MICHAEL SMITH
Head of Research and
Senior Investment advisor

Why the Coronavirus shouldn’t spell the end of the market bull run

While investors may initially panic amid a viral outbreak, data shows the US market typically pushes through those concerns and heads higher over coming months

As an investor, it’s often easy to get caught up in the emotion of an event, particularly when it has potential ramifications for the global economy.

With markets entering the new year at an all-time high, it’s also easy to begin looking for a reason to take risk off the table and sell out when there might not necessarily be any reason to do so.

With that, the onset and rapid acceleration of the novel Coronavirus has created some panic within financial market circles. Those concerns are focusing on the impact the virus could have in slowing Chinese economic growth, and in turn, the growth in other major economies around the world.

However, what history suggests is that **the market often takes a more pragmatic view of the situation once the immediate fear and uncertainty of a viral outbreak has subsided**. That is, the initial reaction to such events typically lasts for a limited time, before the market then begins to focus on other matters.

If we look at the **SARS outbreak** back in April 2003, in the 6 months following that period, **the S&P 500 actually increased 14.6%. Over 12 months, the key index gained 20.8%.**

This isn’t an isolated trend either. After Swine flu peaked in April 2009, markets posted gains of 18.7% and 36% across a 6 and 12 month horizon.

The stock market also increased after Ebola gripped investors in March 2014, edging higher by 5.3% and 10.4% across the aforementioned timeframes. Meanwhile, the outbreak of the Zika virus didn’t dampen the mood of investors in 2016, when the market surged 12% and 17.5% in the 6 and 12 months thereafter.

Even on a global scale, markets have generally risen after an epidemic, with the MSCI All Countries World Index averaging gains of 0.4% in the month after an epidemic, 3.1% in the 6 months thereafter, and 8.5% a year on.

Of course, many observers have compared the unknown severity of the 2019 Coronavirus with that of past viral outbreaks, flagging potentially higher risk. While that may be the case, much of the rhetoric floating around at the moment assumes a worst-case scenario. In today’s age, and with the progress made so far in mapping the virus, it is likely we will have a vaccine in the short-to-mid-term.

For investors, however, getting caught up in fear-mongering and selling out of the market might not prove to be the cure to avoid collateral financial damage. Take those above examples, and in fact, **you would have encountered significant opportunity cost if you exited the market as those viral outbreaks intensified.**

It also goes without saying that even in the midst of an event of this nature, or black swan events for that matter, certain stocks will always continue to outperform or otherwise defy the trend.

Yes, it is important to monitor and manage your portfolio with appropriate risk measures like derivatives, however, it isn’t wise to react hastily to an event that history tells us, could very well turn out to be a temporary blip on the radar.

MICHAEL SMITH
Head of Research and Senior Investment advisor

Performance:

Index	January Performance	2019 Performance
Dow Jones	-0.99%	23.66%
NASDAQ	1.98%	36.40%
S&P 500	-0.16%	28.34%
Global Growth Portfolio	6.01%	29.44%

Top 10 Holdings:

Code	Company Name	Weighting %
AAPL	Apple	10.26%
GOOGL	Alphabet	6.00%
MCD	McDonalds	5.97%
CME	CME Group	5.96%
V	Visa	5.69%
AMD	Advanced Micro	5.25%
ADBE	Adobe	5.15%
MSFT	Microsoft	5.15%
BABA	Alibaba	4.43%
AMZN	Amazon	4.02%

International

WRITTEN BY MICHAEL SMITH

Global Growth Portfolio

The portfolio gained 6% across January to start the year.

The headline result takes into account the portfolio performance fee, and also includes a sharp decline in the market on the last day of the month, otherwise indicating strong underlying performance.

This is reinforced by the equities component of the portfolio, which gained 3.7% throughout the month compared with the closing Net Asset Value (NAV) at the end of 2019.

Crucially, our currency hedging paid significant dividends last month, providing the portfolio with a boost of 5% in terms of NAV growth. This came about as the USD/AUD increased from 1.4251 to 1.4951, with the Australian dollar posting its worst January performance since 2015.

