Investment Strategy Update

27th March 2020

CURMI & PARTNERS

Curmi & Partners Research

- Economic growth forecasts have been revised sharply downwards amid a high degree of uncertainty on a global scale due to the outbreak of the Coronavirus.
- Economic growth is expected to be worst hit in Q1 and Q2 2020, while market consensus sees activity picking up in the second half of the year.
- Unemployment across developed economies is set to rise across developed economies to the levels seen in the 2008 financial crisis.
- Ultimate effect on inflation rates remains uncertain, however the weak demand and drop in oil prices is expected to lead to a notable slump in inflation over the short-term.
- Central bank policy rates in developed economies are expected to remain at the current low levels for the near term and beyond, at least up until countries display clear signs of normalisation.
- Fiscal programmes across countries will lead to a deterioration in deficits and debt-to-GDP levels which has put pressure on the borrowing costs for governments.
- Central banks have launched huge quantitative easing programmes which implicitly underwrite the short-term fiscal spending requirements and are expected to support any substantial spikes in sovereign yields
- The adverse impact on global demand and disruptions in supply chains has resulted in a severe deterioration in business conditions with massive declines in corporate revenues, profit margins and cash flows.
- Credit spreads and CDS indices rose sharply in view of the weak outlook, which also led to market distortion and lack of liquidity in corporate bonds.
- Credit rating downgrades are expected to increase in view of higher default rates anticipated by credit rating agencies amid the challenging economic environment.
- Risk of "fallen angels" has increased considerably, especially in the industries considered to be in distress.
- Equity markets have experienced a steep sell-off as markets lost confidence on the positive earnings outlook and negative risk sentiment took hold of investors sought to make sense of the what was happening.
- EPS forecasts have been cut aggressively over the past month, a trend which is set to continue and which will remain a major headwind for equity markets unless the virus stabilises in the coming weeks.
- Key indicators of improving market conditions include: yield curve, market volatility, financial conditions, easing virus concerns and easing demand for US dollar.

At the start of the year, global economic expectations were pointing towards a moderate acceleration in growth for 2020. Despite an uncomfortable level of toxicity on the political landscape, particularly the impeachment of President Trump, we have seen relatively positive developments in the trade negotiations with China which saw both sides agreeing on a preliminary deal. Moreover, with the strong Tory win in the December '19 elections, Brexit has moved into the next phase giving some clarity on the direction of the withdrawal agreement and the future terms between the UK and the EU.

With the receding policy uncertainty, 2020 was meant to be a year which saw a pick-up in global demand conducing towards an improved level of corporate earnings growth and the much hoped-for increase in business investment in key economic regions.

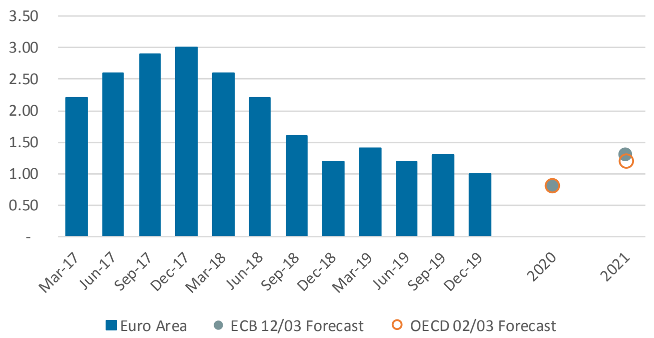
Financial markets have been reflecting this positive sentiment primarily through the rally in risky assets which was sustained at least up until mid-February. This is when the intensification of the spread of the Coronavirus in China and eventually across the globe took centre-stage and has lead to the sharp decline in economic expectations for the rest of the year. The reassessment of the underlying market assumptions that sustained asset valuations has lead to a sharp downturn across financial markets, more prominently in risky assets.

MACRO

Euro Area

Before the coronavirus outbreak, real GDP growth softened to 1% in Q4 compared to 1.3% in Q3 in 2019 primarily due to the persisting weakness in the manufacturing sector and slowing investment growth. The downside risks to the economy, primarily relating to geopolitical factors, rising protectionism and weakness in global trade and emerging markets, have been severely compounded by the outbreak of the virus.

