EB Wealth

# QUARTERLY REPORT
# Q1 2020

# Global Overview

| Global sector performance for the period 01/01/2020 - 31/03/2020 | | | |
|---|---|---|---|
| Markets | Country | Index (ex div) / sector | Performance for the Period 01/01/2020 to 31/03/2020 |
| North America | USA | S&P 500 | -14.5% |
| | | Dow Jones | -20.67% |
| | | Nasdaq | -24.08% |
| UK | UK | FTSE 100 | -25.41% |
| | | FTSE All-Share | -26.57% |
| Europe | Germany | Xetra DAX | -25.77% |
| | France | Paris CAC 40 | -27.23% |
| | EU Countries | FTSEurofirst 300 | -23.07% |
| Asia | Japan | Nikkei 225 | -18.48% |
| | China | Hang Seng | -17.31% |
| | India | Nifty 50 | -29.43% |
| South America | Brazil | Sao Paulo Se Bovespa | -38.42% |
| | Mexico | SE IPC | -22.24% |
| Other Markets | South Africa | JSE FTSE ALL SHARE | -22.92% |
| | Australia | S&P AUST | -24.12% |
| | Russia | RTS | -35.15% |
| | Canada | S&P/TSX COMPS | -21.76% |
| Commodities | N/A | Gold | 5.97% |
| | | Silver | -22.22% |
| | | Brent Crude Oil | -66.16% |
| | | Copper | -22.50% |

This quarter has been very tough for indices around the world, as the coronavirus pandemic took hold. All the major indices around the world suffered from double digit falls, with Brazil's Sao Paulo Se Bovespa falling by 38.42%, as seen above. Despite this, some of the indices began to recover a bit towards the end of the quarter, and it will be interesting to note whether this recovery continues in Q2.

# Coronavirus

Coronavirus. This word that has become a common staple in everyday conversation and affects everyone in the world in some form. When reports of this virus first emerged in early 2020, no one could have predicted the extent coronavirus has had on the world. Currently, the UK and many other countries across the world are effectively in lockdown, the likes of which haven't been seen since World War II.

As a result of the pandemic, the economy has taken a battering in the last few months, for example the FTSE 100 fell from a high of 7,457.02 on 19th Feb 2020 to a low of 4,993.89 on 23rd March 2020, a drop of 49% in just over a month. On 12th March 2020 the FTSE 100 fell by 10.87% in one day, which was the largest single-day drop in the index since the dark days of the "Black Monday" crash in 1987. There has been talk that the Coronavirus (COVID-19) pandemic could lead to a global recession, and with the pandemic showing no current signs of slowing down and many firms needing to furlough or laying-off staff, a global recession looks highly likely.

The downturn in the economy has been further exacerbated by the US/China trade war and the oil price war between Russia and Saudi Arabia, which has seen the share prices in many oil firms slump heavily. At EB Wealth, many of our clients' portfolios have unfortunately reduced in value during this period. However, due to our concerns about 'Brexit', we changed most of our portfolios to a defensive position and consequently our portfolios experienced limited loss.

In these uncertain times, it would take a brave individual to predict on how the economy will fare in the coming months and years. However, experts have attempted to make some sense out of the situation; there is some commentary to suggest that the coronavirus could accelerate the shift in power and influence from the west to the east. Based on the current global situation, it would be hard to argue against this viewpoint as we are able to see that countries such as South Korea, Singapore and China handling the COVID-19 pandemic better than the western hemisphere.

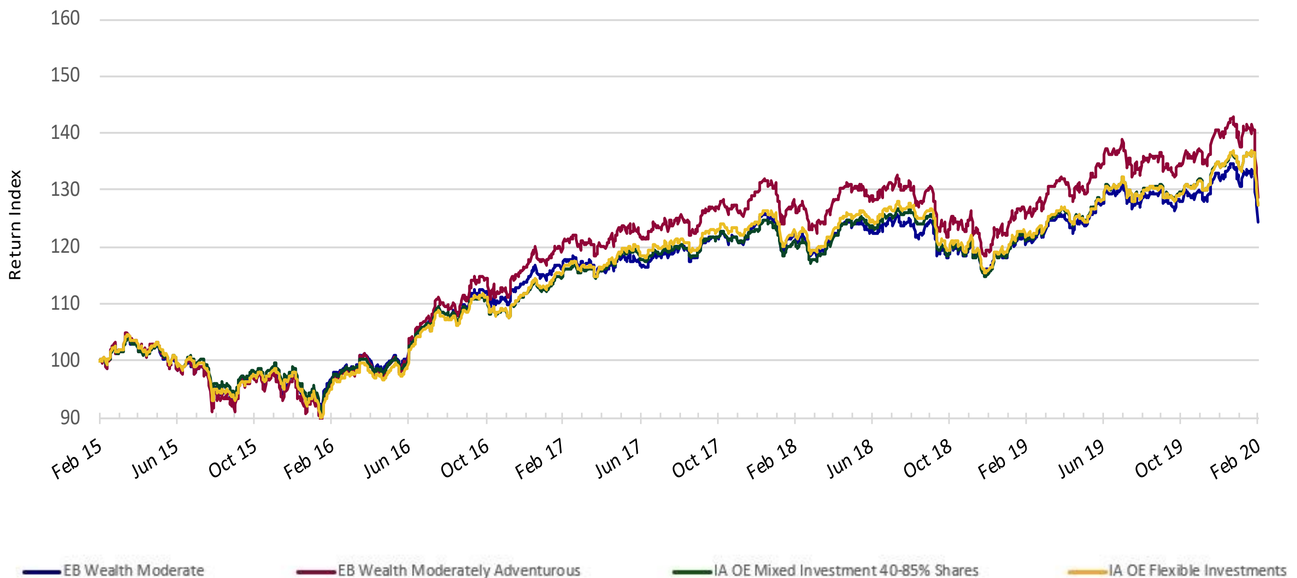
Others suggest the pandemic could bring about the end of globalisation. The lockdown put in place by various governments across the globe has meant that countries have been forced to abandon their long-distance supply chains and have had to look at solutions closer to home in order to sustain consumer demand.

