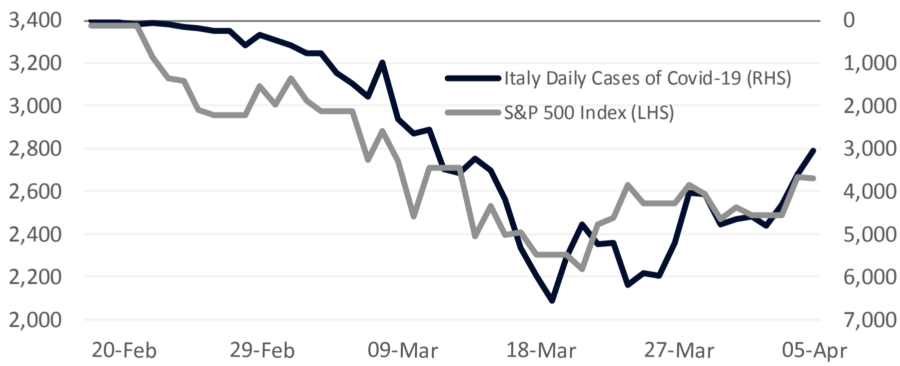
April 2020
Issue No. 15

GLOBAL INSIGHT

Overview

- The world has been left in a state of hiatus and the uncertainty surrounding when it will end have had further ramifications on our status quo, and in particular the business landscape.
- In our **feature article,** Emily Woolard, Strategy & Marketing Manager at Hottinger Group, explores the possibility that global lockdown could change the business land scape for good.
- In summary, the pandemic has given us a new appreciation for the businesses which really matter to our daily lives. Although some changes to demand are temporary we can also expect to see permanent shifts in the way that consumers shop and work.
- In our **Macro View**, we cover the slowdown in economic activity and the policy response to the crisis.
- We believe the global recovery to be muted by subdued demand as businesses and consumers will remain nervous in fear of a second wave of infections accompanied for some time by weak labour markets.
- In our **Investment Outlook**, we assess activity in the first quarter and the position that financial markets find themselves.
- We went into the new year with caution having seen a 4th quarter equity rally that seemed to ignore the fact that corporate earnings were flat, putting pressure on a benign economic scenario.
- There is little doubt that the global economy is currently in recession.
- At this time, we believe that we do not have enough information to establish fundamental valuations and any rally in risk assets is pure speculation.

The relationship between Italian daily cases of COVID-19 and the S&P 500



Sources: Deutsche Bank & Bloomberg

Inside this issue

Economic Highlights

- UK manufacturing PMI read at 47.8 in March, down from 51.7 in February.
- The US ISM Manufacturing Index (PMI) declined by -5.2 over Q1 2020
- Eurozone manufacturing PMI in March read at 44.5, the steepest month-on-month contraction the manufacturing sector has seen in 8 years.

