has subsequently affected a large number of other oil export reliant countries.

The euro had a decent month over March. Strengthening 2.9% against the pound, 5.2% against the commodity exposed Australian dollar and was also up strongly against most Emerging Market currencies, albeit largely due to their weakness, up +13.4% against the South African rand and 14.8% against the Brazilian real. The euro was flat against the Japanese yen and weakened slightly against the US dollar, down 0.1%.

Asset Classes

All asset classes fell heavily over the month with the exception of cash and government bonds which were essentially flat. Global equities were particularly hard hit, although Japanese equities shone in a relative sense.. Pacific ex Japan equities (predominantly made up of Australian shares) were the worst performing equity asset class in euro terms, but real assets and specifically global property and commodities sold off hard (WTI oil fell to $20/barrel at one point).

Whilst government bonds held up well over the month (albeit with a lot of intra-month movement), riskier bonds really suffered, with high yield bonds the worst performer due to liquidity issues and an increased fear of default. High yield bonds of energy companies, a significant part of the index, struggled in particular as a result of the lower oil price.

Cash & Stable Income-Assets	Global Gov Bonds	Global Inflation Linked Bonds	Global Corporate Bonds	Global High Yield	Emerging Market Bonds	Global Equities	US Equities	Europe Equities	Japan Equities	Pacific ex Japan Equities	Emerging Market Equities	Global Property	Commodities
€	HDG	HDG	HDG	HDG	HDG	€	€	€	€	€	€	€	€
-0.04%	-0.02%	-3.57%	-6.72%	-14.20%	-13.48%	-13.14%	-13.08%	-14.35%	-7.05%	-20.16%	-15.31%	-22.32%	-29.35%

Always seek the advice and support of your investment adviser before making any significant changes to your investment positions.

This outlook and commentary does not constitute an offer and should not be taken as a recommendation from the author or Thomond Asset Management. Advice should always be sought from an appropriately qualified professional.

WARNINGS

1. The income you get from an investment may go down as well as up.
2. The value of your investment may go down as well as up.
3. Benefits may be affected by changes in currency exchange rates.
4. Past performance is not a reliable guide to future performance.

REGULATORY STATUS

Thomond Asset Management is regulated by the Central Bank of Ireland as an Investment Business Firm under Section 10 of the Investment Intermediaries Act, 1995 (as amended) and registered as an insurance, reinsurance or ancillary insurance intermediary under the European Union (Insurance Distribution) Regulations, 2018.

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