What is clear is that this is an unprecedented time, the likes of which haven't been seen in many living memories and no one is certain of what will happen to the economy. Luckily, every cloud has a silver lining and some positives will come out of this pandemic. Prices of many popular stocks and funds have dropped and have become very attractive which means now is a good opportunity for our clients with cash to invest will opportunities to recoup any current losses quickly.

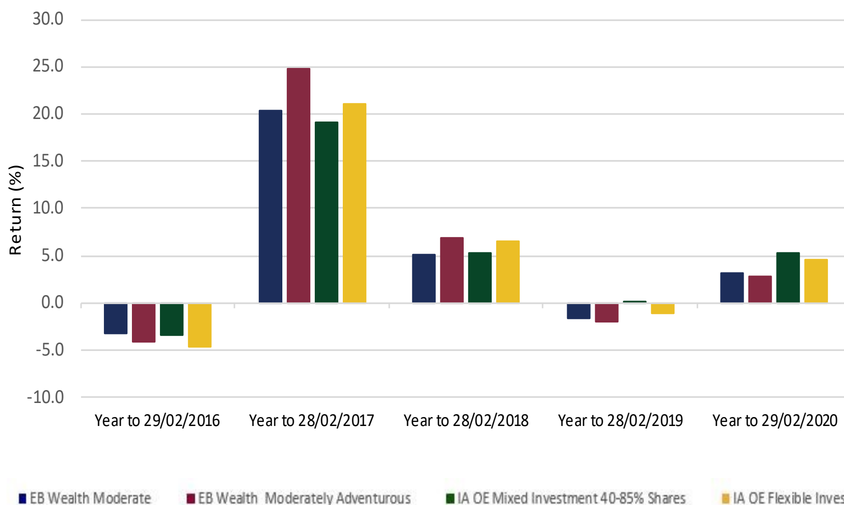
More importantly, I hope all of you, and your families are keeping safe and adhering to the latest government advice. These are testing times for us all and we hope life will return to some sense of normality soon.

Tharshan Balenthiran
EB Wealth

# EB Wealth Portfolio Performance




This chart shows year to date performance of our Moderate and Moderately Adventurous fund portfolios over the last five years. We have also included the IA OE Mixed Investments 40-85% returns and IA OE Flexible Investments as benchmarks. Please see the last page for more information in relation to the benchmarks along with further information on our portfolio returns.



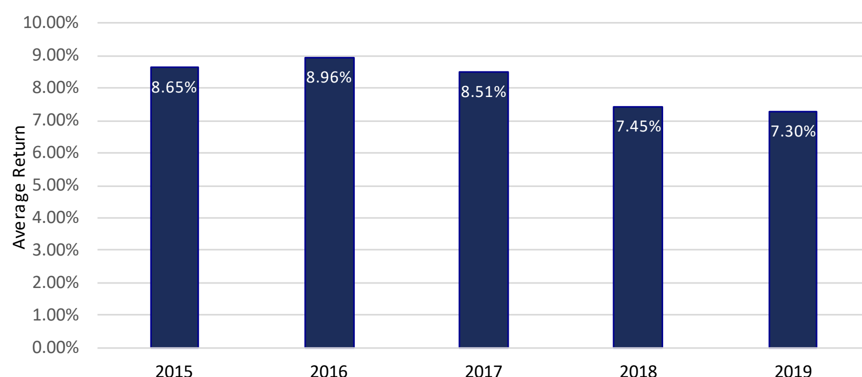

## Discrete Annual Performance

This chart shows the discrete annualised performance of our Moderate and Moderately Adventurous fund portfolios over the last five years.

We also run Cautious, Moderately Cautious and Adventurous portfolios and information on these portfolios can be obtained upon request

## Structured Product Average Return

This chart shows the average return achieved on our structured products recommendations on a discrete annualised basis.



