
Coronavirus/market volatility: TLUX GMAI update

Multi-asset | March 2020



Maya Bhandari
Portfolio Manager,
Multi-asset



Felicity Long
Client Portfolio Manager
Multi-asset

Markets have been trying to digest the impact of Covid-19 on economic activity and government policy. This is hard. The financial impact will be a function not only of the spread and lethality of the virus, but on the response of people and governments to the threat the virus poses to public health.

Markets are essentially trying to assess the outcome of two (still evolving) policies with opposing economic impacts – public health measures on the one hand, and monetary and fiscal stimulus on the other. The fiscal response has been variable in both size and focus; the monetary response, meanwhile, has been huge.

Despite meaningful stimulus measures being delivered (with more anticipated), the speed of the market moves has been astonishing, further fuelled by the collapse in the price of oil. Equities have fallen up to 35% from their January highs¹; credit spreads are back to levels not seen since 2012 (and are quickly pushing through this); and core government bond yields fell to new lows. The feedback loop between volatility-sensitive strategies and higher experienced volatility has been particularly intense. This has led to ETFs, for example, trading multiple percentage points below NAV.

Resulting portfolio activity in our multi-asset funds has been based on an overarching understanding that the impact of Covid-19 on economic activity is severe, but temporary – but the depth and duration are unknown. Valuations are cheap, but not so cheap as to drive a

¹ Bloomberg, 18 March 2020.

meaningful increase in our risk appetite at this juncture. Rather, we have maintained or raised cash and are gradually nibbling into our favoured asset classes and taking profit in areas such as long duration that have done well.

Portfolio

In the TLux Global Multi Asset Income Fund, this has meant running cash at historically high levels – 9.8% today² – while keeping equity exposure in Japanese and US equities via futures. Although a cyclical market, Japanese firms are trading at ultra-cheap price-to-book (near an historical low of 1), which should lock in asymmetric upside gains. US equities, meanwhile, are now pricing in a deep and extended recession that we do not currently anticipate, while also providing our clients with more exposure to quality global businesses with strong balance sheets.

² Columbia Threadneedle Investments, 18 March 2020.



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