

MARKET INSIGHT



The darkest hour is just before the dawn

Well, the markets have hit us all with a vengeance. Arguably, after a decade of rallying markets and handsome returns we can't say we at TAM are surprised that we are now facing a correction event. The 'how and why' is the debilitating factor.

One could argue the correction was, at some point, inevitable, and if it didn't come from the Coronavirus outbreak then it would have come from something else.

Giving the virus issue some consideration, we do not view it as something lethal to human survival. We just want to caveat to readers that any death from a preventable disease is one death too many. Sadly, breaking the mortality rate down into bare numbers often comes across as insensitive, for which we apologise.

Currently the death rate is around 1 in 2.7 million people globally, so it's a long way off something like London's Black Death which killed 100,000 people in 18 months. Furthermore, during the 2019 flu season in the US there were 8,200 deaths with over 15 million people contracting the flu virus, and this didn't even make it onto the back pages of the tabloids. Imagine if stock markets watched flu cases hour by hour and minute by minute!

The difference is the impact on the economy and indeed the supply chain and ease of spread of the prevailing virus. Its abrupt arrival and potentially extreme disruption to global consumption and global supply chains is what is central to this sell-off in stock markets, as this knocks-on to global growth.

The main message at this juncture is to remain pragmatic and not to panic. Panic is the enemy of rational stock market investing and to us, the rational message here is that there will be a recovery when we are through the worst. After all, the darkest hour is just before the dawn.

Our core fear is, should we wait for some stability before re-investing and the virus were to become contained quicker than we envisaged, stock markets have every chance of staging a sharp rally and at a very fast pace that will leave TAM struggling to keep up. It's worth reiterating that missing the first 10-12 days of a bull market rally can leave you 40-50% behind the total performance.

We appreciate that there isn't a magical balm to sooth the nerves of those who made bumper returns in 2019, but our clients have walked into this volatility invested in more gold and silver bullion, and global, high-quality developed market government bonds than any time in TAM's investment history. Losses are inevitable but we are seeking to mitigate those at every juncture.

Turning to our average client, a balanced portfolio means that investors still have exposure to the equity market, but with the investment team making decisive cuts to our clients' equity investments we succeeded in reducing the exposure they had to one of the worst weeks for stock markets in history. As a result, portfolio drawdowns are moderated. Positively, in some instances, the reductions made were to long-term holdings in international investments which have made clients over 70% gains since inception and we were able to bank profits largely intact.

Unfortunately, TAM does not have a crystal ball which tells us when the global community is going to get this virus under control, but what we will say is that there was strong evidence coming through that before the virus took hold of markets, the global economy was back in a growth mode.

That is certainly now on pause and we expect to see headlines regarding global companies making large cuts to earnings estimates for at least the next six months. However, we are looking towards China now, which appears to be coming out of the back of this virus with total new cases flattening off. You can see the stock market beginning to turn a corner which tells us that investors are not behaving irrationally but instead targeting their selling in a strategic manner. This is essential for preventing this market falling into panic mode.

We believe that central banks will come to the rescue of their respective economies by pumping stimulus in the forms of interest rate cuts in order to help stem the effects of an economic slowdown from the global consumer spending almost grinding to a total halt (Adidas sales in China alone are down 80%), supply chains shutting up shop and airlines being grounded as everyone is locking themselves inside.

The concern – Economic stimulus is largely irrelevant when everyone is at home, so it's going to sit there waiting for consumers to start spending, and for supply chains to fire up again.

The kicker – When we do get back to spending there is going to be a sharp pickup in demand, and thus in factory orders, shipping and deliveries from companies trying to keep up. This pickup in consumption and supply could well be supercharged by this latent central bank stimulus.

In our experience, markets respond very favourably to this type of rapid pickup in global growth and consumption. Combine this with a market that's trading well below their peaks, and we envisage global investors buying heavily back into the market (and in short order), which should precipitate a healthy recovery in stock market valuations. But don't blink, you may miss it.

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As always, capital preservation is core to TAM's philosophy. Our investment team remain hyper-vigilant to further shocks in this market and stand ready to make more decisive cuts to clients' equity investments should the need arise to protect capital even further. However, with balanced risk clients seeing average losses of less than 4% in February, we have already succeeded in protecting the large gains made in 2019 from what has been one of the sharpest stock market sell-offs in history.

To conclude, we thought it wise to follow on from one of our latest notes, "The power of long-term investing", with real portfolio performance since the last time the FTSE 100 was at 6500 in July 2016 – we think the figures say it all.

Premier Portfolio	Performance % 1/7/16 - 29/2/20	Performance % 1/1/20 - 29/2/20
Premier Defensive	10.75	0.47
Premier Cautious	9.19	-1.82
Premier Balanced	9.22	-4.15
Premier Growth	9.80	-6.52
Premier Adventurous	13.05	-8.59

Focus Portfolio	Performance % 1/7/16 - 29/2/20	Performance % 1/1/20 - 29/2/20
Focus Defensive	9.42	0.98
Focus Cautious	13.64	-1.60
Focus Balanced	16.69	-3.86
Focus Growth	15.33	-6.61
Focus Adventurous	16.34	-9.10

Ethical Portfolio	Performance % 1/7/16 - 29/2/20	Performance % 1/1/20 - 29/2/20
Ethical Defensive	11.29	-0.18
Ethical Cautious	15.97	-2.23
Ethical Balanced	21.14	-3.27
Ethical Growth	25.80	-4.50
Ethical Adventurous	29.90	-5.95

Source: TAM Asset Management Ltd. TAM Premier, Focus and Ethical portfolio return from 1st July 2016 to 29th February 2020. Past performance is not a guide to future returns and investors may get back less than their original investment.

If you or your clients have any questions regarding their TAM investment portfolios, our Chief investment Officer, James Penny, would be happy to speak with you and can be contacted via email at james.penny@tamassetmanagement.com.

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