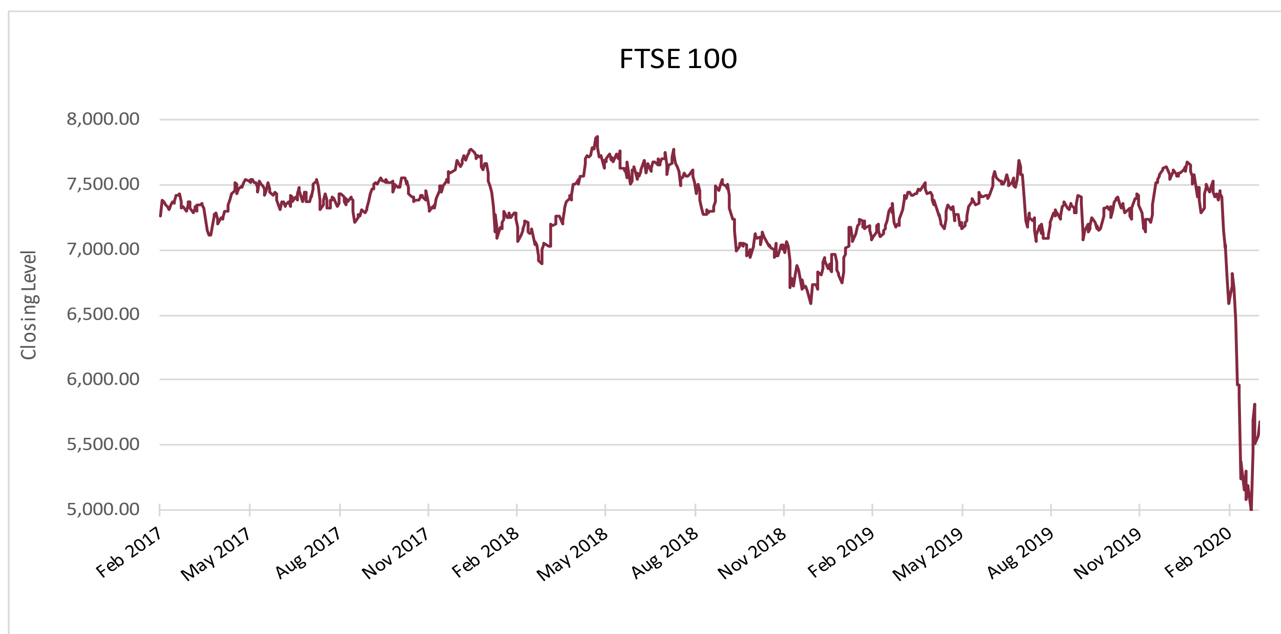
# Market Commentary UK

| Macroeconomic Highlights 01/01/2020 to 31/03/2020 | | |
|---|---|---|
| | Latest Reading | Compared to Previous Quarter |
| GDP Growth | -3.0% | Fell from 0% |
| Yearly Inflation | 1.7% | Increased from 1.5% |
| Wage Growth Including Bonuses | 2.7% | Fell from 3.6% |
| Unemployment Rate | 4.0% | Increased from 3.8% |
| Interest Rates | 0.1% | Fell from 0.75% |

The FTSE 100 declined dramatically in March 2020 due to the COVID-19 pandemic. In fact, the FTSE posted its largest quarterly fall since the aftermath of Black Monday, with the value of UK company shares in the leading index falling by 25% for the whole of the month. Airlines, travel firms and banks are amongst fallers in the FTSE index, with the shares of IAG, the owner of British Airways, falling by around 67%.

Prior to the COVID-19 pandemic, Brexit was already causing uneasiness in the London Stock Exchange, as the UK officially left the EU on 31 January 2020 and entered the “transition period”. This period is due to last until 31 December 2020; however, there is some speculation that this period may be extended due to the current global situation. As a result of this, the index had already begun to decline towards by the end of January.

Despite the negative effects of the pandemic that led to the index falling to 4,993.89 on 23 March 2020, we can see that the index has begun to rebound slightly by the end of the month. This is partly due to the economic stimulus provided by the UK government: Rishi Sunak, the newly appointed Chancellor announced plans of providing £350bn relief to the economy, as well as providing up to £2,500 or 80% of salaries for individuals that have been furloughed (laid off temporarily) as a result of the pandemic. The Bank of England has also slashed interest rates to 0.1%, which is the lowest it has ever been.



