Cornerstone Quarterly Review
Q1 2020

LATEST COMMENTARY

During Q1, the MSCI All World index fell by 19.6% (USD) and 15.5% (GBP) and FTSE all-share by 25.1% (Aubrey Capital/Bloomberg Data 31/03/2020). Government bond yields fell but credit was generally weak, the iBoxx UK Corporate bond index falling 5.6% (www.ishares.com).

After a strong start to the quarter, Western markets succumbed to a period of extreme volatility and uncertainly as governments began implementing economic lock downs to slow the spread of the COVID-19 pandemic, something that has not happened even in wartime. Faced with such unprecedented conditions, short term volatility (VIX) rose to an all-time high 0f 82, compared to a previous peak of 60 reached during the global financial crisis. Markets found themselves operating in an air pocket, unsure how to value companies. Swift action, initially by central banks then governments, to provide liquidity for markets and support for businesses and workers, prevented a liquidity driven meltdown in the financial system akin to what was seen in Q4 2008.

Much economic data, and company reporting, for Q1 will not be too bad as the global economy was well set for growth, led by a United States economy that was showing very strong data across employment, consumer spending and the housing industry. Q2 will by contrast throw out numbers that are likely the worst ever recorded. After the initial panic phase markets have calmed, and much asset pricing is now rational, if still reflating uncertainly around how long lock downs will last. What is clear is that whilst many people can't work, they can't spend either and they are being state supported. For example, in Texas an individual losing their job will be better off for the next four months on state aid than they would have been from their employment if they had been earning up to $58,000 per annum. It is case of getting the economy through this period till mid/late this quarter, following which we expect a strong recovery phase aided by very low interest rates.

The oil price remains a wild card and the collapse in prices an issue that will devastate parts of the energy industry. For many it will be a positive, particularly energy intensive industries and importing countries. Low interest rates in general will further support a rebound in consumer spending. Inflation will be a conundrum, but certainly in the short term this is hugely deflationary. We believe this event reinforces long term investment in the US and Asia, as well as investment in the new economy. Small Cap offers more opportunity than large cap, and it will remain a very difficult world for value/income investors, and for index investors as well as the divide between the winners and losers, that has grown over the last decade, widens further.

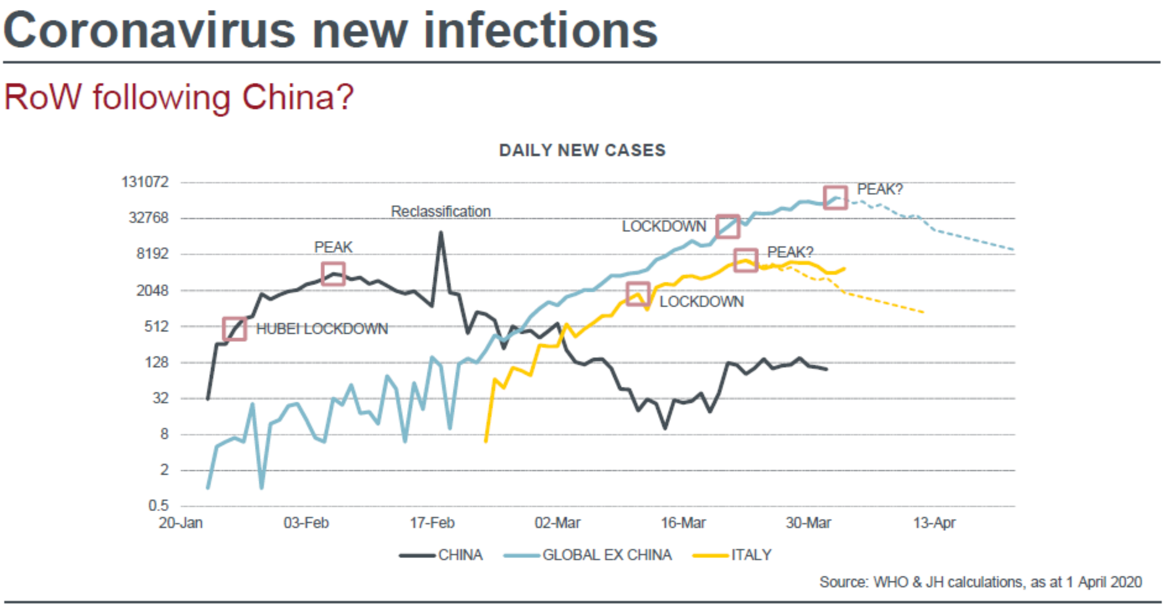
END OF QUARTER ASSET ALLOCATION (%)

	UK Equities	US Equities	Europe (ex UK) Equities	Japanese Equities	Asian Equities	Other Overseas Eq.	Infastrucutre/Property	Alternative Assets	Bonds	Cash
MAP 1	1	3	1	0	1	1.5	2.5	7.5	45	37.5
MAP 2	2.5	8	2	1	2.5	4	5	12.5	40	22.5
MAP 3	5	18	5.5	3.5	6	7	5	10	27	13
MAP 4	6	22	7.5	4.5	7	8	5	10	24	6
MAP 5	7	28	9.5	5	10	10.5	3	10	13	4
MAP 6	9	34	11	6	12	13	0	10	3	2

