The virus crisis 3 months on – Friday 22nd May 2020.

It is hard to believe but it has now been three months since COVID 19 began to send huge shockwaves through global equity markets. We feel now is a good time to take stock of the situation and attempt a rational view of how things may progress.

To very briefly recap the COVID 19 virus has:

- Been the first rapid, deadly, global virus that has simultaneously and significantly impacted the whole world in a matter of weeks.

- Through various shutdowns it has led to rapid and substantial change in behaviour for over one third of world's population and that third being by far the wealthiest.

- It led to a virtual standstill in global travel as well as significant changes in consumer behaviour resulting in both a substantial demand and also supply shock in the global economy. Some economic sectors have ground to a complete standstill, others have been unchanged and a few have seen a rapid surge in business. It has put a huge strain on health systems around the world.

- All significant governments and central banks have reacted with various measures, many of which are unprecedented in both their scale and reach.

- Global capital markets have reacted accordingly with rapid and severe falls in equity markets and rallies in bond markets. Since then we have seen various levels of recovery in equities depending of the sectors that make up that index.

Taking these points in turn we will look at how they have and will continue to impact investments.

What is clear is that our scientific knowledge of the virus is not yet sufficient to enable us render it harmless, many questions still remain. Whilst the virus has had tragic consequences (where many of us sadly know of people who have lost their lives), there is some relief things have not been as bad as initially predicted. Evidence is pointing to a rapid slowdown in areas that used lockdowns and global attention is now focussed on how things progress as many restrictions are eased. Whilst politicians and journalists make a great deal of uninformed noise on this topic, the facts, as they materialise, will determine the pace of economic progress and the extent of economic harm.

Like most residents of London we have enjoyed the clean air and quieter streets. Around the World the environment has been a clear beneficiary of the lockdown. Another positive has been the surprising ability for many office based workers to carry on working from home. The internet has not buckled and IT infrastructure has held up and business has carried on. The take up of products like Zoom has revolutionised how people will meet and communicate in the future, one thing is certain, working practices for most office based workers will change in the future.

Whilst the lockdown may have not impacted office workers too severely, other sectors have been hit very hard. Oil and gas was already in a precarious position before the crisis and the collapse in demand for travel has hit the oil and gas sectors, along with the travel, tourism and hospitality sectors very hard. In most cases demand simply stopped. Likewise retail has shifted even more to e-commerce and convenience stores and away from shops. Coffee shops, fast food shops, bricks and mortar retailers and restaurants have suffered, and in some cases they may not return. It appears the crisis has acted as a catalyst for a number of the longer term megatrends that were already in place, and these trends were in line with the UN Sustainable Development goals.

Other sectors are now returning to a new normal such as construction and manufacturing. From an impact and ethical perspective the sector that suffered the most was public transport, as an essential service there have some levels of government support. Being more urban and short distance the sector will see less of a decline than for long distance and air travel in the future, but there will be an impact. We also had limited exposure to the London commuter market that we feel will change substantially as season ticket sales will decline.

Although the initial shock was cushioned by the unprecedented actions of governments and central banks, the longer term effect of the changes are already beginning to show, a process we expect will continue well into next year. Some companies have already begun to restructure such as airlines and affected manufacturers like Rolls Royce, where business is not likely to return to normal. Healthcare, IT infrastructure and delivery services will continue to expand. In effect the next twelve months will be a period of readjustment.

This period will no doubt create some interesting headlines. Comments comparing the current crisis to the great depression fail to take into account that governments and central banks acted within days, whereas in the great depression it took half a decade. There will be good and bad news, and equity markets tend to look forwards not backwards.

We see two significant changes going forward. The acceleration of the mega trends that have favoured many of the key impact and ethical areas, as technology revolutionises not just business but also healthcare, education, wellbeing and transport. The other is change in the globalism, there will be more localism and technology will be a key factor here. Technology has enabled far more versatility in manufacturing (3D printing is one example) and the crisis has shown how economic nationalism can quickly create problems as seen with PPE and vaccinations.

The relative superior performance of ethical and impact portfolios over the period has reflected some of this reality, we expect uncertainty to remain over the summer regarding the virus and then move on the economic consequences and changes that will happen, and in these uncertain and volatile times we will continue to look for opportunities.

We have also produced a more detailed note on some of the core ethical and impact areas.

KSAM continue to work from home and the office in London remains closed.

The whole team are available to help and any portfolio enquiries, requests for valuations, documents, payments during our normal working hours of 7am to 5pm and are best contacted via email on ethical.support@kasl.co.uk. Whilst our phone lines are diverted these emails go to the whole investment team and the best person can then answer.

More specific sales or fund management issues the best email is ethical@kasl.co.uk.

Please stay safe during this period.

Disclaimer

The information in this document is for general information purposes only and should not be considered investment advice or personal recommendations to deal. Nothing in this document constitutes an offer to buy or sell securities of any type. Please remember that the value of investments and the income arising from them may fall as well and rise and is not guaranteed. Investors should be aware of the underlying risk associated with investing in shares of small-cap stocks and emerging markets. These can prove to be more volatile than in more developed stock markets.

Registered Office

King & Shaxson Asset Management Limited (Company Number: 03870667) and King & Shaxson Limited (Company Number: 869780), a member of the London Stock Exchange, are companies registered in England and are a part of the PhillipCapital Group. The Registered Office for both companies is 1st Floor, Cutlers Court, 115 Houndsditch, London, EC3A 7BR. King & Shaxson Asset Management Limited (Firm Reference Number: 823315) and King & Shaxson Limited (Firm Reference Number: 179213) are Authorised and Regulated by the Financial Conduct Authority, 12 Endeavour Square, London, E20 1JN.