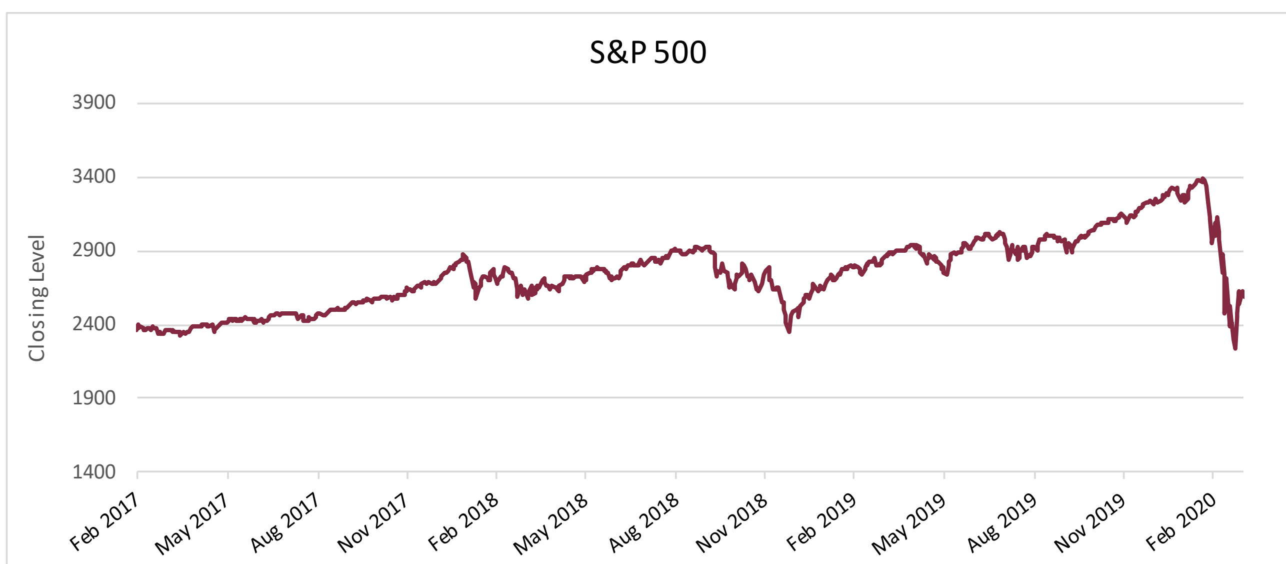
# Market Commentary US

| Macroeconomic Highlights 01/01/2020 to 31/03/2020 | | |
|---|---|---|
| | Latest Reading | Compared to Previous Quarter |
| GDP Growth | -5.0% | Decreased from 2.1% |
| Yearly Inflation | 2.1% | Increased from 1.8% |
| Wage Growth Including Bonuses | 3.23% | Fell from 4.89% |
| Unemployment Rate | 3.8% | Increased from 3.6% |
| Interest Rates | 0.25% | Fell from 1.75% |

The S&P 500 Index initially grew at the start of the quarter, which could largely be put down to two factors. The first was President Trump's acquittal in the final impeachment vote, bringing an end to months of uncertainty regarding his presidency. Another factor was employment data was strong. For example, wages edged up 0.1% (year-on-year) to 3.1%. There were also 225,000 jobs created in the US economy during January.

However, like the rest of the indices around the world, it has seen a sharp fall from about late February onwards due to the COVID-19 pandemic. The fallout from the pandemic was worse due to the oil war between Russia and Saudi Arabia, causing the value of Brent crude oil to fall to a value of $22.58, which is the lowest it has been since November 2002. The pandemic has also meant that US employment, which was looking strong at the start of the year, has declined dramatically in the past few weeks. During the last week of March, 3.3 million people in the US filed for unemployment benefits setting a new record and surpassing the previous record of 695,000 set in 1982. Many experts predict that as many as 40 million Americans could lose their jobs by the end of April 2020.

Despite the negative effects of the pandemic and the oil war on the US economy, the index rebounded slightly towards the end of March. This is partly due to the implantation of the $2 trillion relief fund to help combat the economic losses incurred as a result of the pandemic. However, at the time of writing, the US currently has the most cases of COVID-19 in the world and unemployment looks set to increase to levels that haven't been seen in modern history. As a result we will be cautiously looking at our US investments.