Contact Details

Hottinger Investment Management Limited

27 Queen Anne's Gate
London SW1H 9BU

+44 (0) 20 7227 3400

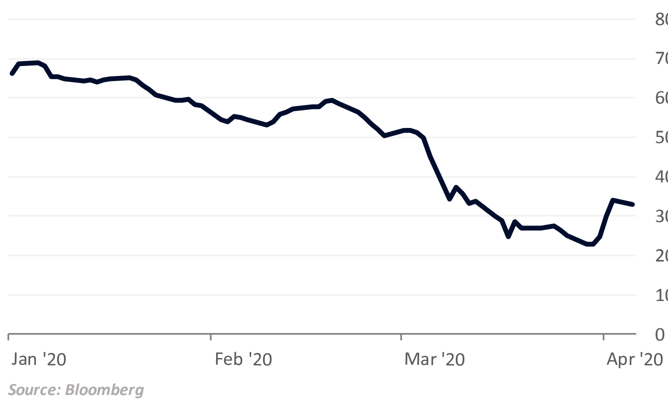
info@hottinger.co.uk

www.hottinger.co.uk

Based upon information available up to and including 9th April 2020

Key Issues in Charts

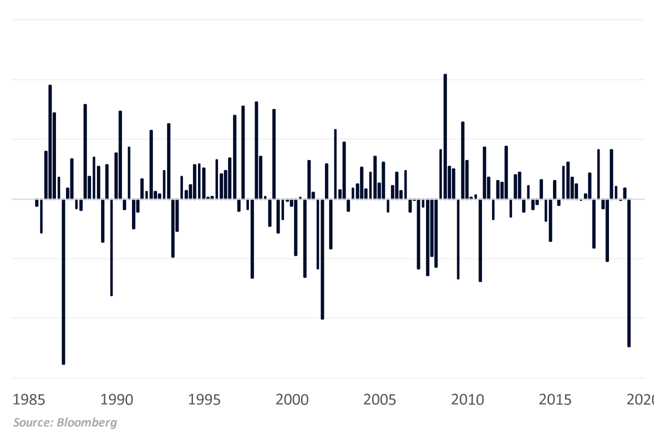
Brent Crude Oil Price, $ per barrel



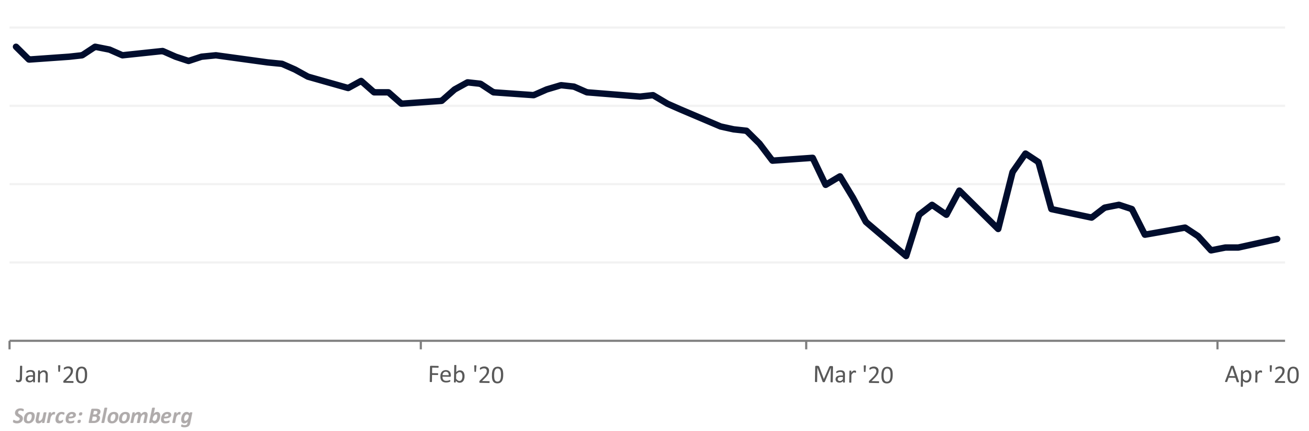
- On the 8th March, Saudi Arabia initiated a price war on oil with Russia as Russia refused to comply on proposed supply cuts aimed at supporting the price of oil during the current slow-down.
- The price of Brent Crude oil sank to $22.74 per barrel at the end of March, hitting lows not seen since the financial and oil price crises of 1998-1999.
- A low oil price has added to the economic fragility in markets as a sustained price war would lead to numerous oil industries going bankrupt. Discussions are currently ongoing to see if an agreement can be reached.

FTSE 100 Price, % change QoQ

- The FTSE 100 shed nearly 25% in Q1, experiencing its worst quarter since 1987 as a result of the fear surrounding the Coronavirus and the global slowdown it has caused.
- The FTSE 100 has deteriorated almost twice as quickly as the worst quarters in the Global Financial Crisis of 2008.
- Global markets have recovered somewhat this week, leaving analysts questioning whether equities are back on track or setting themselves up for another fall.



10 year Treasury Yield, %



- The 10 year Treasury yield has fallen to record lows after the Fed unleashed unprecedented monetary policy stimulus, slashing its interest rate target to 0 - 0.25% alongside starting quantitative easing and repo liquidity schemes.
- Traditionally the level of government borrowing we have witnessed would drive up bond yields as default risk increases, but this has intentionally been offset by substantial quantitative easing to prop up bond prices.
- These low rates leave investors in a difficult situation as the expected capital appreciation on safe investments is now negligible, particularly when accounting for inflation.

Will mass lockdown change the global business landscape for good?

By Emily Woolard, *Strategy & Marketing, Manager at* ***Hottinger Group***

"Unprecedented. Devastating. Shocking."

Commentators describing the ongoing global coronavirus pandemic have already almost run out of superlatives. The world has been left in a state of hiatus, with enormous and widespread economic fallout and mass lockdowns to protect public health. The speed at which we have reached this point and the uncertainty surrounding when it will end have had further ramifications on our status quo, and in particular the business landscape.

The world has been left in a state of hiatus and the uncertainty of when it will end will have had ramifications on our status quo.

Will these differences persist once the measures are relaxed and aspects of life return to 'normal'? For some, perhaps the change is temporary, but it's likely that we could see some sectors and businesses altered permanently.

On 25 March, Narendra Modi told India's population of 1.3 billion to stay at home, bringing the number of people worldwide under some form of lockdown to 2.9 billion, more than a third of the total global population. Business Insider pointed out that this figure was more than the total number of people alive at the time of World War II, bringing home the magnitude of the measures in place.

2.9bn

People under lockdown, is more than the total number of people alive at the time of World War II

Degrees of lockdown vary – in the UK, daily exercise is permitted and trips to buy shopping and get hold of medicine are still allowed, whereas in France, Spain and Italy, outings are somewhat more restricted to the basic necessities. Countries such as Jordan have taken things even further despite relatively low numbers of cases so far, with residents initially confined exclusively to their homes and reliant on government-arranged deliveries of bread and water, the Guardian reports.

Regardless of the exact restrictions, in one form or another, a meaningful portion of the world population is staying at home and the impact on businesses has been quick and substantial. Nimble firms with an established online presence and remote delivery channels have been better able to weather the storm, continuing to trade upon relatively few unproductive sunk costs. On the other hand, a trip to any town centre exposes how hospitality, tourism and non-essential bricks-and-mortar retail were shut and devastated in the blink of an eye.

The impact on business has been quick and substantial. Online presence and remote delivery channels have helped weather the storm but bricks-and-mortar retail were shut and devastated..

I hesitate to speak of 'winners' and 'losers' in a universally challenging environment, but some businesses have seen unexpected boosts to their prospects, at least in the short-term. Others have been dealt a horrendous blow from which they are very unlikely to recover without additional support.

One of the first casualties in the UK was the hospitality industry, demand for which was decimated in the UK as the government first advised against attending pubs and restaurants and eventually mandated their closure. Hilton, one of the world's largest hotel operators, has already had to increase its borrowing from $255m to $1.75bn to weather the storm. Travel and tourism, too, took an

Whilst the suppression in demand for many of these sectors may be temporary, and there could even be a surge as people come out of lockdown for businesses that can stay afloat, early signs are that some industries may never recover.

enormous hit as non-essential travel was ruled out for an extended period just as the Easter holidays approached and the shoulder season was due to ramp up. Aviation was another early loser, and, as reported in the Independent, despite Richard Branson's call for a government bail-out being met with relative scorn, as the profit warnings continue to roll in it is clear that some sort of intervention will be required. Whilst the suppression in demand for many of these sectors may be temporary, and there could even be a surge as people come out of lockdown for businesses that can stay afloat, early signs are that some industries may never recover. The Guardian fears Cruise lines, for example, may have been irreparably damaged as their ships were portrayed as floating petri dishes, bouncing from port to port as the crisis unfolded.