Euro Area: Real GDP Growth (rate, %)



Source: ECB, OECD, Eurostat

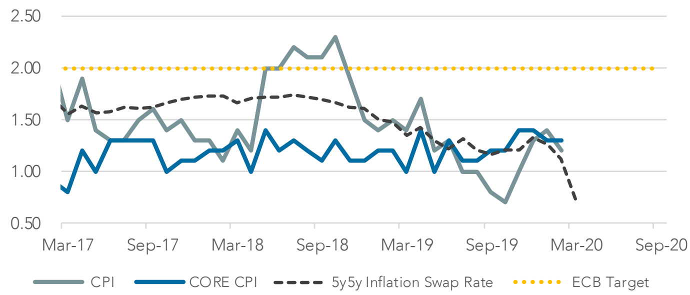
Latest ECB staff projections published 12th March, but with an earlier cut-off, have revised annual real GDP down to 0.8% in 2020, then improving to 1.3% in 2021 and 1.4% in 2022. OECD forecasts published on 2nd March are in-line showing an expansion of just 0.8% in 2020 accelerating to 1.2% in 2021.

However, these estimates only partially take into consideration the deterioration in the virus outbreak across Europe. More recent indicators suggest a significant deterioration for the growth outlook in the short-term. The disruption in supply chains as well as the containment measures being introduced to contain the spread of the virus are adversely affecting production while weakness in foreign and local demand is exacerbating the drop in economic activity.

While the severity of the economic downturn remains highly uncertain, it is noted that the rate of normalisation in selected countries, particularly Italy and Spain is expected to be slower given the structure of the economy and the relatively higher reliance on services and the highly impacted industries such as travel and tourism. While Germany and France have announced notable higher emergency fiscal measures, especially when considering the extent and pace of contagion of the virus until now. Moreover, industrial activity, which is more relevant for Germany, is expected to rebound faster compared to tourism.

Inflation has been persistently below the ECB target underpinning the pronounced easy monetary policy stance in the Euro Area over the last several years.

Euro Area: Inflation (rate, %)



Source: Eurostat, Bloomberg

ECB's 12th March projections foresee inflation at 1.1% in 2020,1.4% in 2021 and 1.6% 2022. However, in the view of the accelerated contagion of the virus and the weaker growth prospects, inflation expectations have deteriorated further. In fact the 5y5y inflation swap rate has dropped from 1.33% at the start of the year toward 0.70%.

Given the sharp decline in oil prices combined by the expected drop in domestic and foreign demand, headline inflation is anticipated to decrease substantially over the short-term.

In view of the weaker growth momentum and heightened uncertainty, the traction built in labour costs pressure is likely to weaken and the pass-through to inflation is at risk of being lost or at least delayed.

Nevertheless, the implications of the coronavirus on inflation remains uncertain for the medium-term. On one hand, the weak economic conditions are likely to soften price pressures while on the other hand, the supply disruptions as well as the fiscal spending programmes and significant monetary injections can have the opposite effect.

Looking at the labour market, Euro area unemployment has decreased considerably since the peak in 2013 post the sovereign debt crisis and is currently at 7.4%, close to pre-GFC levels.

A number of variables suggest notable improvements in labour market conditions including the level of youth employment, the proportion of long-term versus short-term unemployment, prime-age employment ratio, participation rate and labour market flow indicators which are at (or superior to) pre-crisis levels.

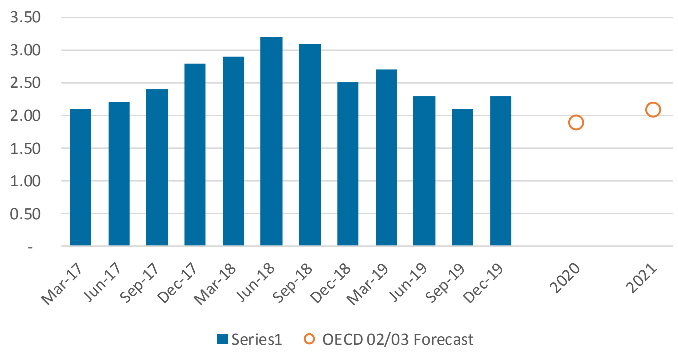
While the fallout from the coronavirus situation will likely result in an overall increase in unemployment, it is noted that labour conditions in selected countries provide for lower labour market cyclicality compared to the

US and therefore, the expected job losses are likely to be less in certain regions. This is primarily driven by strong employment conditions, expensive lay-off contract terms and wage subsidies which can limit the impact from such temporary shocks.

United States

US real GDP growth was sustained at a relatively high pace registering an expansion of 2.3% in Q4 (up from 2.1% in Q3 2019) when compared to long run consensus forecasts ranging between 1.7% and 2.2%.

