

## Breathe, think, act

– *Lorenzo La Posta*

When markets panic, the only investment mantra I believe in is “breathe, think, act”. Sell-offs can provide fantastic buying opportunities, but elevated risks often accompany them. After last week’s sharp drop in global equities, is this now a good entry point or is this a falling knife we do not want to catch? Are markets overly worried about coronavirus or are more negative prospects not yet priced in? We believe that, at these levels, risk assets offer attractive long-term expected returns, but more volatility is likely to come.

As of today<sup>1</sup>, almost two months after the first reported cases of coronavirus, there have been around 89,000 confirmed infections and 3,044 deaths worldwide. People are understandably worried but, bearing in mind that most infected people (those with mild symptoms, which accounts for around ~80% of estimated cases) are not accounted for in these numbers, the “effective fatality rate” appears to be a much smaller ~0.7%.

As fears of a global pandemic mounted, global equities experienced their worst week since the global financial crisis and the fastest correction in history, with US and European equities falling -11.5% and -12.3% respectively, dragging down high-risk credits too, with Euro and US high yield spreads widening by +91bps and +109bps. With markets tanking and investors seeking optionality and insurance, the CBOE Volatility Index (so called “Wall St Fear gauge” or simply VIX) rose from ~17 to ~40 over the week. Interestingly, typical defensive assets delivered downside protection at different times: the gold price touched an intra-day peak of +2.8% on Monday but lost 6% from then until the end of the week; the Japanese Yen rose steadily and closed the week with a gain of +4% against the US dollar; US 10 year Treasury yields, after being almost flat on Monday, narrowed by ~33bps over the following four days to all-time lows (with the market currently pricing in two cuts by the April Federal Reserve meeting).

Real economies are suffering too. In an effort to reduce contagion, many countries have been restricting travel, cancelling large public events, suspending public transportation and quarantining people. As previously discussed<sup>2</sup>, the predictable effects of such measures have been a short-term decline in economic activity with a deterioration in consumption, growth and investor sentiment. Looking forward, we believe there are two scenarios likely to take place. In the more negative scenario, infections increase in western countries and economies hit the brakes further to prevent contagion. Here, a synchronised global slowdown taking place in an already weak, mature business cycle could increase recessionary fears and spark a further sell-off. In a more positive scenario, western economies take advantage of the lead time and cope better with the outbreak with minimal economic disruption. Also, as China restarts its operations and global governments and central banks plan for fiscal and monetary stimulus, economies recover faster than expected and oversold financial markets reprice as a consequence. There is elevated uncertainty out there and it is not easy to evaluate which outcome will play out, nor what is priced into current market valuations, but we are currently leaning towards the latter scenario.

We came into last week’s rout with lower equity allocations than in most of the last five years in recognition of elevated valuations and risks. This allowed us to add some risk back on Friday (when we meaningfully rebalanced our equity allocations, which had fallen below their targets) and to still have some headroom to take a constructive view going forwards, which we are thinking of implementing via options. In such a volatile environment, a diversified portfolio is the most efficient way to achieve your long-term investment outcomes. Breathe, think and act without letting panic take the lead.

<sup>1</sup> Sources: Bloomberg, Chinese Center for Disease Control and Prevention

<sup>2</sup> “Unknown unknowns: the coronavirus”, Michael Clough, Global Matters Weekly, 03 February 2020



## The Marketplace

- Rising COVID-19 fears caused the fastest market correction in history
- Global markets declined 10.8% over the past week
- Brent crude fell 13.6% ending the week at \$50.5 a barrel
- Gold fell 3.5% ending the week at \$1585.7 an ounce

## Market Focus

### US

- US equities fell 11.5% over the past week in reaction to the sharp increase in coronavirus cases in the western world.
- All sectors within the main US index fell during the week, with energy stocks declining the most due to the fall in oil prices.
- US firms issued profit warnings citing supply chain disruptions resulting from the coronavirus.
- Treasury bond yields hit record lows and high yield markets suffered from the increasingly risk off sentiment.

