

Investment Update 12th March 2020

Market Update

Uncertainty around COVID-19 and oil prices has sent equities into free fall. News flow over the last 24 hours has seen the World Health Organization declare the Coronavirus outbreak a pandemic for the first time and the US have announced a temporary travel ban from Europe, triggering a flurry of selling in American stock futures. We expect another tough day for markets. Trading on the New York Stock Exchange was temporarily halted on Monday given the trading volume. The Standard & Poor's 500 Index has now fallen in excess of -18%, since the previous peak earlier this year. Conversely, bond yields have contracted significantly, with the 10-year Gilt now at 0.23% (down from 0.82% at the end of 2019).

Yesterday morning, following the lead of other Central Banks across developed markets, including the US, Australia, and Canada, the Bank of England cut its base rate by 50 basis points, a reduction from 0.75% to 0.25%. Whilst the response from markets was muted, it is symbolic of the Bank's willingness to provide monetary support. Additionally, there has also been a fiscal response from the Conservative government as Rishi Sunak used his first Budget to announce an immediate £30bn fiscal stimulus dedicated to tackling the Coronavirus outbreak. The Chancellor described the measures as 'one of the most comprehensive responses of any Government' to date.

In light of recent market events, the FH Investment Committee (IC) met yesterday to assess our portfolio positioning. We unanimously agreed that COVID-19 will have a significant impact on the world economy in the short-term, leading to earnings downgrades and possibly more insolvencies, as seen by Flybe. However, we believe Central Banks and Governments are ready to act further in order to mitigate the severity of the economic fall out if required. It should be remembered that, as history has shown, often the sharpest falls are followed by the sharpest rises, and missing out on these can significantly harm long-term returns.

Whilst some of the larger FTSE 100 stocks have struggled with the recent oil price collapse, in February we added exposure to UK small and mid-sized companies, providing some diversification to our UK allocation. We have also spoken to a number of our Fund Managers, all of whom are taking a long-term view and remain true to their process. For example, after speaking to Benjamin Moore, Fund Manager of Threadneedle European Select Fund, he highlighted that since the end of February, he has not felt required to undertake many dealings as relative performance has been "generally good, helped by zero or minimal exposure to oil, airlines, and hotels". The Fund has returned -12.75%, compared to the Euro STOXX 50 index -21.19% (17/01/2020 - 11/03/2020). This has ranked the fund first quartile against peers (76 out of 499 within the sector). We remain in close contact with underlying managers and gather regular updates. Our active managers remain prepared to act if necessary and believe volatility can create opportunities.

The FH IC faced two key questions. Firstly, how soon will we see the COVID-19 infection rate peak globally, and what will the infection response be in the US, particularly due to their centrality to the global economy. Infection rates are still increasing and progress will depend on the spread of the virus in the coming days and weeks. We anticipate it will continue to worsen in Europe and the US. Trump has promised "very dramatic" measures to protect the economy, although it should be remembered that with any federal spending increase, there is always a time lag in terms of when markets begin to see the effects. Therefore, given the lack of clarity at this stage, the committee decided not to add risk by increasing equity exposure, nor trim profit from our fixed interest holdings which have rallied over the last few weeks. Rather, the preference is to allow for natural drift (fixed interest holdings will be a higher percentage of client portfolios due to strong performance relative to equities) in order to increase defensiveness. We continue to monitor and remain ready to act when required.

In summary, unlike during the Global Financial Crisis of 2008-09, the underlying structures of the global financial system remain in reasonable condition. We are committed to ensuring we do not respond to recent markets events through a knee-jerk reaction, and stay true to our investment philosophy of targeting long-term performance.