US: Real GDP Growth (rate, %)

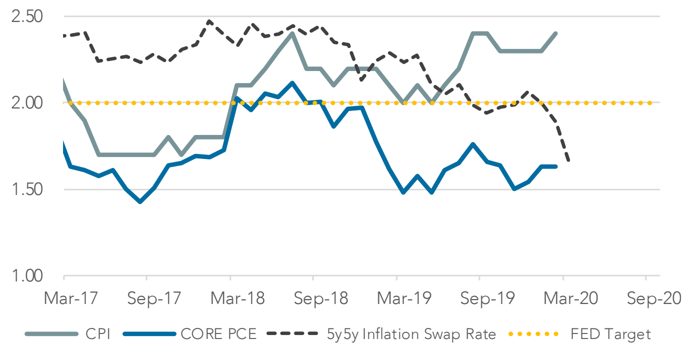


Source: US Bureau of Economic Statistics, OECD

December 2019 projections provided by the FOMC forecasted growth to marginally slow down to 2.0% in 2020 and 1.9% in 2021. The OECD projections published 2nd March, which only partially consider the potential damage of the relatively new virus threat, indicated an expansion of 1.9% in 2020 and 2.1% in 2021.

However, the alarming pace of contagion of the virus in the US has materially increased the downside risk to the growth outlook. More recent leading indicators are displaying signs of a severe deterioration in economic activity, due to the intensification of the spread of the virus in US, indicating drops in economic production and significant job losses despite the sizeable measures announced on both the monetary and the fiscal fronts.

US: Inflation (rate, %)



Source: US Bureau of Economic Statistics, Bloomberg

Core PCE inflation has moderated towards 1.5% in 2019 increasing to 1.6% in February 2020. The lack of traction in inflation despite labour market improvements has led the FOMC to adjust their approach by (a) cutting rates in 2019, partially reversing the rate hikes introduced since 2015; and (b) allowing for a symmetric objective around the inflation target of 2%.

In view of the direct threat to the economy however, combined with the drop in oil prices, inflation expectations are declining. The 5y5y inflation swap rate has in fact fallen to 1.39%.

The labour market continued to improve in recent months with unemployment rate stabilizing at 3.5%, the participation rate improving to 63.4% and average hourly earnings registering increases month after month averaging at 0.25% over the last twelve months.

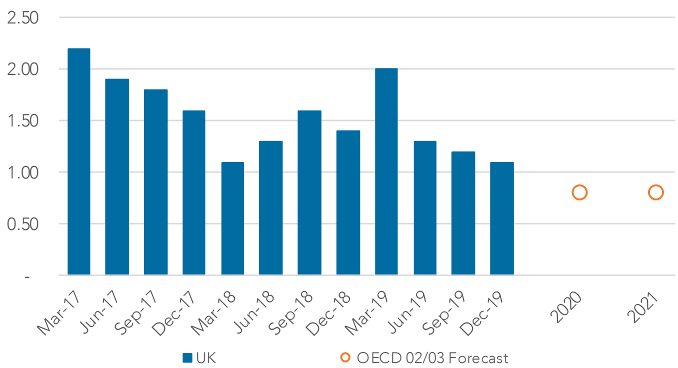
Having said that, new unemployment benefit claims have risen dramatically over the last two weeks and are expected remain high for the next few weeks due to the virus outbreak. Jobless claims increased from 211K to 281K in the week ending 14th March and spiked to a record-high of 3.28 million for the week ending 21st March. These two weeks of initial claimants has by far outpaced the levels achieved over the worst four weeks during the 2008 which totaled circa 2 million.

The potential impact on unemployment rate is currently estimated to increase by around 5.5%. However, the outcome remains highly uncertain as the full economic impact from the virus remains an unknown while the fiscal measures to support workforce retention are yet to be tested.

United Kingdom

UK growth has slowed last year reaching 1.1% in Q4 2019 down from 1.2% in Q3 with uncertainty around Brexit and the low business investment cited as the main causes of this slow down as well as weakening foreign demand. While growth was expected to pick-up as suggested by positive momentum in leading indicators earlier this year, the outbreak of the coronavirus has materially shifted the risk of the economic outlook to the downside.

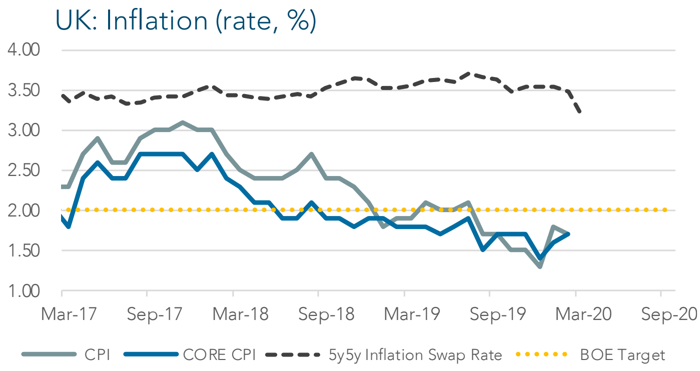
UK: Real GDP Growth (rate, %)



Source: Office of National Statistics, OECD

In a forecast published on 2nd March the OECD has indicated an expected expansion of 0.8% in 2020 and 0.8% in 2021. However, in the view of the rapid pace of contagion in the UK and the recent restrictive measurements and halt of businesses announced by the government, the economic impact is expected to be much worse.