### Europe

- Italy reported a rapid increase in coronavirus cases, leading to the quarantine of 11 towns, which was the key driver of escalated fears in the west.

- European equities fell by 11.7% over the past week, with emerging European equities falling 14.2%.
- Euro government bonds returned 0.2%, with investment grade and high yield indices faring worse, at -0.6% and -2.8%, respectively.

### UK

- British Prime Minister Boris Johnson announced a tough stance on EU trade talks, with reports that the EU is expecting a UK walkout in order to force the EU to make a last-ditch offer.
- UK equities fell 10.7% over the past week.
- The Bank of England pledged to help stabilise the economy and financial markets in light of last week's big falls.
- UK gilts rose 0.9% last week.

### Asia/Rest of The World

- The Japanese government requested that schools close in order to subdue the spread of the virus.
- Reports from China point towards its outbreak coming under control with a drive to get people back to work.
- The OECD has forecasted that the coronavirus could halve global economic growth this year if the outbreak continues to worsen

Asset Class/Region	Currency	Currency returns			
		Week ending 28 Feb. 2020	Month to date	YTD 2020	12 months
<b>Developed Market Equities</b>					
United States	USD	-11.5%	-8.3%	-8.4%	7.6%
United Kingdom	GBP	-10.7%	-9.1%	-12.1%	-3.5%
Continental Europe	EUR	-11.7%	-7.5%	-8.3%	5.6%
Japan	JPY	-9.7%	-10.3%	-12.2%	-3.6%
Asia Pacific (ex Japan)	USD	-6.6%	-4.2%	-7.8%	0.1%
Australia	AUD	-9.5%	-7.7%	-3.1%	8.6%
Global	USD	-10.8%	-8.5%	-9.0%	4.6%
<b>Emerging markets equities</b>					
Emerging Europe	USD	-14.2%	-14.6%	-17.7%	-0.1%
Emerging Asia	USD	-5.8%	-2.9%	-7.2%	1.4%
Emerging Latin America	USD	-10.9%	-12.1%	-17.0%	-11.9%
BRICs	USD	-6.6%	-3.4%	-7.7%	2.0%
MENA countries	USD	-4.2%	-7.0%	-7.7%	-5.4%
South Africa	USD	-15.7%	-12.9%	-20.6%	-17.8%
India	USD	-7.9%	-7.5%	-9.5%	2.6%
Global emerging markets	USD	-7.2%	-5.3%	-9.7%	-1.9%
<b>Bonds</b>					
US Treasuries	USD	2.3%	2.8%	5.5%	12.8%
US Treasuries (inflation protected)	USD	1.1%	1.5%	3.8%	11.3%
US Corporate (investment grade)	USD	0.5%	1.3%	3.7%	15.8%
US High Yield	USD	-2.6%	-1.4%	-1.4%	6.1%
UK Gilts	GBP	0.9%	1.4%	5.4%	13.0%
UK Corporate (investment grade)	GBP	-0.9%	-0.6%	2.3%	11.4%
Euro Government Bonds	EUR	0.2%	0.5%	3.0%	9.2%
Euro Corporate (investment grade)	EUR	-0.6%	-0.4%	0.8%	5.2%
Euro High Yield	EUR	-2.8%	-1.9%	-1.7%	5.0%
Japanese Government	JPY	0.8%	0.9%	1.4%	2.7%
Australian Government	AUD	1.1%	1.2%	4.4%	10.9%
Global Government Bonds	USD	2.2%	1.2%	3.0%	8.7%
Global Bonds	USD	1.3%	0.7%	2.1%	8.2%
Global Convertible Bonds	USD	-3.3%	-1.6%	-0.2%	5.5%
Emerging Market Bonds	USD	-2.2%	-0.8%	1.4%	8.7%