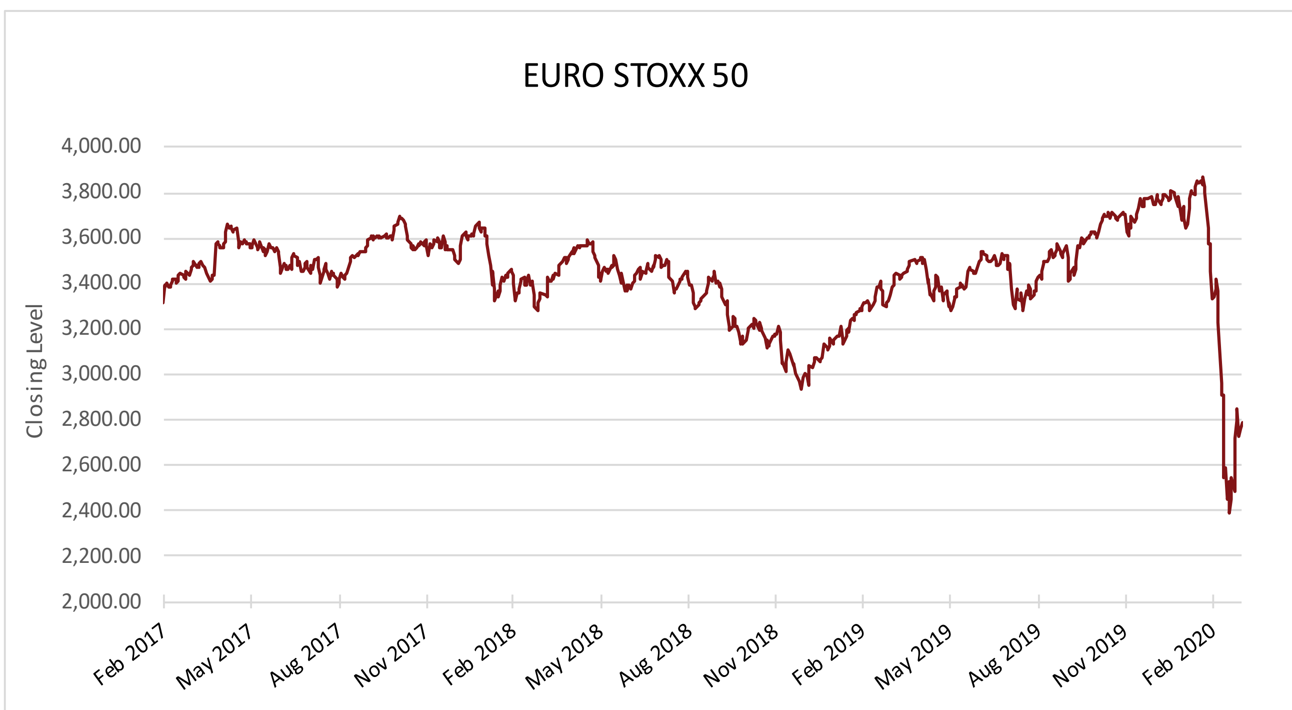
# Market Commentary Europe

| Macroeconomic Highlights 01/01/2020 to 31/03/2020 | | |
|---|---|---|
| | Latest Reading | Compared to Previous Quarter |
| GDP Growth | -3.7% | Fell from 0.2% |
| Inflation | 1.1% | Increased from 1% |
| Wage Growth | 3.7% | Increased from 2.7% |
| Unemployment Rate | 7.3% | Fell from 7.5% |

The European markets initially started off the quarter well, buoyed by positive growth in Q4 of 2019, along with news that China and the US had signed off the first phase of their trade deal. However, continued protests in France over President Macron's reforms and growing inflation in the eurozone meant that growth was stunted and fell below expectations.

The onset of the COVID-19 pandemic, however, has caused widespread economic losses throughout the European market. At the time of writing, many European countries are still in lockdown and are currently unable to predict when they will be able to ease the restrictions in place. Europe has now become the epicentre for the outbreak with Italy and Spain having over 10,000 deaths each.

Despite the high death rates, there have been signs in the last few days of March that infection is slowing down. There are signs that lockdown restrictions are working. This, along with major fiscal interventions from the governments, has meant that the Euro index looks like it is beginning to make a gradual recovery. It should be noted that we are yet to see how this pandemic will affect the markets in the long term, and this will largely depend on how quickly the governments are able to reduce the spread of pandemic.



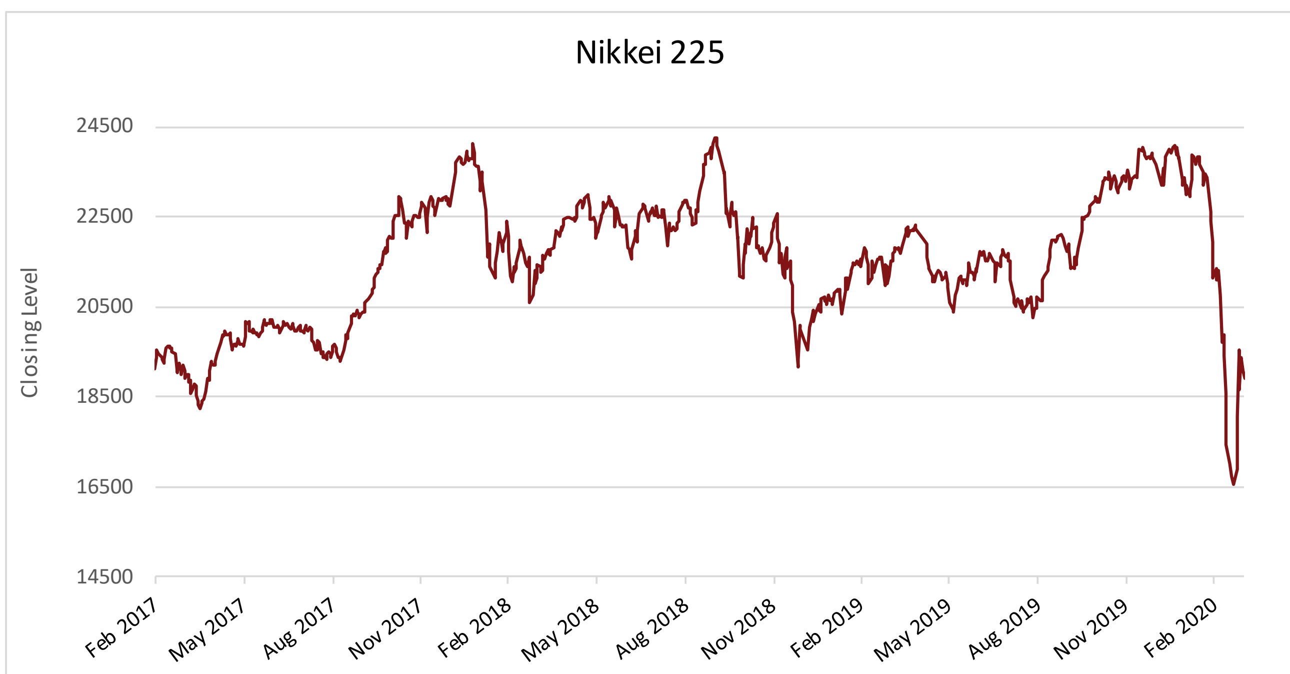
# Market Commentary Japan

| Macroeconomic Highlights 01/01/2020 to 31/03/2020 | | |
|---|---|---|
| | Latest Reading | Compared to Previous Quarter |
| GDP Growth | -0.5% | Increased from -1.9% |
| Inflation | 0.5% | Increased from 0.2% |
| Unemployment Rate | 2.4% | Remained at 2.4% |