UK headline inflation and core inflation declined steadily in 2019 reaching 1.7% in February 2020. The weakening trend in inflation is largely attributed to the restrengthening in the Sterling, partly reversing the effects of imported inflation together with the lower oil and gas prices and the softer GDP growth levels.



Source: Office of National Statistics, Bloomberg

Consumption growth has been weaker than real wage growth indicated limited pass-through effects in view of increased caution around spending. Inflation is expected to fall further due to the sharp decline in oil prices and a slump in activity.

When considering the labour market, unit wage growth continued to pick up in 2019 reaching close to 4% on an annualized basis as the unemployment rate stabilized at slightly below 4%. Other variables confirm the positive momentum in labour market conditions particularly in the flow between employment and unemployment and the drop in the marginal attachment ratio showing signs of tighter labour market conditions similar to the trends seen in other major developed economies. The extent of the fallout in the labour market due to the economic threat of the virus remains highly uncertain.

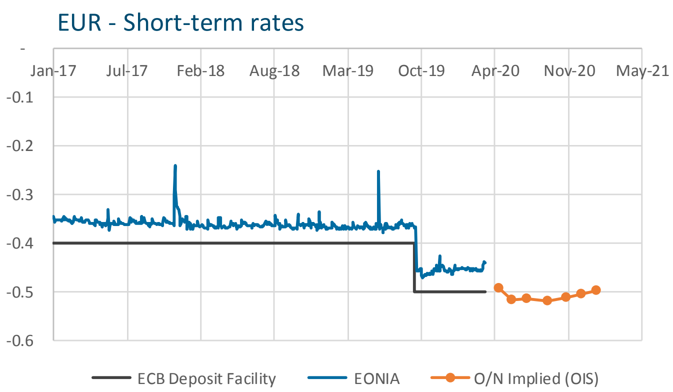
Having said that, it has been widely reported that the number of claimants for unemployment benefits has increased drastically over the last several days. On the other hand the government has announced this week that it will pay 80% of staff salaries to boost retention, for wages up to £2,500 per month.

RATES

Euro

Euro overnight rates have been firmly anchored against the ECB policy rates. The ECB's deposit facility rate was cut by 10bps to –0.50% in September 2019 when a two-tiered system was introduced allowing a less taxing rate on bank excess deposits above a certain threshold.

There is limited scope for the ECB to cut rates further at this point, in fact the policy reaction to latest developments surrounding the coronavirus was met with the introduction of alternative unconventional measures as short-term rates have reached the "effective lower bound".



Source: ECB, Bloomberg, Curmi & Partners Ltd

The "fixed-rate full-allotment" regime introduced by the ECB since 2008 has served as the most effective tool in soothing interbank lending and sustaining short-term funding conditions in euro. As a result, in the wake of the virus outbreak, the euro funding market has not come under pressure as seen in the US dollar funding market.

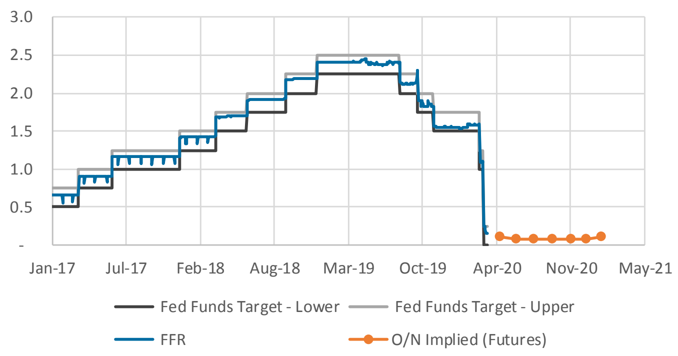
The expectation is that policy rates will be held at current levels for the foreseeable future. A potential change in rate is only expected to be considered when the economy shows signs of sustained increase in price pressures and programmes to reverse QE holdings are launched. In the meantime, the policy strategic review launched the central bank can introduce changes in their price stability objectives and may shed light on shifts in the authority's reaction function.

US Dollar

The FOMC has surprised markets by announcing two rate cuts of 50bps on 10th March and 100bps on 19th March due the virus treat. As a result, the target range for the Fed Funds Rate was brought down from 1.50% - 1.75% to the effective lower bound of 0% - 0.25%.

This move, however, is not viewed as a stimulatory measure but rather as a precautionary measure to (a) reduce the risk of bottlenecks in the flow of credit and the risk of rising tension in the funding market; and (b) to influence and decrease finance costs across the economy to the extent possible to provide relief in view of the current economic headwinds.