?

Could we be witnessing an accelerated permanent move away from corporate 'face time'?

Another sector which could take a substantial hit is commercial real estate. Not only will we see some businesses go bankrupt in coming months but also, many companies have now been suddenly forced to set their workforce up remotely. Could we be witnessing an accelerated permanent move away from corporate 'face time'? The expectations from investors would suggest we might be, shown by the performance of video conferencing providers; at its peak Zoom's share price had over doubled since the start of the year.

Whilst some industries will continue to require physical presence to operate, many private sector organisations, particularly financial and professional services, are finding they can operate similarly or almost as effectively when based remotely. Many companies may therefore find themselves questioning whether they need to continue to shoulder the eyewatering costs of prime city-centre real estate when their leases expire and may opt to continue remote working outside of the crisis, renting serviced meeting spaces in convenient locations as and when required. The pandemic could end the traditional office set-up, which will have wide-ranging consequences for the commercial real estate market and connected businesses. Firms still requiring such space may find themselves able to pick up a bargain as the market adjusts, thus changing their cost base for the better.

And what of the winners? The boost for online subscription services such as Netflix, NowTV and Amazon Prime has been predictably significant,

And what of the winners? Despite the bleak economic picture overall, there have been some. The boost for online subscription services such as Netflix, NowTV and Amazon Prime has been predictably significant, with some bringing forward launch dates and arranging re-runs of classics to the delight of their customers. Some restaurants, pubs and cafes, whilst badly hit by the enforced decline in demand, have been given a lifeline in the form of takeaway and delivery services. As staying in became (compulsorily) the new going out, delivery services such as Deliveroo, JustEat and Uber Eats also saw unprecedented spikes in demand for their services according to Businesswire. The delivery and takeaway sectors in general will also help keep some restaurants' heads above water, those with low or flexible overheads will be most likely to come out of this relatively unscathed.

As staying in became (compulsorily) the new going out, delivery services such as Deliveroo, JustEat and Uber Eats also saw unprecedented spikes in demand for their services.

The market for luxury products is an interesting case, as the basic hierarchy of needs has led people to focus their energy on personal safety and basic supplies, which would be expected to suppress discretionary purchases substantially. The counter-effect seems to be that as people spend more time at home and perhaps less money on travel or entertainment outside the home, they find that certain luxury items improve their morale and wellbeing, which has caused sales in some areas to remain more buoyant than may have been expected. One Scottish sustainable luxury business told me "we'd expected the market for our products to drop off entirely, but we've been able to keep our online shop open and our customers have rewarded us with increased business. For as long as we can help people to feel good whilst safe at home, we will continue to do so."

As people spend more time at home and perhaps less money on travel or entertainment outside the home, they find that certain luxury items improve their morale and wellbeing,

We live in a time when public sentiment and trial by social media have the ability to make or break a business. News travels fast, and it doesn't take much to go viral when everyone is spending so much time in front of their screens. In a time when everyone is facing challenges, there are strong views that businesses should be 'doing the right thing' for the greater good. Variations of 'Coronavirus Saints & Sinners' lists have been circulating on social media for weeks, with calls on consumers to remember and continue to vote with their feet and/or credit cards once the pandemic is over.

We live in a time when public sentiment and trial by social media have the ability to make or break a business.

Businesses offering discounts or special dispensation to NHS staff and key-workers, those moving heaven and earth to reach their customers despite having to close their doors, and those adapting their operations for the public benefit have been admired, praised and for the most part rewarded with increased business.

Some of the 'saints' include Scottish craft beer company Brewdog, as well as a large number of small gin distilleries, which, according to reports by Condé Nast Traveler have started producing hand sanitiser instead of their usual output and distributing it free of charge to areas of highest need. Firms and educational establishments with 3D printers have put these to work making face shields and other innovative PPE equipment for distribution to the NHS. Meditation website Calm has made its premium content available for free; Carol Vorderman's 'Maths Factor' subscription service has been made available to schoolchildren free of charge; Joe Wicks, 'the Body Coach', is keeping the nation fit with free daily 'PE with Joe' lessons, and food writer Jack Monroe has her daily 'Lockdown Larder'. Whilst all of these have currently earned them extensive praise and support, at times consumers have shown themselves to have extremely short memories – will this time be any different?

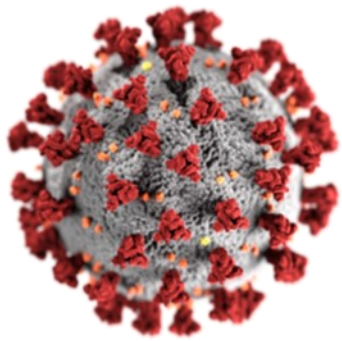
Whilst those seen 'doing the right thing' have currently earned them extensive praise and support, at times consumers have shown themselves to have extremely short memories – will this time be any different

?

In summary, the pandemic has given us a new appreciation for the businesses which really matter to our daily lives. Those able to adapt quickly, and crucially those willing to help others - putting people before profits - have seen a surge of public goodwill. We can expect to see these firms benefitting from increased patronage even as the pandemic subsides, whilst a few may have sealed their fate by attracting poor PR in a time when the public is not in a forgiving mood. Although some changes to demand are temporary and there is light at the end of the tunnel for the businesses that survive in the worst-hit areas we can also expect to see permanent shifts in the way that consumers shop and work. This could spell the end for some sectors but provide opportunities for others.