Asset Class/Region	Currency	Currency returns			
		Week ending 28 Feb. 2020	Month to date	YTD 2020	12 months
<b>Property</b>					
US Property Securities	USD	-12.6%	-8.0%	-7.0%	2.9%
Australian Property Securities	AUD	-8.1%	-5.3%	0.7%	6.9%
Asia Property Securities	USD	-5.4%	-5.2%	-9.0%	-4.0%
Global Property Securities	USD	-10.0%	-7.4%	-7.7%	3.0%
<b>Currencies</b>					
Euro	USD	1.3%	-0.7%	-2.0%	-3.3%
UK Pound Sterling	USD	-1.6%	-3.3%	-3.8%	-3.8%
Japanese Yen	USD	3.2%	0.2%	0.4%	2.9%
Australian Dollar	USD	-2.1%	-3.1%	-7.6%	-8.6%
South African Rand	USD	-4.8%	-4.8%	-11.2%	-10.6%
Swiss Franc	USD	1.0%	-0.5%	-0.2%	3.0%
Chinese Yuan	USD	0.5%	-1.2%	-0.4%	-4.3%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	-8.8%	-7.1%	-14.0%	-11.9%
Agricultural Commodities	USD	-5.1%	-4.4%	-7.3%	-6.4%
Oil	USD	-13.6%	-13.1%	-23.5%	-23.5%
Gold	USD	-3.5%	-0.2%	4.1%	20.6%
Hedge funds	USD	-1.9%	-0.8%	-0.4%	5.3%

For more information, please contact your adviser or alternatively contact:

**Financial Partners Ltd.**

泛柏資產管理有限公司  
9th Floor, Centre Mark II  
305-313 Queen's Road Central  
Sheung Wan, Hong Kong

Tel +852 2827 1199  
Fax +852 2827 0270  
[client.services@f-p.hk](mailto:client.services@f-p.hk)  
[www.f-p.hk](http://www.f-p.hk)

**Important notes**

This communication is issued by Financial Partners Limited 泛柏資產管理有限公司 and/or a Financial Partners' related company (collectively, and individually "FP") solely to its clients, qualified prospective clients or institutional and professional investors. Unless stated otherwise, any opinions or views expressed in this communication do not represent those of FP. Opinions or views of any FP company expressed in this communication may differ from those of other departments or companies within FP, including any opinions or views expressed in any research issued by FP. FP may deal as Distributor or Agent, or have interests, in any financial product referred to in this email. FP has policies designed to negate conflicts of interest. Unless otherwise stated, this e-mail is solely for information purposes.

This message may contain confidential information. Any use, dissemination, distribution or reproduction of this information outside the original recipients of this message is strictly prohibited. If you receive this message by mistake, please notify the sender by reply email immediately.

Unless specifically stated, neither the information nor any opinion contained herein constitutes as an advertisement, an invitation, a solicitation, a recommendation or advice to buy or sell any products, services, securities, futures, options, other financial instruments or provide any investment advice or service by FP.

No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any figures, forecasts, prospects or returns (if any) contained in the message. Such figures, forecasts, prospects or returns are by their nature subject to significant uncertainties and contingencies. The assumptions and parameters used by FP are not the only ones that might reasonably have been selected and therefore FP does not guarantee the sequence, accuracy, completeness or timeliness of the information provided herein. None of FP, its group members or any of their employees or directors shall be held liable, in any way, for any claims, mistakes, errors or otherwise arising out of or in connection with the content of this e-mail.

This e-mail and any accompanying attachments are not encrypted and cannot be guaranteed to be secure, complete or error-free as electronic communications may be intercepted, corrupted, lost, destroyed, delayed or incomplete, and/or may contain viruses. FP therefore does not accept any liability for any interception, corruption, loss, destruction, incompleteness, viruses, errors, omissions or delays in relation to this electronic communication. If verification is required please request a hard-copy version. Electronic communications carried within the FP system may be monitored.