USD - Short-term rates



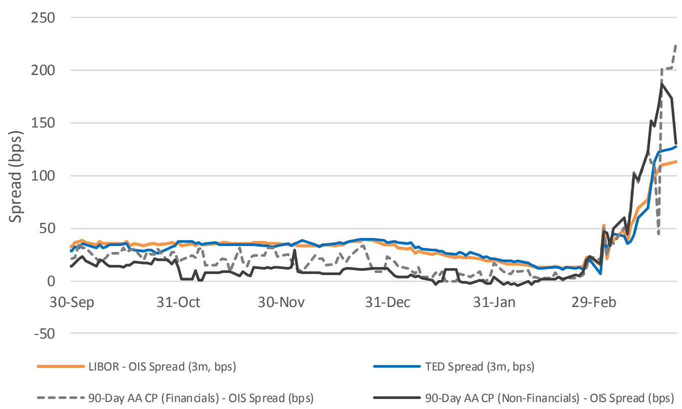
Source: FRED Economic Research, Bloomberg, Curmi & Partners Ltd

Policy rates are expected to remain at current levels for the time being and probably beyond the first signs of stabilisation in order to sustain the recovery and allow employment to regain the ground lost.

This is primarily grounded on the Fed's dual mandate to ensure price stability as well as employment and is further supported by the Fed's expressed adjustment towards a symmetric objective around the inflation target showing increased appetite to allow inflation to run above the 2% over a short period.

The short-term funding market has come under severe stress in March due to the uncertainty and financial risks caused by the outbreak of the coronavirus, as the 3-month Libor-OIS spread reached the highest levels since the September Repo crisis.

USD Short-term Funding - Interest Rate Spreads



Source: FRED Economic Research, Bloomberg, Curmi & Partners Ltd

The TED spread, which is the difference between the 3-month Libor and the 3-month Treasury Bill, also peaked amidst the outbreak to 127bps from just 12bps in February.

On the other hand, some relief can be seen in the Commercial Paper (non-Financials) rates primarily driven by of the announcement that the Commercial Paper Financing Facility will be relaunched by the Fed in order to support the flow of credit to commercial entities. Spreads on 90-day CPs (non financials) have tightened from a high of 187bps to 131bps.

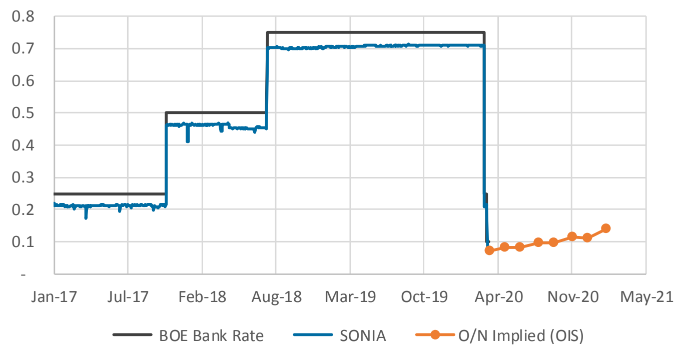
Similarly, we have seen substantial improvement in cross-currency spreads following the reactivation of existing and the establishment of new swap lines against other central banks in an attempt to sustain the demand for US dollar liquidity in foreign jurisdictions.

British Pound

In a bid to avoid an inflation trap, the BOE was expected to cut rates at the turn of the year but has held rates unchanged at the MPC January meeting.

Nevertheless in view of the new virus threat, the BOE has decided on surprise cuts of 50bps on 10th March and an additional 15bps cut on 19th March bringing the Bank rate to 0.1%. This policy decision is in line with the moves seen by other major central banks which brings interest rates across practically all major developed economies at the lower bound.

GBP - Short-term rates



Source: Bank of England, Bloomberg, Curmi & Partners Ltd

The BOE bank rate is likewise expected to remain unchanged for the foreseeable future with possibility of reassessment upon signs of stabilisation. The implied overnight index swap rates show a marginal pick up in short-term rates going in 2021.

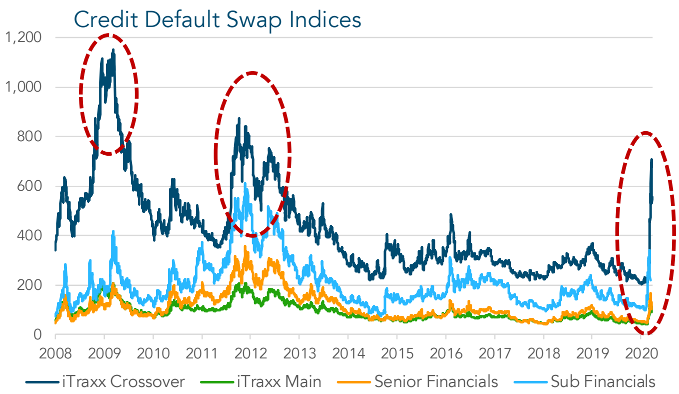
However, given the high probability of a weak economic underpinning, the BOE is unlikely to make material adjustments to its policy rate in the near term.

