HURST

FINANCIAL CONSULTANCY

INDEPENDENT FINANCIAL ADVISERS

Investments & Pensions

Mortgages & Insurance

CORONAVIRUS

~ STRAIGHTFORWARD ADVICE..... IN BLACK AND WHITE ~

About Hurst Financial Consultancy

Hurst Financial Consultancy was founded in 1997 by the Managing Director, Michael Hurst. The company has operated successfully in Salisbury from inception serving clients locally, nationally and internationally.

The company focus has always been on excellence.

We have also developed a strong focus on state of the art information technology being aware of its significant value in not only collating data, but managing the performance of investments. We have our own in-house IT department and use its services constantly to develop the service that we give to our clients to ensure it is always "leading edge".

As Independent Financial Advisers we have access to the full range of products and services available in the UK as opposed to a Tied Agent or Company Representative who may only advise and offer products from the company or companies they represent - they give "restricted advice" - we give independent advice. This means that we are able to give you impartial advice and recommend the most appropriate products for you, so that you will enjoy choice, value for money and our high-quality service.

What Has Triggered This Sell-Off?

The escalation of coronavirus infection rates outside China has sparked a sell-off as markets try to price in a new risk. The current moment is peak uncertainty for Coronavirus as we don't know the true rate of infection, mortality rate or even how far it has already spread. Entering this outbreak the **US equity market was priced for perfection with markets expecting a rebound in economic activity amidst low interest rates, this has exacerbated the sell-off**. The CDC warning the United States to brace for a pandemic was the latest twist in the coronavirus news flow in a short week that has seen spread into Italy and more widely throughout Europe

How Will The Market React Going Forwards?

The market is focused on the ability of the Italian, South Korean and Chinese governments to contain the outbreak. The time period for people to become symptomatic appears to be around 2 weeks which means that realistically there will be a beachhead of infection in most major countries by now. **The market reaction going forward will be predicated on three factors: spread of the virus, economic impact of isolation and stimulus.**

Governments are fighting the spread of the virus by locking down affected communities which will have sharp economic shocks for the specific regions. Of broader concern is the economic disruption of self-isolation be it formal or informal. This will reduce economic activity more broadly than targeted government action. Since the start of the outbreak the Chinese government has been keen to proactively deliver fiscal and monetary stimulus to support the economy. The Hong Kong government unveiled a HKD 120bn package including 'helicopter money' where permanent residents are set to be given a HKD 10,000 payment. Markets have begun to price in rate cuts from the Federal Reserve however we are less certain that monetary policy stimulus is what is needed in the short term. **Rate cuts generally take around 18-24 months to feed into the economy whereas targeted fiscal policy can deliver more immediate impacts.** We expect governments to target fiscal measures as infections spread however this does clearly raise a question within Europe where coordinated fiscal response has been politically very difficult to deliver

What About The Medium Term?

As warmer weather emerges with spring this, as with seasonal flu, should help slow the rate of transmission and improve the ability of individuals to fight coronavirus. Markets are struggling to compute the timescale for this virus and from that the economic impact. **Should containment prove broadly effective the lost near term economic activity could be largely recouped in future quarters however the longer the coronavirus persists the more dramatic the economic consequences.**

The sell off this week has meant that equity valuations have fallen at the same time as government bond yields have fallen. This increases the relative attraction of equities over the medium term and is a major factor in determining asset allocation. We therefore expect markets to begin to take some support from the ultra low rate environment over the coming weeks.

What Are We Doing?

We do not currently expect coronavirus to lead to a sustained long term reduction in global economic activity and therefore are not shifting our strategic market view. This is quite different to the recent US/ China trade war where a shift in future trade relationships reshapes global economic supply. Expectations of fiscal spending and central bank rate cuts will continue to act as a shock absorber for global risk which should provide support to equities once markets stabilise.

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Hurst Financial Consultancy Ltd
Chequers Court
33 Brown Street
Salisbury
Wiltshire
SP1 2AS

Tel.: 01722 411 411
Fax: 08704 329 575
eMail: hfc@unbiased-advice.co.uk
Web: www.unbiased-advice.co.uk