As the shutdown starts – Tuesday 17th March Update

As COVID 19 now begins to grip Europe, the scene is set for a dramatic change in the way people work and operate for the coming weeks. As a company, we made some changes a few weeks ago, essential support staff teams split up, locating some in our main City office and others in our disaster recovery site in Essex.

The fund management team at KSAM have rotated working in the office and from home, as have some other staff. This is now very much the pattern taken up by most companies and following Government advice today, this is the norm - work from home and avoid socialising. The core investment team can be reached on ethical@kasl.co.uk and the wider team (payments, valuations etc.) on ethical.support@kasl.co.uk during working hours (7am- 5pm).

Market impact

The Virus has had a huge impact on sectors related to travel, commuting, hotels and restaurants. Airlines face existential threats depending on how long routes remain closed and we can now see plenty of anecdotal evidence of this sector coming under pressure. Global demand for many goods and services are now being scrutinised, economic expectations revised lower and markets remain panicked.

The key problem is that the virus must run its natural course; this is slow and not easy to change, meanwhile market participants do not like uncertainty and are impatient. So far, Central Banks in the US, Canada, Australia, the UK and Japan have acted and the UK government has also increased spending.

Europe is the current epicentre of virus and European governments have been quick to impose restrictions on their citizens but slow to offer any economic help. The European Central Bank cannot provide any more assistance as interest rates were already negative, they have purchased much of the bond market, and Europe was heading for recession before the virus. We see volatility continuing over the coming weeks as the virus runs its course.

It is worth noting markets reactions to central bank action and it echoes our own thoughts, that although they have had to act, cutting interest rates will not initially help in a situation where supply chains have been disrupted and ongoing and expected shutdowns will now affect demand. What is pivotal is the support to businesses that will have to weather the storm. We hear workers in China are beginning to return, however this was after draconian measures to restrict the spread of the virus, and measures like this are unlikely to be seen in other democratic countries. This is a global health emergency, and it is clear now that a temporary shutdown will cause a negative impact on the global economy in the short term, but will in fact be better for the economy in the medium to long term.

As Ethical investors we have been cushioned from the 32% fall in UK stock markets. Depending on risk we have seen portfolios decline between 12.5% and 25% depending on the risk profile and ethics.

We have had no exposure to oil and gas, mining or tobacco. Very little exposure to finance and no exposure to airlines, hotels or the restaurant sector. The main area that has been hit hard is public transport and as a regulated sector government action here will prove essential. We see no real change in demand for power. Some economists have argued cheaper oil will harm renewable energy and cleaner transport, we see this view as outdated, if anything we see investment in fossil fuel exploration being drastically cut as they seek to service excessive dividends. If there is any positive to be drawn, global emissions of harmful gasses are set to fall. Stocks in other sectors have fallen in line with the market. We see the market fall yesterday as a sign of capitulation as smaller caps stocks fell much harder than large caps. At the end of last week we used the weakness to add Orsted back to portfolios, demand for wind energy is unlikely to change in our view. We see further opportunities in this market, especially as we reach the end of the UK tax year. We have had a number of good ethical or impact investments on the horizon, which in the midst of the panic have presented good entry points, therefore portfolios will be positioned accordingly to benefit.

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