CREDIT

Credit markets began the year on a positive note, albeit with expectations pointing towards lower returns compared to the strong rally in 2019. This was primarily driven by the improving economic outlook and confidence in the continued support from central banks.

Credit markets were on balance more resilient as concern began increasing around the intensification of the spread of the virus in China up until end-February.

However, the shift in sentiment following the fast pace of contagion in countries outside of China has lead to severe stress in the credit market as evidenced primarily by the sell-off in corporate bonds and the sharp widening in credit spreads, the corresponding increase in credit protection as seen across credit-default-swap indices and the withering market liquidity and excessively wide bid-ask spreads particularly in the high yield space which lead to a distorted market.



Source: Bloomberg, Curmi & Partners Ltd

As the crash in the oil market is adding additional pressure in vulnerable areas of the credit market, these extraordinary conditions are expected to prevail for the near-term. The impact on both the supply side and the demand side of the economy, combined by the "unknown" factor of this crisis is translating in the broad-based and massive declines in revenues and margin compression, pressure on cash flows and ultimately severe challenges for corporates to manage their liquidity position.

In this environment, default rates are expected to rise and the credit rating downgrades seen so far are already reflecting this.

Nevertheless, we believe that there is scope to seek opportunities in the current scenario to select strong companies whilst maintaining a risk-averse approach. Whilst it remains uncertain when the underlying downside risks will subside, or at least stabilize, the copious amount of easing measures announced by governments and central banks are expected to buy the time required for businesses to survive this turmoil.

Within this context, we retain a preference for investment-grade credit versus high yield primarily reflecting the expectations that weak and highly leveraged business are expected to suffer the most in the current environment. Secondly, the modalities of the monetary injection programmes announced so far, particularly by the Fed and the ECB, are more likely to be provide support to the higher quality segment of the corporate bond market. On this basis, we expect spreads to be supported to a greater extent in the investment grade cohort of corporate bond markets.

We also note that the risk of "fallen angels" has increased considerably in view of the weak outlook and the general expansion in the market size of the BBB-rated bonds since over the last few years. With this in mind, attention should be given to bonds rated BBB or BBB– and which are either on a negative outlook or a downgrade watch, particularly in industries that are considered to be in distress.

A more defensive approach is warranted within high yield corporate bond selection with a focus on capital preservation and de-risking specific exposures at this stage. The scope to monitor and evaluating the evolving risks on an idiosyncratic basis is particularly important at this stage given the challenge in managing or mitigating the risks due to the current market distortion.

The objective is to reduce the risk of default given the worsening trend in margins and cash flows, the difficulty for issuers to draw down credit lines and sell non-core assets, the difficulty to access capital markets and the risk of covenant breaches.

Whilst all sectors are expected to face difficulties, we note some variances in the extent of the impact from the coronavirus, the crash in the oil market and the recently introduced monetary and fiscal packages. Particularly:

- Utilities, Telecom/Cable: Generally, we consider the utilities sector to be relatively attractive during such periods, especially when backed by robust and predictable regulatory frameworks;
- Banks: The overall outlook for the banking sector could be considered relatively positive, compared to other sectors given the strong capital adequacy ratios (post 2008 crisis), assistance from governments, state guarantees on loans, provide support to bank credit, even though the increase in default

rates and NPLs is expected to rise.

- Energy: The oil market crash driven by geopolitics and a weaker economic outlook has had a very evident impact on energy credit. The very low oil prices are expected to result in distress for issuers, particularly high yield and smaller entities.
- Consumer, Retail, Food & beverage: The Lock-downs and limited mobility, rising unemployment, and general lack of confidence is expected to lead to a decrease in consumer discretionary spending and possibly also supply challenges which will weigh the hardest on consumer and retail sectors.
- Autos : In addition to the persistent industry-specific challenges, namely: the increased regulation and emissions standards, the current situation is expected to disrupt both demand and the auto sector supply chain for the time being.