In summary, the pandemic has given us a new appreciation for the businesses which really matter to our daily lives. Although some changes to demand are temporary we can also expect to see permanent shifts in the way that consumers shop and work. .

Macro View, Covid-19



Initial supply chain disruptions experienced in China following the outbreak of the coronavirus has quickly multiplied across the world, causing production and economic activity to sharply decline in the last couple of weeks. Second, the drastic deterioration in commodity prices, oil in particular, has put additional pressure on the manufacturing sector and led to a decline in investment, similar to that seen between 2015-16 when oil prices took a similar dive. Global GDP is now widely forecasted by economists to decline into negative territory for the remainder of this year and possibly into 2021, predominantly driven by "social distancing" measures put in place, slowing economic activity. Recent reports highlighting spikes in unemployment rates, will only fuel this decline. Furthermore, financial markets have fallen to 2008/2009 levels. In response, central banks around the world have taken extraordinary measures to support liquidity and business continuity.

United States

The US ISM Manufacturing Index (PMI) declined by -5.2 over Q1 2020, a clear economic sign that Covid-19 is taking its toll on the economy.

As expected, US manufacturing contracted in March with the ISM manufacturing index falling to 49.1 from 54.3 in January. This was predominantly driven by a sharp decline in new orders and production as well as prices within the sector also falling. The oil price war between Saudi Arabia and Russia, will only put further pressure on the sector. Coupled with accelerating unemployment rates, economists are widely projecting an economic downturn and drop in GDP for the remainder of 2020.

The US labor market was relatively robust going into 2020 with a record low unemployment rate of 3.5%, a steady stream of new jobs coming to market and a healthy payroll inflation at 3.1%. This has changed drastically over the last couple of weeks, with over 10 million American workers filing unemployment claims, suggesting an implosion in the labor market. This brings the jobless rate to 4.4% in Q1 and could well surge up to 10% in Q2. Furthermore, payrolls are expected to sharply decline for the remainder of this year for the first time since 2010.

American consumers are unlikely to keep the US out of a recession in 2020, despite policymakers taking action to soften the blow from Covid-19.

Covid-19 initially disrupted supply chains. When coupled with clear data suggesting an imminent decline in demand we start to fear for a scenario beyond that of a financial crisis, to a deep recession. In response, the Fed has taken unprecedented measures to support liquidity and provide a floor to the potential impact from the virus. This has included lowering interest rates to 0.25% (from 1.75% on March 3) and forward guidance (not seen since 2007-2009) that rates will remain low within a range of 0-0.25%. The Fed has also launched a massive quantitative easing (QE) program of over $700bn in Treasury securities and government-guaranteed mortgages in addition to committing to lending to securities firms through the Primary Dealer Credit Facility (PDCF). The aim of the latter is to support credit markets and by effect allow primary dealers to facilitate the availability of credit to American businesses and households. Banks have also been encouraged to use their reserves beyond that of regulatory requirements to increase their lending capability when liquidity is under pressure. Although these actions were beyond expectations, the corresponding fiscal response was unprecedented.

Fed cuts interest rates to

0.25%

and pledges to buy $700bn in US Treasuries and government-guaranteed mortgages.

Policy response in the US has been one of the most aggressive in the world in combating the crisis and amounts to an emergency package in excess of $2trn. That said, the US has still not provided a public health response and now has the most cases of the coronavirus than any other country in the world.

As far as trade negotiations are concerned, there seems to have been a cooling-off period in tariff talks since the signing of the phase one deal in mid-January. President Trump has repeatedly stated publicly that the government is cooperating with China on the pandemic and will not be resuming talks for the time being.

No further tariffs or trade talk expected until the crisis has started to stabilize.

UK

Evident in Q4 2019, the UK faced a weak business environment before the Covid-19 pandemic emerged. Though the general election results did boost confidence somewhat in December, it was not enough to make up for the weakness experienced in the previous two months in the absence of real economic growth. Consumption has been historically and continues to be a major driver of UK growth. Recent results of Q1 2020 economic survey completed by BCC (British Chambers of Commerce, UK's largest private sector survey of business sentiment) revealed underwhelming domestic and export activity.

Business sentiment in absence of real economic growth

UK manufacturing PMI read at 47.8 in March, down from 51.7 in February. This is the most output has contracted since July 2012 and new orders were also in decline. The most staggering piece of data, similarly to that of the US, was the significant fall in employment following the Covid-19 induced lockdown. Since the lockdown began, over 950,000 workers have made claims for universal credit. The scale and speed of UK workers suffering job losses is unprecedented, even in comparison to the global financial crisis. It also suggests that although the government has taken clear and meaningful steps to support businesses, the pandemic could take Britain's unemployment rate from 3.9% to 5.2% in April. Quarter-on-quarter, UK's GDP is expected to have contracted -0.4%, with the largest contraction of -3.9% forecasted to occur in the second quarter of 2020.

UK manufacturing PMI read at 47.8 in March, down from 51.7 in February. This is the most output has contracted since July 2012.

In response to Covid-19 the Bank of England cut interest rates in March down to 0.1%, a 325-year low. While the crisis is still unfolding, it is unlikely that interest rates will increase in the medium term. Before the pandemic, British inflation fell in February. Inflation is already well below Bank of England's 2% target and coupled with a complete collapse in oil prices, a further sharp decline is predicted in the next couple of months.

BOE cuts interest rates to

0.10%

a 325 Year low

March PMI reading at

44.5

represents the steepest m-o-m contraction in the manufacturing sector since July 2012.

