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Coronavirus market volatility: performance update

US Equities | 18 March 2020

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As we write, the S&P 500 is firmly in bear market territory, having corrected about 30% from peak to trough. So at current levels the market is fully discounting a recession in 2020, implying a double-digit earnings contraction for 2020. We are reassured by the swift policy response both on the monetary and fiscal sides, as this should provide support to the economy on the supply and demand side. However, the Vix volatility index, currently at around 75, reflects the fact that in the short term we have very little visibility and confidence concerning the duration and magnitude of the disruption from the coronavirus.

News from China and other Asian countries that have taken more draconian containment measures and are seeing far fewer new cases has been encouraging and, in our opinion, we would expect the market to start bottoming out as and when we have more clarity on the peak of infections in Europe and the US.

Taking a longer-term 12-month view, we believe this will be an exogenous shock that provides short-term dislocation. Therefore, over the longer term we would expect activity to resume fully as the underlying fundamentals of the US economy and corporate profits remain strong, heading back towards the long-term, mid-single-digit earnings trend in 2021.

In terms of portfolios, we have made no wholesale changes to our American strategy. Our stock selection philosophy and process favours quality stocks with improvement in business momentum, and these have been able to weather the storm and performed better on a relative basis. Therefore we haven't felt the need to adjust our positioning on a relative basis.