

GLOBAL VALUE AND INCOME DISPATCH

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The coronavirus – falling knives, iron gloves and The Shawshank Redemption

Markets find themselves plagued by a hitherto unknown virus with an unknown worldwide trajectory. The shocks from Covid-19 have rippled across a broad swathe of industries and could ultimately materially dent global economic growth. However, the uncertainty around the path the virus takes in the coming weeks and months means the range of outcomes is wide. This unexpected shock has led to sharp and swift decline in equity markets, a widening of credit spreads and a flight to safety in Treasuries, which are all very typical of a market panic.

We are bottom-up, cross-asset investors. We manage a generally conservative portfolio but look to take on more risk when risk is mispriced. That means we'll try to take advantage of market air pockets, illiquidity and forced selling across our global multi-asset universe when these conditions manifest themselves.

This means that we will try to catch knives, when we feel we are getting paid for it. So, in a financial sense, it is important for us to wear iron gloves. We do this by creating a portfolio that has significant deferred purchasing power and holds various defensive and anti-fragile assets such as cash, sovereign debt and gold. These are assets that retain value and, in some cases, could even appreciate when markets sell off. In times of market stress, correlations trend to either +1 or -1, and you can't rely on traditional diversification to protect you.

Why market structure matters

"The world went and got itself in a big damn hurry" – (Brooks, 'The Shawshank Redemption')

In today's computer-driven stock markets – estimates suggest just 10% of daily trading volumes is initiated by human hand – market panics can take hold much faster than they did a decade or two ago. There is usually a shock that triggers a market reaction. The difference now is that the reactions are significantly amplified by today's market structure. When prices decline and volatility spikes, momentum stops are hit, hedge funds cut risk and liquidity dries up. And it happens all at once. Prices have to fall quickly to balance supply and demand. Buying opportunities, however, can evaporate quickly, as well, and so it is critical for modern active investment approaches to be able to move swiftly to profit from these dynamics.

What we've been doing

In terms of portfolio action, we have added a few hundred basis points to our equity exposure in recent days, using the sell-off to deploy capital into a variety of businesses, including – surprisingly – some more defensive telecoms and real estate-related businesses that declined sharply when factor funds cut exposure to low-volatility shares. Ironically, such businesses should fare comparatively well in an economic slowdown, but the need to liquidate exposure to a crowded trade can easily trump economic logic in times of market crisis.

We haven't just been buyers. There was a brief window, the week ahead of the sell-off, when markets were not yet pricing in potential risks. This allowed us to do some pruning in a few key areas of the portfolio where the risk/reward profile had changed.

The travel industry has been hard hit. While caution is certainly warranted, we have found some high quality platform businesses in and around that industry's supply chain that are starting to look attractive. There is some asymmetry, too, where if the virus spreads broadly travel may begin to normalize more quickly than people expect.

In the credit space, we have for some time felt that spreads were not paying us sufficiently for the risk borne. To that end, we had recently shifted about 10% of the Fund out of high yield and into investment grade corporate debt. With the more recent volatility, spreads are beginning to return to more normalized levels. If high yield continues to weaken, we could start to reverse some of this shift.

JOHCM Global Income Builder Fund

5 year discrete performance (%)

Discrete 12 month performance (%):

	29.02.20	28.02.19	28.02.18	28.02.17	29.01.16
A GBP Class	7.65	-	-	-	-

Past performance is no guarantee of future performance.

Source: JOHCM/MSCI Barra/Bloomberg Index Services Limited, NAV of Share Class A in GBP, net income reinvested, net of fees. The A GBP Class was launched on 30 April 2018. Performance of other share classes may vary and is available on request. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, “Barclays”), used under license. Bloomberg or Bloomberg’s licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

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