Europe

Q4 2019 GDP growth across the Eurozone was disappointing at a modest 0.1% gain. That said, the outlook for 2020 was looking relatively healthy as all nations saw an increase in economic activity combined with solid progress in China-US trade negotiations. Since the arrival of Covid-19 and several country-wide lockdowns that followed across the region, the economy has evidently started to contract. Eurozone manufacturing PMI in March read at 44.5, the steepest month-on-month contraction the manufacturing sector has seen in 8 years. Output, new orders and purchasing all plunged. Amongst economies, Italy saw the sharpest decline in activity, followed by Greece, France, Ireland, Germany, Spain and Austria. The only country in the region reporting a modest increase in output, was the Netherlands.

The QE saga continues, more aggressive than ever before. ECB has indicated that they are prepared to take any actions necessary to protect the eurozone.

In response to the pandemic, the European Central Bank have issued more than £750bn in quantitative easing (QE) and has stated on several occasions that it is prepared to go further if needs be. The package is substantial and amounts to roughly 7.5% of the euro area GDP. Though it is not the ECB's job to narrow spreads in credit markets, the program does allow the bank to intervene in the yield curve and effectively soften distortions in credit pricing. The ECB will also be purchasing commercial papers of relatively high-quality companies to support liquidity and the flow of credit. To our surprise, this action was not followed by another rate cut but instead the ECB maintains its main rate at -0.5%. To incentivise banks further in borrowing from the ECB and in turn encourage banks to pay businesses to borrow, the ECB announced that it would allow European banks to borrow from them at -0.75%.

Japan

Manufacturing plummets to financial crisis levels

44.2

Going into 2020, Japan finished Q4 2019 with the fastest pace contraction the country has seen in over 5 years. Private consumption decreased following the consumption tax increase and business confidence dropped. Japan’s manufacturing PMI plunged to 44.2 in March, down from 47.8 in February, the steepest decline in the sector since April 2009. Output and new orders have both fallen sharply over the last two months. Independent surveys suggest manufacturers have reported the most negative outlook on the sector since 2012. Manufacturing represents more than 20% of the country's GDP and hence this is a real threat to the economy going forward. This quarter also saw unemployment rates increase by 0.2% to 2.4%, fueling economic weakness.

Tokyo Olympics postponed due to Covid-19 - likely sees muted economic impact.

As a result of Covid-19, Japan has taken the decision to postpone the Tokyo Olympics. Though some might argue this will have a large impact on the economy, others believe that the biggest economic contribution for hosting the games lays in the construction during the years leading up to the event. As such, this impact should already be reflected in past GDP data, albeit the country will no longer benefit from the spike in inbound tourism and its associated spending.

The Japanese government is currently working away at a stimulus package to cushion the economic impact from the virus due to be delivered in April. Despite the potential effect of any such action, economists are widely forecasting a decline in growth for the remainder of 2020.

Emerging Markets and China

Like elsewhere in the world, the Covid-19 outbreak has increased pressure for more accommodative monetary and fiscal policies in the region. At a time of crisis, investors tend to refrain from allocations to emerging markets as they seek safe haven assets. Across the region, government bond spreads against US Treasuries have grown, though some more substantially than others. Russia and Mexico have now depreciated more than 20% against the USD. Should this persist, it could have serious inflationary consequences and a dictating effect on how much room emerging economies will have for fiscal and monetary maneuvering to combat the pandemic. Furthermore, the recent sharp decline in oil prices will have a region-wide effect on emerging economies.

As investors seek safe haven assets at time of crisis, currencies across emerging economies have heavily depreciated.

Prime minister Modi in India has been harshly criticized for his actions in response to the virus' spread as his 4-hour notice on a full lockdown has left millions of Indian people jobless and hungry. His recently introduced stimulus package worth $22.5bn ls less than 1% of GDP whereas other countries emergency package plans represent 20% and above. The announced bailout, despite a recent rate cut by 75bps bringing the repo rate to 4.4%, is unlikely to be enough to save the economy. India manufacturing PMI in March declined to 51.8 from 54.5 in February whilst new orders rose at modest pace and exports fell the most since September 2013. There is also evidence of supply being negatively impacted by essential supply trucks being stuck at sealed-off borders.

Prime Minister Modi announced underwhelming stimulus package for India. With limited supply of essential goods and a complete shutdown in infrastructure, Indian citizens are more concerned over starvation than getting infected by the Covid-19.

China's economy was the first to be shut down by the spread of the coronavirus. Preliminary data on the effect of the shutdown shows a substantial decline in areas of retail and industrial production. A February PMI result at 40.3 was the lowest reading since 2004. March readings with factories re-opening have taken a steep jump back to 50.1 accompanied by output rising steadily. What is less encouraging, however, is that demand seems to have remained fragile since restrictions have lifted, with new orders falling for the second month and export volume still in declining territory. This is likely to put downward pressure on China's inflation in the coming months, whilst households will continue to face higher food prices due to the African swine fever outbreak and its surging effect on pork prices.

Since lifting restrictions in China in March, economic data has improved. However, domestic demand remains dampened .

Conclusion

If we have learnt anything from reviewing data from China, it is that a lockdown has significant impact on the economy. With that in mind, the economic recovery underway in China provides some level of clarity of what lies ahead of the rest of the world still awaiting its Covid-19 cases to neutralize. That said, we believe the global recovery to be muted by subdued demand as businesses and consumers will remain nervous in fear of a second wave of infections accompanied for some time by weak labour markets.

We believe the global recovery to be muted by subdued demand as businesses and consumers will remain nervous in fear of a second wave of infections accompanied for some time by weak labour markets.