FH Portfolio Performance

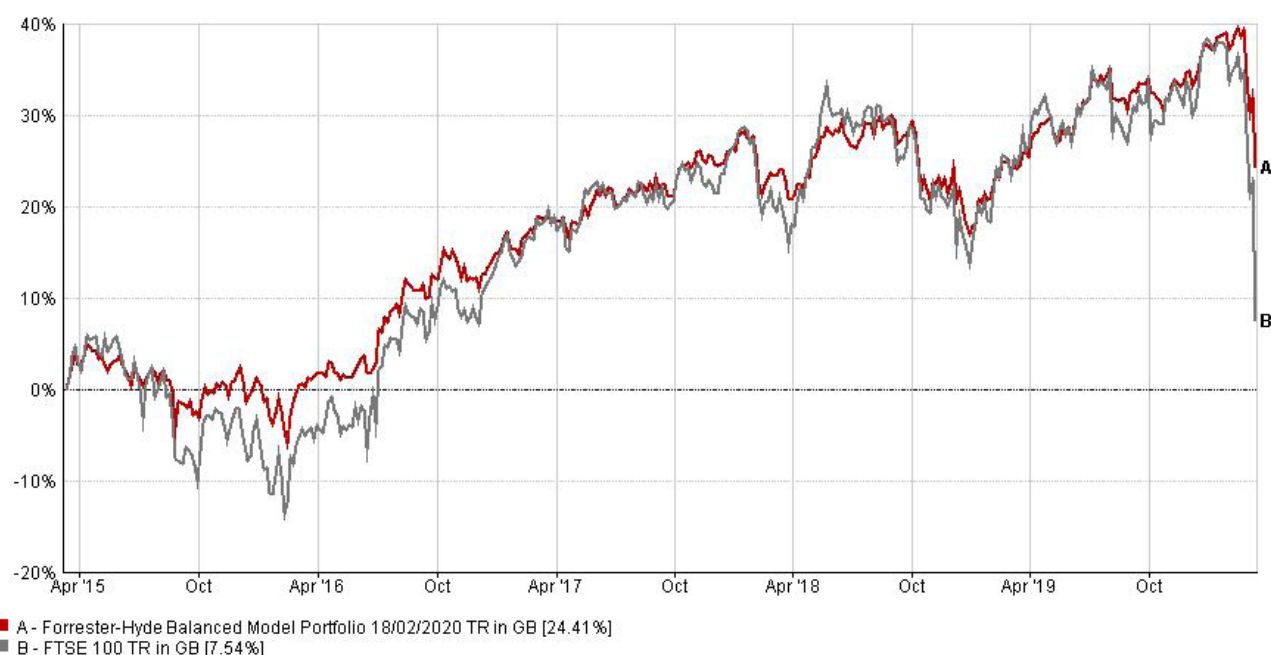
Portfolio	1 Month %	1 Year %	5 Year %
Forrester-Hyde Adventurous Model Portfolio	-15.87	-3.67	31.03
Forrester-Hyde Assertive Model Portfolio	-13.89	-2.37	27.27
Forrester-Hyde Balanced Model Portfolio	-10.71	0.13	24.41
Forrester-Hyde Cautious Model Portfolio	-7.44	1.92	19.13
Forrester-Hyde Conservative Model Portfolio	-4.13	3.53	16.61
FTSE 100	-20.86	-13.71	7.54

Whilst no changes are being recommended at a portfolio level there are a number of options still available to each investor:

What are my options?

- **Stay on course** - Your investment is for the long-term and short-term volatility is a natural part of investing. Whilst markets have been on an extended bull run, shocks can happen and history has shown corrections to be relatively short in comparison.
- **Sell investments to cash** - This is an option and doing so would prevent your valuation from possibly becoming lower. However, such a strategy is reactionary and goes against the age old theory that you buy low and sell high. It should be remembered that, as history has shown, often the sharpest falls are followed by the sharpest rises, and missing out on these can significantly harm long-term returns.
- **Invest more** - For those with a long-term time horizon market volatility can create opportunity, and whilst predicting the bottom of the market is impossible, the current climate will allow you to invest at a more favourable valuation.
- **Switch to an alternative risk level** - We offer a range of diversified portfolios that target different levels of volatility, you therefore do have the option to switch to a higher or lower level of risk. However, it should be remembered that the FH IC will manage risk within models and therefore this option should only be considered if deemed suitable for the longer-term. There will also be a period of time out of the market if selecting this option.

5 Year Investor Experience - FH Balanced



11/03/2015 - 11/03/2020 Data from FE fundinfo2020

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