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Clarien Update

In a previous Investment Outlook, we highlighted that, "the best time to lay the foundations of an investment plan is before the next downturn. It is always difficult to stick with a plan while in the midst of market declines, and to do so without prior review is nearly impossible."

Now that we find ourselves in such a challenging environment, there are a few key points to remember. Clarien portfolios are designed to be well diversified. As a result, most portfolios, while down significantly, are not down nearly as much as the broad equity markets that tend to grab the majority of the news headlines.

Remember that your asset allocation is your anchor to windward and has been developed with consideration of bear markets. Indeed, this current market test has demonstrated that our portfolios are robust and we live to fight another day.

Ideally, our strategic asset allocation model should produce enough confidence in its projected results that clients are willing to ride out market turmoil and participate in favorable longer-term expected returns.

While the circumstances created by the virus are truly concerning, as investors it is critical to avoid panic and short-term thinking. Many investment mistakes are made at extremes in the market, as our emotions tend get the better of us. It's our job to stay disciplined, lean on our investment process and assess the long-term impact of these events on your portfolio.

Our strategic framework isn't a panacea for solving our own emotional biases, but it does provide a concrete structure for decision-making that investors can fall back on during times of market stress.

Most investors, of course, do not like sharp equity declines, but for those investors still accumulating assets, they actually represent important opportunities to invest in growth at a lower price. As a result, if managed properly, market downturns – though emotionally difficult – can increase long-term wealth.

"Such declines in market values creates a buying opportunity for patient, longer-term investors."

Such declines in market values creates a buying opportunity for patient, longer-term investors. Indeed, we observe many of the world's top private equity funds and endowments with long-term time horizons working hard to purchases securities at significantly better prices than a month ago.

It's important to view performance through the lens of your financial objectives in the long-term, rather than day to day headlines. While there is a lot of uncertainty, our key message for clients:

Don't panic – Stay Invested

- Stick to your plan
- Don't make temporary losses permanent
- A liquidity strategy that can help you "keep the lights on" without having to sell at "low prices" in the meantime is key.
- For example, with the equity bull market aging, now is a good time to ensure that there is sufficient liquidity in the portfolio to avoid being forced to sell assets at depressed levels.
- The stock market's best and worst days are clumped together. You can't miss one without the other and that has a damaging effect over time. Consequently, don't liquidate portfolios.

Play for time

- Reduce spending and/or increase saving
- Receive income from dividends and fixed income.
- Bear markets are typically over quickly, with equity markets making new all-time highs about three years after the previous peak, on average.

Portfolio management:

- Rebalance back to your target allocation through dollar cost averaging given the high levels of uncertainty. While we will never time the market bottom, clients need to return to strategic targets in order to achieve goals.

Tactical opportunities.

- "Start nibbling into" risk assets such as select equities, that we believe will be around in the next two years

Conclusion

Challenging markets such as these are difficult to navigate, so stick to your plan, make sure you have adequate sources of cash to meet your obligations, and rebalance. Opportunities are beginning to unfold, and we will continue to share our views on what we regard as attractive over the course of this historic market decline.

Clarien Investment Outlook Update

The outbreak and rapid spread of the coronavirus (COVID-19) is posing a unique threat to the global economy. Given the incubation period, the coming weeks will be critical to determining the extent of the spread, the steps authorities will to take to contain it, and the economic effect of those measures.

While we wait for clarity on the economic outlook, markets have already entered bear market territory, falling more than 30% from their 19 February all-time high. This was the fastest bear market selloff in history, taking just 16 trading days to develop.

The recent selloff also means the end of the longest bull market in US history, but investors should not panic. The extent of this bear market is going to heavily depend on the depth and duration of the impact of the virus (covid-19) on the economy.

We think markets want to see two things: a credible plan to contain the virus, as well as fiscal stimulus that is targeted enough to help those most affected by the economic disruption, and also sizable enough to help get the economy back on its feet.

We think the enormous actions of monetary and fiscal policymakers taken last week will help prevent a worst-case scenario. Last week's sharp equity rally shows that the combination of central banks' substantial support and direct fiscal support can be a part of the solution.

Looking ahead, gains could be sustained if we see more good news that containment measures are starting to rein in the spread of the virus. One of the bright spots is that China appears to be succeeding in containment, with the pace of new cases falling precipitously, but this containment came at a heavy economic cost—a cost that other countries are now experiencing.

The United States and Europe are still in the escalation phase of the outbreak, but investors can get a sense of how long the most disruptive part of the pandemic may last by lining up the path of China's trajectory of new infections with those of other countries. Although the path to containment will vary, China's experience suggests the United States and France have at least four to six weeks left, while Italy and Iran would see new cases start to decline sooner. However, containment efforts in China were extreme. Absent adequate efforts, infection rates can escalate for longer.

Equities and other risk assets such as high yield bonds will likely bottom with a peak in new cases - we are not there yet in the US and Europe and things could certainly get worse in the short-term. While equity markets could bounce a bit further, they face a bumpy period of even worse virus news and poor economic statistics in the next 1-2 months in Europe and the U.S.

Of course, signs that the virus is proving difficult to contain, that the economic impacts are likely to be larger than we expect, would increase the probability we are entering a much worse scenario. There are no definitive conclusions and it is still too soon to speculate on depth and duration of the recession. However, while there is a level of high near-term uncertainty, we are cautiously optimistic for the medium term.