COVID-19 affected Japan earlier than it affected other nations around the world, and this is reflected within the performance of the Nikkei 225. The index began to fall sharply around mid-February, reaching a low of 16,522.83 on March 19th, 2020. The Nikkei experienced a fall of 20% in Q1, which was the largest decline since Q4 2008 in the height of the "credit crunch'. Prior to this, the Japanese economy had begun to rebound after a disappointing Q4 in 2019 as a result of Typhoon Hagibis and the sales tax hike.

Despite being a close neighbour of China, the initial epicentre of the COVID-19 outbreak, there have been a relatively small number of cases announced, even when you take into account the cases aboard the Diamond Princess cruise ship. This could be partly explained by the lack of testing in Japan when compared to countries such as South Korea and Singapore. Based on current numbers, it would seem that Japan is best placed to recover quickly from the pandemic.

However, one significant factor to note is the postponement of the 2020 Olympics in Tokyo. It was estimated that the budget for the Olympics would be around $16.7 billion, but due to the postponement, it is predicted that it could cost the Japanese government an extra $5 billion, bringing even more pressure to the already fragile economy. It is too early to predict how significantly the postponement will affect the index and whether the pandemic will have a greater effect within the country.



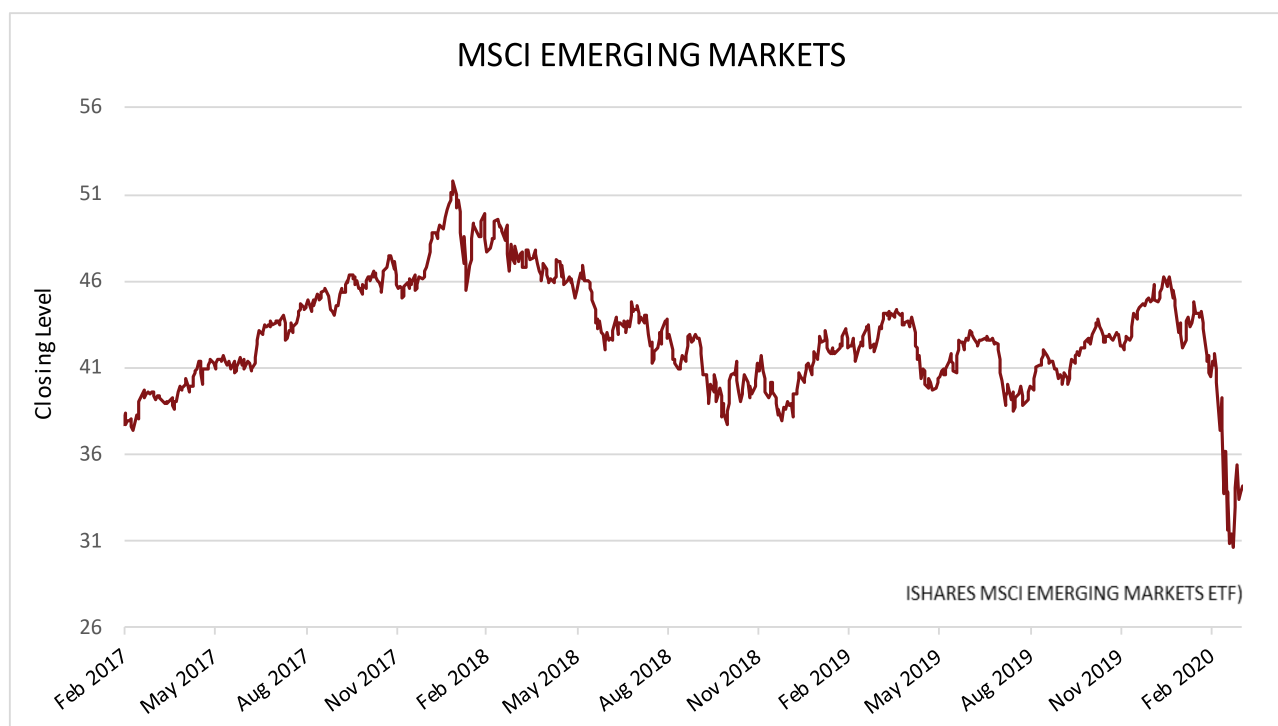
# Market Commentary Emerging Markets

With the outbreak of COVID-19 being centred upon Wuhan, China, the MSCI Emerging Market Index saw an earlier fall in Q1 compared to other indices in this report. The signing of the US-China trade deal meant that the index started with a healthy amount of growth; however, the onset of the pandemic meant that these early-year gains have been eradicated.