Green	Allocation change	> 2% in quarter
Red	Allocation change	< 2% over quarter

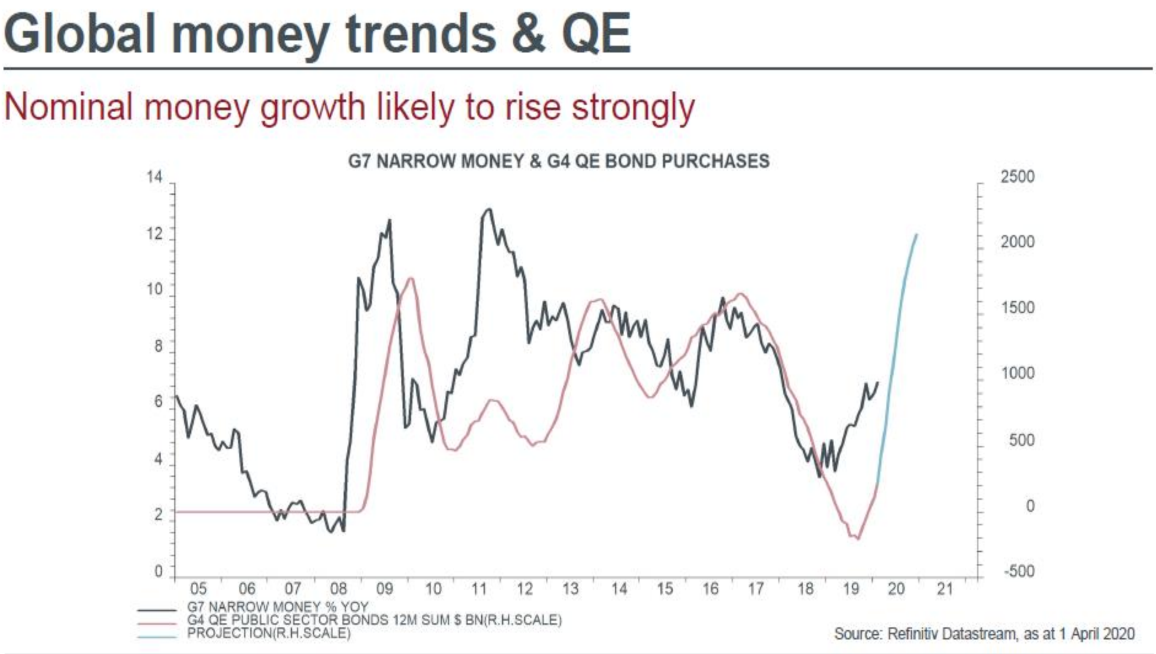
Source: Aubrey Capital Management, 31/03/2020

European/ROW cases slower to fall following the peak than in China, but still following the pattern



Source: Janus Henderson, as at 1st April 2020

Asset prices will be supported by a huge increase in money supply



Source: Janus Henderson, as at 1st April 2020

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PORTFOLIO PERFORMANCE* (%)

	Quarter	1 Year	Inception	Benchmark Quarter	Benchmark 1 Year	Inception	Benchmark
MAP 1	-4.90	-0.39	2.41	0.34	2.51	4.44	CPI plus 1%
MAP 2	-7.48	-1.90	0.96	0.59	3.52	6.26	CPI plus 2%
MAP 3	-10.03	-3.38	-0.88	0.83	4.53	8.08	CPI plus 3%
MAP 4	-11.12	-3.83	-1.52	1.07	5.54	9.92	CPI plus 4%
MAP 5	-12.25	-4.09	-1.91	1.31	6.55	11.77	CPI plus 5%
MAP 6	-12.98	-4.24	-2.20	1.55	7.57	13.63	CPI plus 6%

TOP & BOTTOM PERFORMANCE CONTRIBUTORS* (Q1 2020)

	Top	Bottom
MAP 1	Invesco Money	Blackrock Corporate Bond
MAP 2	Baillie Gifford American	First State Global Infastructure
MAP 3	Baillie Gifford American	Vanguard FTSE 250 ETF
MAP 4	Baillie Gifford American	Vanguard FTSE 250 ETF
MAP 5	Baillie Gifford American	Vanguard FTSE 250 ETF
MAP 6	Baillie Gifford American	Vanguard FTSE 250 ETF

*Source: Aubrey Capital Management 31/03/2020

OUTLOOK

The current dislocation, whilst very sharp and deep leading to economic data for Q2 that will be historically bad, is not being driven by typical demand or supply issues. Spending is being curtailed by enforced lockdowns and we believe pent up demand, combined with restocking and increased corporate spend (outwith the energy sector) will push a more V shaped recovery than many market observers expect in H2 2020 and through 2021. Economic support packages are putting $7tr into the global economy to enable companies and workers to make it across the divide, a higher figure than in the aftermath of the financial crisis. A core driver of markets is liquidity, and this is going to increase money supply dramatically, providing a significant push to asset prices. We expect that growth will continue to outperform as this crisis pushes existing trends.

IMPORTANT INFORMATION

Issued by: Aubrey Capital Management Limited (Registered in Scotland No 299239), 10 Coates Crescent, Edinburgh EH3 7AL

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