Investment Outlook

In soccer parlance, the 1st quarter of 2020 has been a game of two halves that has seen commentators and statisticians reaching for the record books and the history books.

We went into the new year with caution having seen a 4th quarter equity rally that seemed to ignore the fact that corporate earnings were flat, putting pressure on a benign economic scenario

In the US, the S&P 500 suffered its fastest decline into bear market territory on record, bringing to an end an 11-year bull market.

The failure of the OPEC+ meeting to reach an agreement saw the oil price fall a further

55%

to finish the quarter at $22.74.

In soccer parlance, the 1st quarter of 2020 has been a game of two halves that has seen commentators and statisticians reaching for the record books and the history books. As we came into the year, the outbreak of COVID-19 had gripped Wuhan,. This caused government bond markets to react to the possibility of a significant slowdown in Chinese growth from an already historic low level, with the obvious knock-on effects for its major trading partners. During the course of January, ten-year US Treasury yields fell from 1.92% to 1.51% and Gilt yields from 0.82% to 0.51%, signalling growing pressure on the global economy.

Meanwhile, equity markets started the year strongly, buoyed by the positive sentiment from the phase 1 US-China trade talks, and led by the continuing strength of US technology stocks that allowed the Nasdaq to finish January up 1.5% despite anxiety over the spread of COVID-19 checking the path of other major stock markets.

For our part, we went into the new year with caution having seen a 4th quarter equity rally that seemed to ignore the fact that corporate earnings were flat, putting pressure on a benign economic scenario further threatened by the disruption to the global supply chain in China. We retained our view that the global economy in late cycle bears heightened risk of equity drawdown, with the expected support from emerging markets tested by the spread of the virus. Little did we know.

During the first three weeks of February, the S&P 500 climbed to an all-time high and European stock markets reached levels not seen since the global financial crisis, as the broad consensus held that the global economy would avoid recession in 2020. Headline PMIs had troughed in October and PMI new orders were improving. US and European company earnings for Q4 2019 had exceeded expectations and high single-digit earnings growth was forecast for this year. There was a further assumption that as long as the coronavirus could be contained within China, the impact on global economic growth would not be too severe. However, with news of the virus spreading around the globe (notably in Japan, South Korea and Italy) towards the end of the month, this base case scenario was shattered.

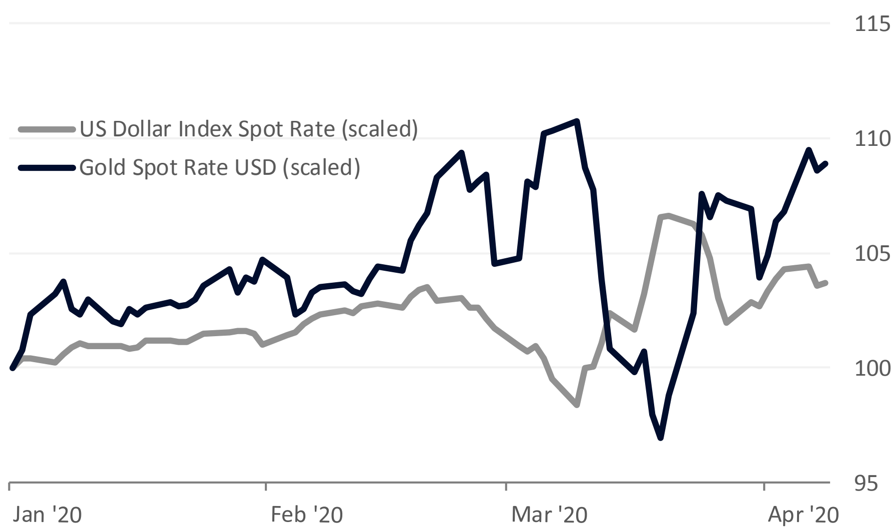
The coronavirus-related fall in global stocks that started in mid-February continued into March and spread to other asset classes. In the US, the S&P 500 suffered its fastest decline into bear market territory on record, bringing to an end an 11-year bull market. In commodity markets, a surprise oil price war erupted during the first few days and by mid-month, near-panic had set in. Brent Crude had started the year at $66 and had already retreated to $50 in February on the back of the drop in global demand. The failure of the OPEC+ meeting to reach an agreement saw the oil price fall a further 55% to finish the quarter at $22.74.

Furthermore, while US Treasury yields and currency markets experienced wild swings, credit markets almost seized up. US Treasury yields followed interest rates lower, with ten-year yields hitting a low of 0.54%. As risk assets applauded the $2tn stimulus package, however, US Treasuries focused on the financing and potential future debt issuance, pushing yields back out to 1.19%.

The breakdown in the supply chain caused by global lockdown created a meaningful shortage of US dollar cash outside of the US. This affected both the financial and real economies, causing a severe dash for cash with the indiscriminate selling of dollar assets by both countries and companies. Evidence that the world's most liquid bond markets were suffering a liquidity squeeze and a dislocation in trading caused the Fed to step in to supply frantic financiers with US dollars. The safe-haven status coupled with a short-term demand squeeze on the US currency saw the dollar index rally 7.5%, with major moves against the pound, euro and yen.

The breakdown in the supply chain caused by global lockdown created a meaningful shortage of US dollar cash outside of the US. This affected both the financial and real economies, causing a severe dash for cash .

The inverse relationship between gold and dollar index year-to-date



Source: Bloomberg

Gold, the principal safe-haven when market volatility spikes, had gained 10% since the start of the year, reaching $1671 /oz on the back of a low interest rate, benign dollar environment. The spike in the value of the dollar against all major currencies saw the precious metal suffer the fate of most other asset classes at this time, falling by 12% to $1471 /oz. As the liquidity issues have unwound into quarter end, the yellow metal has recovered to $1612 /oz but remains tied to the path of the dollar.