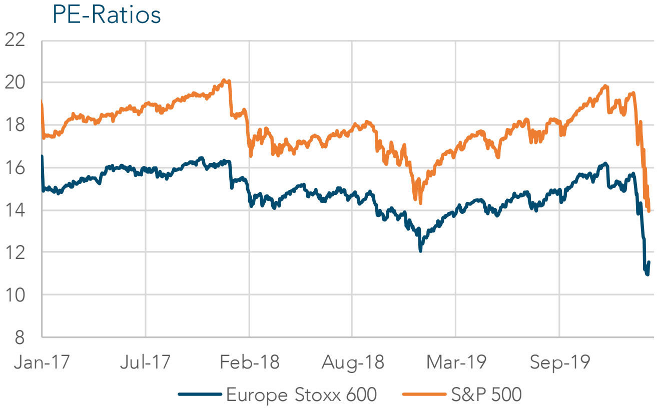
EQUITY

Equities showed incredible resilience over the past decade, navigating through a number of significant risks and shocks like the sovereign debt crisis, Brexit and a trade war. Very few strategists would could have foreseen that a virus would bring this 11 year run, the longest bull run history to an abrupt halt in March.

Equity markets started the year on a strong note, with the US S&P 500 (SPX) and the Euro Stoxx 600 (SXXP) generating a total return of 8.6% (in EUR terms) and 3.7% respectively up to 17th February. However sentiment nose-dived as soon as it became obvious that COVID-19 matured from a Wuhan virus to an epidemic and then to a global pandemic.

The sell-off has been rapid and indiscriminative. The speed at which markets have repriced has unsettled investors who by now are used to the low volatility environment of the past decade. In less than a month both indices have lost circa 31% (both in Euro terms) with a total return of -22.2% (SPX) and -31.4% (SXXP). To provide some perspective, during this period the SPX recorded the 2nd and 3rd worst drawdown since WWII.

PE-Ratios



Source: Bloomberg, Curmi & Partners Ltd

Large moves like those seen over the past weeks always create a discussion around valuations. Some in the investor community will view the sell-off as an opportunity to buy given the magnitude of the drop but our view is that these moves should be put into the context of the risks which this threat is creating. The equity market in general was expensive at the start of the year after generating impressive gains in 2019 despite virtually no earnings growth. In fact, 90% of equity market gains were the result of valuation expansion as. The global economies continued to exhibit signs of weakness throughout 2019, as evidenced by the weak earnings growth, but equities rallied further.

The phase one agreement was a major catalyst for equity investors going into 2020. Investors had already started to price in some of its expected impact on global trade, as evidenced by the rally in value names over the summer of 2019. However, the rotation into value stocks was relatively short lived.

Investors have been forced to revise unrealistic expectations downwards after the virus hit. The consensus at the start of 2020 was for high single-digit earnings growth despite the global economy was expected to grow at just 3%, driven primarily by emerging economies. Over the past weeks earnings forecasts have been slashed, with Goldman Sachs cutting their EPS forecasts in the US and Europe three times over the past month.

COVID-19 has drastically changed the near term outlook as governments across several countries have been forced to take extremely restrictive measures to try and control the virus spread. Airlines have been forced to cancel flights due to travel restrictions while hotel occupancy rates have plummeted. The visibility for near term earnings is severely clouded.

Firms have started to withdraw their FY20 guidance and instead announced liquidity measures. Demand conditions have changed markedly for most companies since the last earnings call when guidance was provided. The demand and supply conditions are under extreme pressure and it would not be prudent for companies to provide any guidance until the situation stabilises.

A "V"-shaped recovery was the base case some weeks ago. Recent developments have put this in considerable doubt with some looking at a "U"-shaped recovery, while an "L"-shaped recovery is the most bearish view. The type of recovery will depend on how quickly we get to peak virus concern, whether there is some credit event as liquidity dries up and how the economy responds to the fiscal/monetary measures announced by Governments and central banks over the past weeks.

Consensus assumptions currently see normalisation in the second half of the year. However, this may be too optimistic if the virus spread cannot be contained, or at which point will authorities start lifting the restrictive measures when the virus is contained. Moreover, more structural problems can emerging in the event of bankruptcies and a higher degree of layoffs than expected.

While we maintained a defensive stance within our equity selection going into 2020, we sought to reduce beta exposure further to 0.85 in view of the virus concerns. To this end, we closed some cyclical positions including Amazon, Inditex, Total, ArcelorMittal and Tesco which we deemed to be most sensitive to the downside risks brought about by the virus.

With these changes, our overall equity allocation was adjusted from a marginal overweight to an underweight position at the end of February.

With near term risks still elevated we believe that the current beta exposure is reasonable. Earnings visibility remains clouded, and with macro data coming in worse than expected we could see additional global economic growth cuts in the coming weeks.