As it slowly emerged that this pandemic will be more widespread than initially thought, there have been large-scale losses throughout the emerging markets. The heaviest falls were seen in markets with the most exposure to China such as Chile, Brazil and Peru. Malaysia's prime minister, Mathathir Mohamad, also resigned, further exacerbating the damage to the economy in South East Asia. Due to the oil war, oil prices slumped by over 60%, causing major damage to economies that are mainly reliant on oil.

Despite the losses across the emerging market region, China was the only country to gain in February (despite being at the epicentre of the pandemic). In recent weeks, China has begun easing restrictions and has seen the number of internally infected cases reducing to nearly zero. The primary issue now is that new cases have been coming from people coming into China from overseas.

In recent days, factories have started reopening in Wuhan and people are being allowed to travel into the city. This has shown to other emerging markets that it is possible to combat the virus and that maybe the MSCI index won't take as long to recover as initially expected.



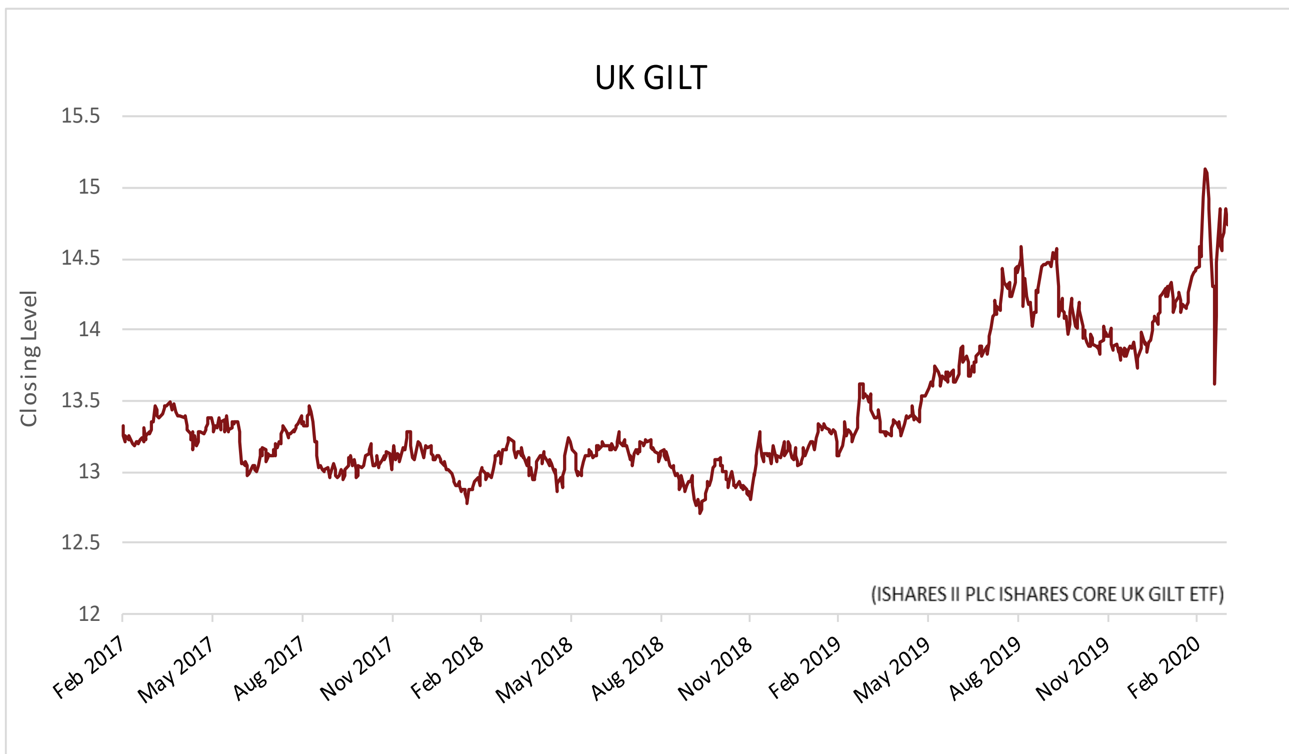
# Market Commentary Fixed Interest

At the onset of the quarter, corporate bonds enjoyed a strong start to the year. This was partly driven by falling government bond yields. However, as January progressed, two external factors led to increases in demand for government bonds. One was the emergence of the COVID-19 virus in China, and the other factor was the killing of Iranian Major General Qassem Soleimani by the US, leading to heightened tensions between the US and Iran, sparking fears that there could be a military escalation.

As the fallout from the pandemic continued throughout the quarter, it caused widespread economic losses and thereby increased fears that a global recession could be on the horizon. During times of economic decline, bonds are often favoured by investors as they are considered as a “safe haven”, which explains why the UK Gilt index went up in value in the latter part of Q1.

As a part of the UK government economic stimulus plan to inject £350bn into the UK economy to prevent it from sliding into a recession, the Bank of England have stated that they will buy around £200bn of government and corporate bonds in order to keep the cost of borrowing at a low.