Sentiment improved in the second half of March, following a coordinated policy response from central banks and governments. Equity markets posted double-digit gains from their lows, with the S&P 500 index recording its largest three-day advance since 1933.

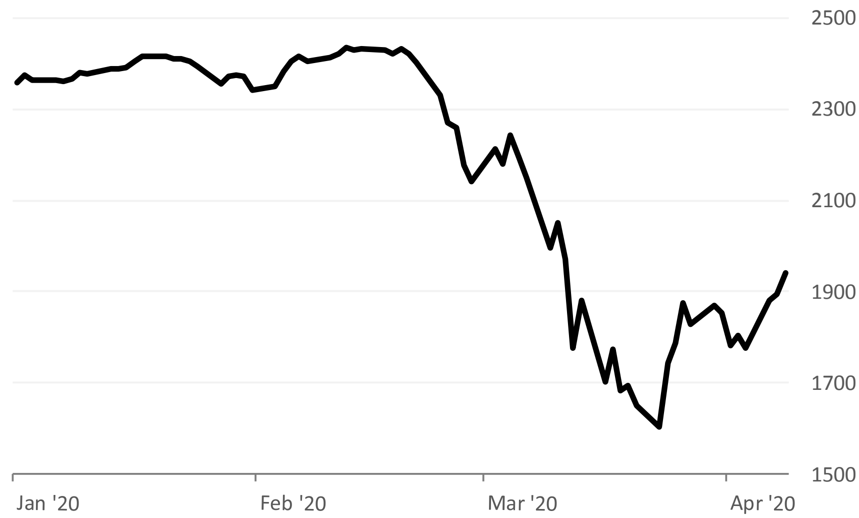
Sentiment improved in the second half of March, following a coordinated policy response from central banks and governments. This response was unprecedented not just in its size but also in its swiftness, and had the desired effect of soothing investors' fears and bringing a level of normalisation across asset classes. The dollar weakened; ten-year US Treasury yields settled at 0.67% at quarter end; credit spreads tightened, and equity markets posted double-digit gains from their lows, with the S&P 500 index recording its largest three-day advance since 1933.

The MSCI World index fell

21.4%

In the 1st quarter having hit its peak 30 trading days earlier.

MSCI World Index year to date



Source: Bloomberg

Despite this, the MSCI World index still fell 21.4% in the first quarter, having been down 34% at one point in what has been a brutal period for global financial markets. As Societe Generale point out, just 30 trading days earlier, the MSCI World index was hitting its peak, and the fact that over the last month the absolute daily price moves in this index have averaged over 4%, an historical record, reflects a market seeking liquidity and bereft of fundamental data by which to value shares.

Over the course of the quarter, the S&P500 (-20%); the UK FTSE All-Share (-25.95%); FTSE Eurobloc (-25.23%); Nikkei 225 (-20.03%); and MSCI Emerging Markets (-23.87%) have all moved into bear market territory, suggesting that financial markets are beginning to price in the possibility of a global recession.

The automobile and automobile parts sector fell

50.5%

and probably represents the best example of an industry facing a demand shock and severe supply disruption.

From a sector perspective, the industries that have been hardest hit are not that surprising. The automobile and automobile parts sector fell 50.5% over the quarter and probably represents the best example of an industry facing a demand shock and severe supply disruption. The travel and leisure sector, which of course includes airlines and cruise companies, also suffered as expected, losing 44.4% over the quarter. Following interest rate cuts, banks found their margins squeezed (-34.5%) and the oil price war hit the oil and gas sector hard (-34.8%). Notable outperformers were utilities (-7.9%), healthcare (-11.4%) and consumer staples sector personal care and household goods (-16.2%), which continue to be consumed throughout most economic environments.

Large investment grade companies seem most likely to survive this shock, assisted by the coordinated policy support, whereas some junk-rated companies will likely not make it through this crisis. Companies have been making the most of cheap financing to buy back their own shares over the last few years, changing the structure of their balance sheets from favouring equity funding to a larger emphasis on debt financing, not too dissimilar to the traditional private equity model. With over half of the investment grade market place in the lowest grade of BBB, it is likely that the most indebted of those companies with low free cash flow balances will become “fallen angels,” dipping below investment grade and thereby limiting the number of investors that are willing to buy their bonds.

The safest place within corporate debt could be short maturity investment grade, where the default risk is lower, focusing on borrowers with manageable debt burdens and limited disruption to activity from COVID-19.

The safest place within corporate debt could be short maturity investment grade, where the default risk is lower, focusing on borrowers with manageable debt burdens and limited disruption to activity from COVID-19. Barclays point to sectors such as pharmaceuticals, healthcare, defence and consumer staples.

Governments in the developed world have effectively pushed their economies into an induced coma, with strict stay at home and social distancing laws that have closed down the high street and seen all but key industries halt activity.

There is little doubt that the global economy is currently in recession .

There is little doubt that the global economy is currently in recession as most of the larger economies have imposed severe levels of lockdown to trace and isolate outbreaks. These conditions are likely to persist for several weeks, depending on each country’s ability to accelerate testing. This leaves investors faced with trying to determine how long the shutdowns will last and how long economic activity will then take to return to normal. We would argue that until the developed world has seen the number of cases peak and the daily death toll begin to trend lower over time will it be possible to establish the effects of the pandemic on individual companies. It is often said that in a recession equity prices tend to follow profits down to a point when earnings-per-share stabilises and equities can find a base. On this basis, equities may not be as cheap as might be expected after such a severe correction. At this time, we believe that we do not have enough information to establish fundamental valuations and any rally in risk assets is pure speculation.

