WARNER MATTHEWS
ASSET MANAGEMENT

RECENT MARKET SELL-OFF – OUR INTERPRETATION:

Our take: Everyday appears to bring more uncertainty. Without rehashing what's already been written in the press, our general observation is that this situation is unlike any other we've witnessed in our lifetimes. The financial "gurus" on daytime tv have gone from dismissing this as a one-quarter event with a rebound of similar magnitude, to recommending sell at any level. It is very hard to know whether it's too late to sell or too early to buy back into equity and fixed income markets for those fortunate to have dry powder available. Our investment experience built up over decades of investing should help. These are unusual times and using templates from prior crashes (2008/09 Global Financial Crisis, 2000 Dotcom bust, 1987 Black Monday or even 1929 Great Depression) may not provide the answers. Our inclination is to sit this out for now and remain patient but alert for the opportunities that will present themselves.

Why it's different this time: The outbreak of the Coronavirus comes at a time when the economic growth trajectory in the US looked elongated and the economic recovery in Europe and Asia was still nascent. It is hard to fathom how far reaching the supply and demand impact from this virus could be. However, the sheer scale and rapid nature of the pandemic has meant Governments around the world are implementing once in a lifetime policy to try and prevent the virus from spreading and avert panic. Unlike previous periods of economic weakness, the ability for Central Banks to intervene and keep just enough alcohol in the punchbowl is now limited, due to already low interest rates and weak balance sheets. This was evidenced by the stock market's reaction to the US Federal Committee's response last weekend.

Taking stock: We have long believed that equity and fixed income markets are "stretched". This was premised on the inability to find enough attractively priced assets that aren't high risk or illiquid (although there are becoming small pockets of sensibly priced assets). Therefore, your portfolios have been constructed with a degree of defensiveness, which we believe will prove resilient in times of stress.

Looking to the future: To state the obvious, the jitters in stock markets will only dissipate once a vaccine has been found, and we don't possess a crystal ball. However, our investment nous leads us to recognise that markets tend to overreact. It sounds perverse but we welcomed the sell-off as it shows that the market still functions as it should – buying vs. selling rather than Central Banks vs. market gyrations. Our view is that further market falls shouldn't be viewed negatively. This sounds like an oxymoron, given we operate in financial markets, however, we subscribe to an investment philosophy from the godfather of modern investing, Warren Buffett, who stated, "When others are greedy be fearful, when others are fearful be greedy". We are using a valuation methodology which will provide us with clarity as to when we can feel more confident, we are buying assets at truly distressed levels. For the most part we believe we are not there yet, however trying to call the perfect entry point is futile. With that in mind our preferred route to invest back into areas that we have avoided up until now will be executed on a tapered basis.