Whilst it is hard to currently predict how the UK economy will fare in the long run as a result of the pandemic, there is an increasingly stronger likelihood that the government will need to buy more as it injects more money into the economy and may also need to bail out large firms. This makes bonds currently an attractive asset to invest in, as we believe the prices for bonds to continue to rise throughout the rest of the year.



# Our Tactical Allocation

| Sector | Forecast | Position | Morningstar Moderately Adventurous Allocation (%) | Tactical Overlay (%) | Moderately Adventurous Final Allocation (%) |
|---|---|---|---|---|---|
| US | Favourable | Overweight | 11 | 1 | 12 |
| UK Large Cap | Fair | Neutral | 22 | 0 | 22 |
| UK Mid Cap | Fair | Neutral | 8 | 0 | 8 |
| UK Small Cap | Fair | Neutral | 5 | 0 | 5 |
| Europe | Favourable | Overweight | 13 | 1 | 14 |
| Japan | Favourable | Overweight | 7 | 2 | 9 |
| Asia | Fair | Neutral | 4 | 0 | 4 |
| Emerging Markets | Favourable | Overweight | 9 | 4 | 13 |
| Property | Unfavourable | Underweight | 5 | -1 | 4 |
| Commodities | Unfavourable | Underweight | 5 | -1 | 4 |
| Global Fixed Income | Unfavourable | Underweight | 2 | -1 | 1 |
| UK Gilts | Unfavourable | Underweight | 2 | -1 | 1 |
| UK Corporate Bonds | Unfavourable | Underweight | 2 | -1 | 1 |
| UK Inflation Indexed | Unfavourable | Underweight | 2 | -1 | 1 |
| Cash | Unfavourable | Underweight | 3 | -2 | 1 |

# Notes on EB Wealth Performance Statistics

**Our Benchmarks**

**1. IA OE Mixed Investments 40-85%** - this shows the average performance of all funds which qualify for the 'Mixed Investments 40-85%' sector which have the following characteristics:

- Include a range of different investments
- Maximum 85% equity exposure (including convertibles)
- Minimum 40% equity exposure
- No minimum fixed income or cash requirement
- Minimum 50% investment in established market currencies (US dollar, sterling & euro) of which 25% must be sterling
- Sterling requirement includes assets hedged back to sterling

This is broadly in line with what the industry used to refer to as a 'Balanced Managed' fund and is broadly in line with our Moderate as well as Moderately Adventurous portfolios. However, our portfolios have no set mandates as to the amount of exposure we hold in any specific asset class.

**2. IA OE Flexible Investments** - this shows the average performance of all funds which qualify for the 'Flexible Investments' sector which have the following characteristics:

- Include a range of different investments
- No minimum equity requirement
- No minimum fixed income or cash requirement
- No minimum currency requirement

This is broadly in line with what the industry used to refer to as "Specialist". Since we do not impose any asset allocation restrictions on our portfolios, this benchmark is relevant; however, currently our Moderate and Moderately Adventurous portfolios would also fall within the mandate to be considered IA OE Mixed Investments 40-85%.

**3. RPI (Retail Price Index)** - along with the CPI (Consumer Prices Index), the RPI measures consumer inflation in the UK. Whilst the official measure is now CPI, RPI is still used for many types of cost escalation and we believe is a more relevant figure for measuring real returns. RPI is currently running circa 0.9% higher than the official government CPI figures.

**Structured Product Returns**

The performance data provided is the average of all structured products we have recommended to clients over the last six years where the return of the product is known i.e. where a product has matured, or an income payment has been received. We have also weighted the performance figures based on the level of investment we have made i.e. if we recommended a greater level of investment in one particular product over another, we have weighted the performance figures accordingly.

As structured products are close-ended investments, clients will only benefit from returns on the products they own personally rather than the average figures published in this report. The average figures are provided to highlight the general benefit of using structured products to reduce the volatility of a portfolio without necessarily impacting the total return.

The structured product returns quoted in this report may change in subsequent reports due to the fact that products which we have recommended, but are yet to mature, have not been included in the returns quoted above. (For example, a five-year product with the potential to pay 6% a year which has not yet matured, will not be included in the figures above. Depending on the outcome of the investment, when the product matures, we will allocate either 6% or 0% a year to the preceding five years).

# Our Services

## Wealth Management

Pension / SIPP funding
Pension / SIPP investment management
Pensions in retirement / Income drawdown
ISA funding
ISA investment management
Trustee Investments
School Fees Planning
Managing estates under Power of Attorney

## Personal Insurances

Life and Critical Illness Cover advice and brokerage
Family Income Benefit advice and brokerage
Mortgage Protection advice and brokerage
Income Protection advice and brokerage
Private Medical Insurance advice and brokerage
Tax Planning / Other

## Pension funding and 'in retirement' tax planning

Inheritance Tax planning
Capital Gains Tax planning
VCTs, EISs, ISAs, Bonds
Financial Planning in relation to Marriage, Divorce or bereavement.

## Corporate Services

Auto Enrolment and Company Pensions
Partnership/ Shareholder Protection
Key Person Insurance
Employee Benefit Programmes and Communication
Services for Charities
Business Exit Planning

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