At this time, we believe that we do not have enough information to establish fundamental valuations and any rally in risk assets is pure speculation.

Much economic modelling has moved away from statistics taken from past financial crises and more towards comparisons with natural disasters. Of course, the COVID-19 pandemic is an international health catastrophe first and foremost, but the ability and speed by which daily life is able to return to a semblance of normality will be the key factor determining how quickly the global economy can recover.

Following such a major correction, with the risk / return more skewed to the upside, it may be more appropriate to employ a purer, simpler, more transparent approach to investment strategy.

Having built up a cash cushion during the correction, we have the ability to seek out reinvestment opportunities when the time comes. After a ten-year bull market in risk assets, the valuations in many markets and sectors had become stretched and this revaluation may well offer opportunities for investors with a medium- to long-term time horizons to gain access to great companies at a fair price. Over the last couple of years, we have relied upon a strategy of diversification of returns through alternative, historically uncorrelated return profiles in order to spread risk and reduce volatility. Following such a major correction, with the risk / return more skewed to the upside, it may be more appropriate to employ a purer, simpler, more transparent approach to investment strategy.

Important Information

This document is a marketing communication and has been issued for the purposes of United Kingdom Regulations by Hottinger Investment Management Limited (Hottinger Investment Management).

The information contained in this document does not constitute a distribution; nor should it be, under any circumstances, considered to be intended for, and should not be regarded as an offer or a solicitation to buy, sell or subscribe to any particular security and/or fund referred to herein, or to conduct a regulated investment activity. This document does not in any way constitute investment advice.

Please note that capital is at risk with any investment. The potential for profit is accompanied by the possibility of loss. Investments do not guarantee a return, and the value and the income from them can fall as well as rise, so that you may not realise the amount originally invested. Asset allocation, diversification and rebalancing strategies do not insure gains nor guarantee against loss. The use of leverage, shorting, and derivative strategies may accelerate the velocity of the potential losses. The use of currency strategies involves additional risks. Where an investment is denominated in a currency other than sterling, changes in exchange rates between currencies may cause the value of investments to go up or down. Past performances should not be seen as an indication of future results. Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

Hottinger Investment Management is authorised and regulated by the Financial Conduct Authority (FCA), whose address is 12 Endeavour Square, London, E20 1JN. Hottinger Investment Management's FCA firm reference number is 208737. For further details on Hottinger Investment Management's regulatory status, please see the FCA's FS Register at www.fca.gov.uk. Hottinger Investment Management is incorporated as a Private Limited Company in England and Wales under the registration number 1573969 and has its registered office at 27 Queen Anne's Gate, London SW1H 9BU.

Hottinger Investment Management is a member of the Financial Services Compensation Scheme (FSCS) established under the Financial Services and Markets Act 2000. (FSMA) Further details of the FSCS are available on request. Should you wish to make a complaint, please contact the Compliance Officer at Hottinger Investment Management in the first instance but you may refer your complaint to the Financial Ombudsman Service (FOS). Further details of FOS are available on request.

All sources are Hottinger Investment Management unless otherwise stated. The views expressed are as at the date of this document and are a general guide to the views of Hottinger Investment Management. Commentary is at a macro or strategy level and is not with reference to any specified financial instrument. Any market or investment views expressed are not intended to be investment research. This document has not been prepared in line with the requirements of any jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is for information only and has been prepared for the sole use of the designated recipient. In jurisdictions other than the United Kingdom, this document may be provided by an affiliate of Hottinger Investment Management. Use or distribution by any other person is prohibited. There may be laws and or regulatory rules that apply to or restrict the transmission or distribution, directly or indirectly, of this document in other jurisdictions. Any person into whose possession this document falls should inform themselves about such conditions and observe any such legal or rule applications or restrictions. Any failure to comply with such legal or rule applications or restrictions may constitute a violation of the laws or rules of any such other jurisdictions.

It is your responsibility to seek advice on all applicable laws and regulations of your relevant jurisdiction. No responsibility to any third party is accepted as this document has not been prepared and, is not intended, for any other purpose.

The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be fair and reasonable, reliable and in good faith. All such information and opinions are subject to change without notice. No representation or warranty, expressed or implied, is made to its accuracy or completeness and it should not be relied upon as such. Neither Hottinger Investment Management nor its Directors, officers, employees, advisors or any other persons can accept responsibility or liability for any loss howsoever arising from any error, omission or inaccuracy in the material provided and from the use of this document or any of its contents or otherwise arising in connection therewith.

Any forecasts, opinions and or estimates and expectations contained herein or expressed in this document are based on current forecasts, opinions and or estimates and expectations only, and are considered "forward looking statements". Actual future results, however, may be different from expectations. The views, forecasts, opinions and or estimates and expectations expressed in this document are a reflection of Hottinger Investment Management's best judgment at the time this document is compiled. No responsibility or liability shall be accepted for amending, correcting, or updating any information or forecasts, opinions and or estimates and expectations contained herein. Furthermore, these views are not intended to predict or guarantee the future performance of any individual security, asset class or investment strategy, markets generally, nor are they intended to predict the future performance of any Hottinger Investment Management account, portfolio or fund.

Some of the views and forecasts, opinions and or estimates and expectations expressed in this document may not necessarily those of Hottinger Investment Management and they cannot be held to represent Hottinger Investment Management's forecasts, opinions and or estimates and expectations on the credit-worthiness or investment profile of the securities, financial instruments, companies, countries, industries, investment management companies and or fund managers mentioned in this document.

HOTTINGER

GROUP