

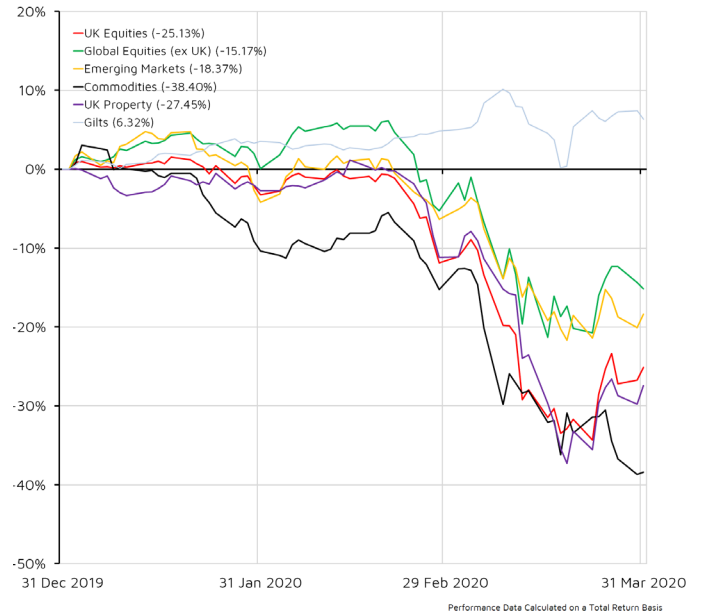
REVIEW OF THE PAST QUARTER:

Hopes for a rebound in global growth quickly turned to fears of recession as the spread of Covid-19 turned global markets on their heads.

As investors started to see the economic cost of coronavirus, risk assets sold off at record levels. The S&P 500 recorded its fastest 20% selloff, the Vix volatility index saw its sharpest moves and bank stocks fell further than during the 2008 financial crisis. When Saudi Arabia opened its oil taps, after Russia disrupted OPEC's plan to curb output, this sent oil and share prices plummeting further. Credit spreads widened as the unprecedented shutdown left companies reviewing their balance sheet strength. As the selloff intensified bonds and equities sold off alike. Even ultra-safe sovereign bonds saw sellers overwhelm buyers.

To stem the tide, governments and central banks adopted a "whatever it takes" approach and the US agreed \$2trillion in fiscal stimulus and lowered interest rates to zero. The UK chose a similar path with £30bn pledged in direct support to business. In Europe, governments are writing blank cheques to stop businesses from going under. Central banks have taken coordinated action to pump cash into markets.

The good news is that China is going back to work. However, how long it will take for the world to bounce back remains unclear.



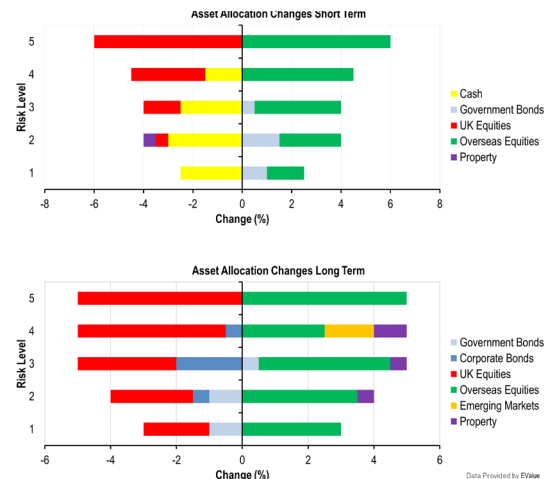
ASSET CLASS RETURNS

Cash	Government Bonds	Index Linked Bonds	Corporate Bonds	UK Equities	Overseas Equities	Emerging Markets	Property
+0.14%	+6.32%	+1.64%	-3.28%	-25.13%	-19.87%	-19.05%	-27.45%

THE ACTUARIAL VIEW:

The spread of the coronavirus has meant that we are in an ever-changing market environment, meaning the best place to be positioned changes almost daily. It may still be many weeks before markets settle and the wild daily swings cease. Growth predictions for 2020 were down on 2019, even before the World Health Organisation declared a global pandemic. Strong equity markets therefore were a bit of a puzzle, towards the end of last year markets seemed to be thinking a recession could be coming with the inversion of the yield curve. Of course, now it definitely is coming.

With central banks cutting interest rates, government bonds look more attractive in the short term and for low-risk investors. The Boris bounce seen at the end of last year had closed the valuation gap between UK and global equities, making the UK less attractive, but in the current sell off it is a fluid situation.



WHAT TO LOOK FOR:

- UK:** The Monetary Policy Committee (MPC) announcements and minutes are set to be released on 7 May. Preliminary GDP growth for Q1 is available on 12 May. Jobless claims change to be published on 21 April. Number of new daily coronavirus cases.
- US:** There will be interest rate decisions from the Federal Open Market Committee (FOMC) on 28-29 April. Minutes will be published three weeks after each decision. GDP growth for Q1 to be released on 28 May. Democratic and Republican primaries are expected to be held on 2 June. Change in Nonfarm Payrolls expected to be available on 3 April. Number of new daily coronavirus cases.
- Eurozone:** Quarterly GDP flash data is set to be published on 30 April. A European Central Bank monetary policy meeting has been arranged for 30 April. Unemployment rate set to be published on 10 April.
- Other Data:** OPEC meeting on 9 June. Caixin China PMI and the JPMorgan Global Manufacturing are set to be published on 1 April.

