

Coronavirus Update

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The expansion of the coronavirus outbreak is frightening, but needs to be placed into perspective. So far, there have been 3,000 cases out of a population of 6,000,000,000 if we exclude China. There will be further cases, but the disease appears to be containable. Some nations, including poor ones, have been quick to isolate those infected and nip their outbreak in the bud. Even China, with nearly 80,000 recorded cases, appears to be winning its battle as the number of new infections fall. For the moment, we have confidence that other nations such as South Korea and Italy will take the steps necessary to isolate the disease. Sadly, we are less sure about Iran where the authorities have been in denial. The country's links to Afghanistan and Syria seem to leave a high probability that the virus will find a base in the Middle East (though the arrival of summer could stem the rate of infection). If established in the Middle East, outbreaks will continue to pop up around the world as a consequence.

The human tragedy aside, the economic implications of controlling the outbreak are severe. Supply chains will be disrupted as factories close, popular events are being cancelled and health services will come under increasing strain. Markets are falling and approaching a level that we believe provide a reasonable reflection of the economic costs of the outbreak. We have been running a cautious positioning in portfolios for some time and last year we took steps to add positions that should act as insurance policies if markets fell as they have now done. Our portfolios are suffering as the market falls, but our earlier action has helped moderate the damage.

Today, we formally convened to discuss whether we should take further action to protect the portfolios. Sadly, we lack a crystal ball to tell us exactly what will occur. We considered various options and concluded that markets will remain volatile, but broadly reflect the economic costs of the outbreak as it now stands. The situation is very fluid. We agreed to make changes to some portfolios, but these are minor in impact and we will advise clients as normal once the details are worked out. We also need to be very alert to the possibility that markets will panic and overreact to the outbreak. This may present opportunities for us to redeploy some safe assets into higher yielding opportunities.

As always, we continue to monitor the situation constantly and will look to act in your best financial interests.

Jason Broomer, Investment Director

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