CORONAVIRUS COMMENT

Stock markets sold off towards the end of February with investors concerned by secondary outbreaks of the coronavirus in Italy, South Korea and Iran. While the human cost is of course tragic, coronavirus also carries an economic cost, chiefly through reduced consumption, lower (or cancelled) leisure activity and, in China's case, labour shortages as workers remain at home.

As a result of the spread of the disease and its impact, a number of clients have contacted us about their portfolios, questioning whether they should sell investments. We would caution against a knee jerk reaction to move to cash. While the emergence of clusters outside of China is an unwelcome development, the Chinese authorities and international community have mounted an aggressive response to the disease. Coronavirus will depress global economic growth in 2020, but it is impossible to say whether markets are currently too optimistic or pessimistic about its progress.

We are currently waiting to see whether the World Health Organisation (WHO) declares coronavirus as a Phase 5 pandemic, which would mean the disease was spreading from human to human in more than one country of one WHO region.

Encouragingly, the Chinese authorities appear to be checking the progress of coronavirus. An extension to the Chinese New Year holiday, travel bans and event cancellations have all helped the country to get a handle on the disease. As a result, the number of new cases in China (outside of Hubei province, the original epicentre) has been declining. While there are questions about whether the numbers are skewed for political reasons, the trend the numbers portray is likely accurate.

Global economic growth is still expected to be between 2-2.5% this year, with the potential for a rebound towards the end of 2020. For investors who are mindful of selling their investments now, there is a clear risk of selling at the bottom and having to buy back into the market once stocks have rebounded. There are prudent steps investors can take, such as limiting their exposure to the travel and tourism sector, but this could also be a good opportunity to increase investments to high quality companies which reliably grow their earnings over time.

The immediate impact on individual companies themselves is uncertain. Some have tried to provide an estimate of the effects, with Diageo, the alcoholic drinks company, expecting a 4% reduction in earnings per share for 2020. By its own admission, however, Diageo's figures are highly contingent on the progression of the disease and other companies have chosen not to provide guidance. On Diageo's assessment, disruption from the disease persists into March, with a gradual return to normality by the end of the year.

We expect investors to react more to ongoing news flow around the virus rather than company updates about what it might mean for their individual businesses. Stock markets may continue to fall, but it is worth noting that the world's policymakers stand by to cushion the impact of the virus. The Chinese central bank, the People's Bank of China, has already taken steps to protect the economy. Attention will now turn to whether the US Federal Reserve follows in March. Western governments may also follow the Chinese authorities in boosting spending, helping to further protect the global economy.

From a more general perspective, we would encourage clients to 'wait out' the impact of the coronavirus. Any decision to move to cash/sell down shares needs two things to happen for the decision to pay off: 1) markets must continue to fall and 2) a decision must then be taken to reinvest before share prices recover.

As long-term investors, we believe in identifying fundamentally strong companies, and investing in them on the basis of their future prospects. Coronavirus will not alter the business model of the companies we invest in. It is not so much about timing the market, but time in the market, with long-term investors benefiting from steadily compounding returns over the years, as any chart of historic market performance will show.

We will continue to monitor developments on a daily basis and keep our clients informed, including through our Weekly Comment email and other website and email updates. If you have any questions, please contact your Investment Manager, who will be able to provide you with further information regarding the specifics of your portfolio.

QUILTER CHEVIOT
Head Office
One Kingsway
London WC2B 6AN

Please contact our Marketing Department on +44 (0)20 7150 4000 or email marketing@quiltercheviot.com

quiltercheviot.com