Investment report for Teesside Pension Fund
March 2020

Political and economic outlook

Covid-19 Is dominating politics and stock market sentiment. To date 90,000 people have contracted the disease and about 2,500 have died with the mortality rate rising from just under 1% to nearer 3% since it started. It is estimated that between 25 and 70% of the population of any infected country could contract the disease and if the mortality rate continues at between 1 and 3% the impact on the world economy will be significant and it is likely that world economic growth will fall.
However Governments have acted decisively when outbreaks have occurred and this seems to be limiting the spread of the virus. It will be interesting to see if the growth of infection begins to accelerate again once the draconian quarantining of populations has to be relaxed. There will no doubt be more information available at the time of the meeting in this rapidly evolving situation.

Politics continues to get nastier and dirtier certainly in the UK. The shenanigans at the Home Office demonstrate what can happen when a political party views that it has absolute power. There is clearly a danger that the Democratic system in the UK is put under pressure with the outcome being a more divided Society. We are only 3 months into this Tory party reign and it is hard to see what shape democracy will have at the end of its tenure, this is quite an unsettling prospect.
The position in the United States doesn't seem to be any better than it is here and while Trump remains in office that situation is unlikely to improve. Meanwhile Bernie Sanders is consolidating his lead for the democratic party nomination. If he wins that nomination it is highly unlikely that the

American electorate will be able to bring itself to vote for policies that are so far outside it's comfort zone.
The abuse by politicians of the Democratic structure is not confined to the West as actions in India and Iran have demonstrated which have resulted in a rise of civil unrest.

In my previous report I mentioned the lack of imagination in terms of attempts to stimulate developed world economies which has led to slow economic growth and left them in an extremely fragile condition. Covid-19 may well be the catalyst that puts an expansionary fiscal stance into the mix of policy responses. If this does occur it is likely to put the Western economies on a more robust footing than we have seen in the past decade and a return to a stronger growth trajectory. Unfortunately in the meantime the prospect is for a global recession caused by the disruptive nature of the virus. This will not be positive for stock markets currently but it is impossible to judge the scale of the impact.

Markets

Quantitative easing and a loose monetary stance have proved very beneficial for markets over the past 10-years. The addition of a positive fiscal response to the world's problems should act as a further boost to equity markets once the recessionary headwinds start to abate. However that will be some time in the future and markets are likely to tread water at best over the next few months or so. The impact of the virus will be felt globally and it is very difficult to differentiate between the various stock markets, however I expect any downturn in equities to be relatively short-term in nature given the lack of attractive alternatives. World markets fell by about 11% last week and are now nearly 20% from their highs. This has dented confidence and introduced a fair measure of fear, greed appears to have disappeared entirely! We are likely to remain in this changed market environment until we are able to more accurately assess the impact of the virus.

So where does that leave us?

Fixed interest markets still look expensive although there is likely to be larger investment flows into these assets over the short term. With valuations at current levels there is unlikely to be any lasting positive impact.

Over the medium term equities and likely to provide the best returns in the quoted markets although volatility is likely to be high and the ride a little bumpy.

Property valuations remain modest but the outlook is very uncertain with footfall likely to diminish in the retail sector and potential office closures.

Opportunities for investment are likely to be thrown up in the infrastructure area as governments alter their stance. The continuing low interest rate environment will increase the number of investments available in the alternatives sector.

Cash balances should be kept to a minimum in the current interest rate environment and should be used for portfolio restructuring reasons only.

Portfolio recommendations

Despite the uncertainties raised by the covid-19 outbreak my views on the pecking order of asset classes remains unchanged this is driven by the extreme overvaluation of fixed interest markets.

Fixed interest returns are likely to be low and despite the increased level of uncertainty no further investment should be made in this area.

Equity markets are at fair value even given the increased uncertainty. The overweight position should be held and reductions should be effected only

when attractive opportunities become available in the unquoted sector. Consideration should be given putting in place some protection to mitigate further stock market falls over the longer term.
The property market also looks fair value but the impact of the virus is likely to be heavily felt in the sector so extreme caution should be exercised when making any additional investments.
The alternative investment market will continue to present attractive opportunities in this interest rate environment. As I have previously said this portfolio will take a long time to build up and therefore the high exposure to quoted equities will remain for some time to come given the additional work required to invest in the the unquoted sector and the amounts of money involved.

Peter Moon
29 February 2020