ASSET CLASS SCENARIOS:



UK EQUITY

Most Likely: The outlook for UK equities for Q2 remains negative to flat as restrictions will likely remain in place into the summer, given the spread of the virus compared to other countries. This will keep the economy under pressure and the equity market volatile. Value stocks will continue to underperform quality growth stocks and smaller companies will likely lag their larger peers, which continue to benefit from a historically weak sterling. Short-term respite will be had if concrete evidence of a vaccine appears, along with moderating cases, and further economic stimulus.

Worst Case: Current measures are insufficient to contain the spread of the virus with outbreaks persisting beyond the next quarter, and economic stimulus measures are slow to assist businesses. This will keep supply chains disrupted, businesses in survival mode, further blows to confidence and thus further declines in UK assets.

Best Case: Whilst a vaccine would provide the best-case scenario this is likely months away. If the virus is contained so that it doesn't overwhelm healthcare systems, this will be the best outcome for Q2, as it will reduce the chance of further restrictions and the likelihood of further deratings of UK equities.



GLOBAL EQUITY

Most Likely: Covid-19 has pushed market volatility to levels not seen since the global financial crisis. The US Federal Reserve (Fed) has announced measures to combat the economic damage and we expect to see similar measures announced in Europe. Volatility is expected to be dominant over the next quarter.

Worst Case: Global GDP is expected to be negative for 2020 and US unemployment is predicted to spike well above levels seen during the 2008 financial crisis. Markit Purchasing Managers' Index (PMI) across Europe posted their largest ever monthly declines in March following economic shutdowns in response to the outbreak. This has been the same for the US and it is likely we will see further declines over the coming months putting pressure on global markets.

Best Case: The \$2trn US stimulus should cushion the economic shock. Stocks have rallied on this information but as earnings predictions move lower (with little confidence in the numbers) more share price volatility should be expected. Economists are predicting a much faster recovery in the labour market than after the financial crisis. The BoJ's record ETF buying is acting as a floor for Japanese equities in the current environment.



EMERGING MARKET EQUITY

Most Likely: Emerging markets are likely to be volatile around concerns over the spread of Covid-19. Dispersion between countries is likely given that cases are starting to tail off in some, such as in China, and only starting to develop in others, such as in India. While China and other Asian economies like Korea and Taiwan could grow again next quarter, the outlook across emerging markets is negative. Supply chain disruptions and concerns about debt servicing and solvency as businesses face a cash crunch is a big risk.

Worst Case: The biggest headwind is the insatiable global demand for US dollars. Countries with a high proportion of US dollar denominated debt are the most vulnerable including South Africa, Argentina and Turkey. If oil prices stay at or below current levels, oil-dependent economies like Russia, Saudi Arabia and Brazil stand to lose the most.

Best Case: The Fed's recent pledge to buy an unlimited amount of government bonds potentially points at a weaker US dollar in the coming months; a much-needed tailwind for emerging markets. While countries which are net importers of oil like India and Mexico might benefit, the risk-off sentiment may limit the upside.



CASH

Most Likely: The Bank of England (BoE) has cut its interest rates to historic lows but is reluctant to go further down so returns from cash should stay at historic low levels. However, cash is likely to remain popular amongst market participants as volatility stays high. Central banks have also guaranteed the good functioning of those markets so money market funds will remain in demand for their liquidity features.

Worst Case: A T-shape recovery would be the worst case for cash, as investors will put into question the massive liquidity stimulus from central banks. Real yields are at historic lows but a change in expectation for inflation will push cash returns even lower.

Best Case: A steady recovery would incentivise the BoE to bring its interest rate back to more normal territory, as it was at the beginning of the year. This would see the return from cash slightly improve while inflation is well-contained. Market participants would also remain more cautious in taking risk back, such that demand for cash and liquidity stays high.



FIXED INCOME

Most Likely: We expect volatility to stay high in fixed income markets as the world is still facing the coronavirus crisis. This will be especially the case for credit markets where liquidity is expected to stay low. Government bond markets should remain one of the best places to hide if the situation worsens or investors are seeking liquidity pockets. Central banks are committed to maintaining low interest rates and large bond purchases programs to keep those markets breathing.

Worst Case: A T-shape recovery would be bad news for fixed income markets, as they are currently pricing for the worst. A fast and sudden recovery would force market participants to review their long-term expectations for inflation and growth and so yields would go up very fast. Government bonds are likely to strongly underperform and would no longer be considered as safe-havens.

Best Case: A slow recovery would be the best scenario for bond markets as government bonds would not be impacted by a strong sell-off. It would also mean that credit spreads would narrow, as a small number of companies would default against current high expectations. High yield markets would lead and perform in line with equity markets.



PROPERTY

Most Likely: The outlook for property equities is closely linked to the wider economy and it appears highly likely that there will be downward pressure on rents in the near term. This should be mitigated by the record easing measures from monetary and fiscal policy. There will also be sectors that might benefit in both the short and long-term such as logistics and warehouses, as the world moves away from its incredibly lean 'just-in-time' supply chains to increase local inventories.

Worst Case: The economic support provided by governments and central banks is not enough to keep the global economy functioning properly therefore causing a longer economic depression. If this stimulus causes inflation without growth this could be very negative for rent values, particularly in the commercial sector which often has longer-term contracts.

Best Case: Governments start to control the virus outbreak so they can start reducing lockdown restrictions as soon as possible. The economic stimulus from governments and central banks does not prove over-inflationary and works as a bridging loan for an economy hit by a black swan event.