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What it All Means

Published on: 28 February, 2020 | Author: Investment Team

The recent outbreak of the Coronavirus in Northern Italy has confirmed what most experienced doctors and clinicians have been predicting: that this outbreak, although potentially less deadly than other strands, is more difficult to detect and therefore has the ability to spread more widely across the globe. The term pandemic has been readily used across the newswires over the past weeks and it is important to remember exactly what this term means. A pandemic's impact is actually not classing the severity of a virus, but more its spread across countries.

The World Health Organisation uses the following six stages to assess the impact of a virus:

Phase 1: A virus in animals has caused no known infections in humans.

Phase 2: An animal flu virus has caused infection in humans.

Phase 3: Sporadic cases or small clusters of disease occur in humans. Human-to-human transmission, if any, is insufficient to cause community-level outbreaks.

Phase 4: The risk for a pandemic is greatly increased but not certain.

Phase 5: Spread of disease between humans is occurring in more than one country of one WHO region.

Phase 6: Community-level outbreaks are in at least one additional country in a different WHO region from phase 5. A global pandemic is under way.

Now, our job at Tacit is not to second guess health experts; however, the progression of the current outbreak to Phase 5 does have implications for the global economy as trade is interlinked both in goods and, more importantly, services. People not going in to work in factories is one thing, but service driven economies such as the UK, Europe and US will see a knock-on impact to growth this year and potentially into the next.

Services are more insulated of course as the internet allows significant work and transactions to be carried out without the need for people to actually be in the same place. The next knock-on impact is that people do not go out, therefore spend less and this also impacts expected economic growth. It will be interesting to see if Netflix and Amazon Prime subscriptions have risen more than expected during this period as people fill their time and shift their shopping habits. Substitution is a key factor in modern day economies and people tend to transfer their spending to other things if they cannot spend it on socialising.

The point we are trying to make is that this is a negative in the short term but should not deter or deflect longer term investors such as ourselves. Recently we have been increasing government bond exposures, for example, to provide more stability to the strategies in the short term but have not yet increased equity exposures. We feel it is too early for this but are reviewing valuations as certain areas of equity markets which looked expensive might now be interesting. It is important not to have any preconceived ideas at this stage and keep an open mind to all regions and sectors.

And finally a point of caution: the global economy has been running on emergency measures since 2008 and even though economic growth is positive, it remains well below trend. With every year that passes, another event seems to knock output growth, be it Brexit, Greece, Italy, the Coronavirus, and it is important to remember that we are not investing in conventional times. Taking risk is important in the long term to preserve and growth our clients' real wealth but we must

remain cognisant of short term knocks not becoming a medium-term downturn. Hence the increased exposure to government bonds even whilst yields are very low.

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