The key indicators which we identify to be important signals of stabilising or normalising market conditions are the following:

- Yield Curve: A steeping yield curve could provide an indication that investors are expecting stronger economic growth and higher inflation. In the US treasury market, the 2-year versus 10-year spread has increased from 31bp at the start of the year to 53bp on 20th March. However we believe it is too early to regard this as an indication of improving expectations. There is currently a lot of noise in the short end of the curve given the measures being taken by central banks which is influencing the shape of the curve.
- Volatility: High levels of volatility are usually indicative of periods of uncertainty. Equity volatility measured by the VIX index surged from 12 at the start of the year to 66 on 20th March. We think that lower volatility could be a bullish indicator for the equity market.
- Liquidity: Financial conditions remain tight despite the FED going "all-in" with a slew of measures announced over the past weeks. Until financial conditions ease we think equities are unlikely to bottom. This could partly explain why Central banks globally were so quick in announcing liquidity measures, when these measures have little/no impact on the hit to demand/supply conditions caused by the virus.
- Peak virus concerns: A slowdown in the number of confirmed cases is an obvious catalyst for the equity market. We think equities will struggle until we have indications of a confirmation in peak cases occurring in April or May, which is the current base case generally assumed by market players. A persistent slow down in the number of new cases could be what the market is looking for.
- Peak Dollar: The US Dollar has strengthened over the past weeks with the Bloomberg Dollar basket up 8.0% from the start of the year. This could indicate investor weak investor confidence, with a preference being shown for safe haven assets. A weaker dollar in the coming weeks could indicate less risk aversion in the market, which is deemed to be positive for risky assets.

As market conditions start to normalise we expect to increase exposure to Technology and other growth sectors which are expected to perform well as the low growth low inflation environment could be set to persist for longer. Sectors like technology and luxury goods have performed relatively well in this environment.

ASSET CLASS VIEW AND POSITIONING

Asset Class	View	Allocation	Positioning
Sovereign Bonds	Neutral	N	Market expectations at the start of the year anticipated benchmark bond yields to remain range bound. However, the Coronavirus crisis shook the market. Initially, Euro benchmark yields declined on surge in risk aversion, but the trend is now less convincing due to determination of government to intervene with substantial supportive measures. Euro peripheral markets are heavily impacted by country specific issues and weaker positions. In view of the notable fiscal support announced as a reaction to the virus threat, the debt levels across major economies are expected to increase considerably over the near term. Having said that, this will met with significant stimulus announced by central banks that should more than offset the capital required by governments to meet the announced discretionary fiscal spending. The measures introduced across countries as well at European level point towards a stronger propensity for sovereign spreads to re-converge. On this basis, we are seeking to re-establish a neutral allocation within this asset class by including a mix of viable sovereign bond exposures with a relatively long duration position.
Investment Grade Corporate Bonds	Positive	O/W	Attractiveness has increased both on a relative and absolute basis given the recent widening in spreads across bond markets. Whilst we are comfortable with holding high cash balances, we are seeking to identify a selection of single-A corporate bonds primarily to improve the credit quality mix within our IG corporate bond selection while entering at a yield level that is considered to be attractive in view of the substantial central bank credit support, lowering inflation expectations and preferred tilt for a longer duration exposure. Secondly, the risk of fallen angels in the BBB space has been noted as a main risk to closely monitor in view of the challenging business conditions and the increasing downgrade risk. On this basis, we shall re-assess our current BBB corporate bonds and at the same time seek to identify alternatives that can improve the overall carry of our IG corporate bond allocation.
High Yield Corporate Bonds	Negative to Neutral	N	Risk averse approach is warranted given the severe economic downturn and pressures across corporate sectors. At this point, and following market re-pricing our approach will remain on monitoring evolving risks on a name-by-name basis and de-risking individual exposures, were necessary. At the same time, the scope is emerging for the selection of relatively more robust credit profiles to be included in our high yield allocation when the market stabilises and clarity on economic and business conditions is improved.
Emerging Markets Corporate Bonds	Neutral	N	Risk averse approach is also warranted due to the downturn on global economy and the originally vulnerable economic conditions across emerging countries. Whilst most exposures are centred on conservative financial profiles, our approach remains on monitoring evolving risks and de-risking on individual positions as required.
Equities	Negative	U/W	The virus continues to weigh on sentiment and will remain a major headwind for equity markets. Macro-economic data has been weak (China, EU, UK) which has led to drastic action being taken by Governments and Central Banks. Actions taken by Governments to limit loss of life (although positive in nature) will curtail growth further. With near term risks still elevated we believe that the current beta exposure (circa 0.80) is reasonable. Earnings visibility remains clouded, and with macro data coming in worse than expected we could see additional global economic growth cuts in the coming weeks. We will retain our current sector exposure which is primarily tilted to non-cyclicals for the time being. As equity markets normalise, we will look at increasing our exposure to Technology and other growth sectors which are expected to perform as the low interest rate and low growth environment could persist for longer.

N = Neutral O/W = Overweight U/W = Underweight

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