The strongest performers contributing towards the portfolio were Atlassian Corporation (TEAM), up 22.2%, Apple (APPL), up 5.4%, and CME Group (CME), up 8.2%.

Atlassian's gains were largely attributed to a stellar second-quarter report where revenue and earnings were well in excess of what the market had anticipated. The company is now generating record profits and free cash flow, with its subscription revenue underpinning the results. On the back of such a promising trajectory, the stock remains a mainstay within the Global Growth Portfolio.

Meanwhile, Apple's strong trading momentum continued through to its own first-quarter results, which reinforce our bullish outlook. Also smashing estimates, the key to our outlook is the remarkable sales growth for wearables (up 37%) and services (up 17%), while iPhone sales have turned positive once again. We were also impressed by the company's strong Q2 guidance.

In terms of trading activity, we added four new positions into the portfolio. Nike (NKE) and Zillow Group (ZG) returned, while Lululemon Athletica (LULU) and Peloton Interactive (PTON) appear for the first time. We believe the exercise and fitness segment offers lucrative upside as an ever-increasing number of people not only switch to a health-conscious lifestyle, but actively push the associated image.
At the end of January, unrealised income represented 21.1% of all assets, up from 17.5% the month prior.

At this stage we do not believe that the Coronavirus will have any meaningful impact on our positions within the Global Growth Portfolio. Any volatility is likely to be short-lived and if required, managed through put options.

MICHAEL SMITH
Head of Research and
Senior Investment advisor

AFIQ MALEK
Research Analyst and
Senior Client advisor

Performance:

Index	*January Performance*	*2019 Performance*
ASX 200	4.98%	21.25%
ALLORDS	4.88%	22.01%
Aus Yield Portfolio	4.5%	2.10% *(Oct inception)*

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
CBA	Comm Bank	6.97%
TLS	Telstra	5.98%
BHP	BHP Group	5.10%
ANZ	ANZ Bank	5.08%
NAB	NAB Bank	5.08%
MFG	Magellan	4.78%
WPL	Woodside	4.68%
WES	Wesfarmers	4.43%
MQG	Macquarie	4.28%
APT	Afterpay	3.80%

Australian

WRITTEN BY MICHAEL SMITH

Australian Yield Portfolio

The portfolio gained 4.5% throughout January.

As there were no dividends paid during the month, the entirety of the portfolio's NAV growth came from an increase in stock valuations.

Standout performers last month were Afterpay (APT), a new addition to the portfolio, and Magellan Financial Group (MFG). The stocks rose 31.7% and 18.1% respectively, offering significant capital growth.

Afterpay has been a beneficiary of renewed sentiment returning to the stock following negative research that was published late last year. The company was approved for its lending application by the California Department of Business Oversight, offering a lucrative channel for growth. Afterpay's willingness to engage towards a new sector code of conduct also bodes well in terms of mitigating risk. We expect underlying business growth to have continued accelerating over Christmas.

In terms of Magellan Financial Group's performance, the stock has been supported by a sharp increase in the average FUM for the six months ending 31 December 2019 relative to the prior corresponding period. December saw an encouraging volume of net inflows, even if total FUM remained roughly the same as the month prior. The modest dividend yield on offer, and undemanding valuation remain key reasons for our investment in the company.

Trading in Corporate Travel Management (CTD) weighed on the portfolio, with the stock down 13.1% across the month. Negative sentiment has been fuelled by concerns surrounding the Coronavirus, however, as we have mentioned, we see this as a temporary headwind that will likely resolve itself and pass in a matter of time. The growth potential for the company still remains strong as travel movements will inevitably pick up, particularly among business flyers.

In addition to Afterpay, we also added new stocks to the portfolio last month. These included Hub24 (HUB), Macquarie Group (MQG), Sydney Airport (SYD) and Woolworths (WOW). While Hub24 offers strong growth exposure, each of the other companies have a record of high dividend payments on account of their robust business models and distinct competitive advantages.

These new additions represent full investment of all cash assets into the market, with the recent months providing us the chance to identify opportunities that we believe will provide long-term upside, from both a capital and income perspective.