Fusion DFM
Market Commentaries and Performance Review

18 March 2020

Recap of what has happened

The market selloff during this month is the sharpest market move since the 1929 crash. The shear speed of the decrease is unprecedented, but not unthinkable. Several market mechanisms exacerbated the volatility and added to public anxiety. The current decrease in market values, striking as they are, still are yet quite a way off the magnitude of the overall market collapse during the 2007-2009 global economic crisis. In short, there is space to fall further, and there are reasons why this still might happen.

The pandemic started in China but before the first negative news from Italy, the global markets did not really pay much attention to it. It was not until the 24th of February when markets started to take notice, with a large move in the US stock indices and the initial spike in volatility. Most of the stock markets fell in a correction on the 27th of February, during the worst trading week since the financial crisis of 2007–08. Markets over the following week (2nd–6th March) became extremely volatile. On the 9th of March, all three Wall Street indices fell more than 7% and most global markets reported severe contractions, in response to the coronavirus pandemic and the oil price war between the Russia and Saudi Arabia. This became colloquially known as Black Monday, featuring the worst drop since the Great Recession in 2008. Three days after Black Monday there was another drop, Black Thursday, where stocks across Europe and North America fell more than 9%. Wall Street experienced its largest single-day percentage drop since the Black Monday of 1987, and the FTSE MIB, the Italian stock market index, fell nearly 17%, becoming the worst-hit market during Black Thursday. Despite a temporary rally on the 13th of March (with markets posting their best day since 2008), all three Wall Street indexes fell more than 12% when markets re-opened on the 16th of March. Overall, developed markets sold between 30% and 40%, and the price of oil decreased by 65%.

Economic disruption is the key

The main cause of the current market falls is the coronavirus pandemic, which has severely affected economic activity across the globe. Borders of most developed countries are closed and supply chains are disrupted. Demand which was already weak is now, probably, in the worst state in our memory. Some countries have already fully internally quarantined like China and Italy, Spain, Austria and most others like Germany, etc have only partly quarantined yet. There are no confident predictions when it will be finished, but the consensus is that the recovery will take several months. Indeed, in China, after two months of active measures, there is a clear improvement. An additional source of volatility is the oil war, after the failure of negotiations within the OPEC+ group of countries. The drop in the oil price and other commodity prices, in our view, has a supportive longer term effect on economies but, in the short term, hits energy companies and brings additional instability.

Financial Markets

In contrast to the previous market turmoils of recent decades, when financial markets were, to some extent, the origin of the problem and their breakdown was symptomatic of their failures, this time financial markets work and accurately reflect expectations of economic risks and rewards. The markets re-assess expectations of future revenues and profitability and, naturally, clearly demonstrate the downgrade of previous expectations. Therefore, barring further operational disruptions, as soon as the situation with pandemic shows some signs of abating, we expect the markets to start recovering. Meanwhile, governments of all developed countries have already declared strong monetary and fiscal policy responses to support their economies and their population by declaring vast amounts of future commitments, unseen before – $1.3trln in the US, nearly 1trl Euros in the EU and nearly £350bln in the UK. What is even more important, they show readiness for additional steps if they will be necessary, so the policy response will clearly provide some downside protection and, in time, will be a source for future recovery. These support measures can lead to inflationary pressures but, considering the current weak demand and low commodity prices, the latter are, in our opinion, the least of evil.

Our View

We think that the actual losses are not quite priced in yet and markets have some more downside potential. We expect, however, that, assuming no new major negative developments, the situation with the pandemic will start improving in 2-3 months and markets will see growth in the second half of the year. Falling volatility while markets are selling down will signal bottoming up of the global markets. We continue to closely monitor the Fusion portfolio ranges and are prepared to intervene when we see necessary to make strategy changes.

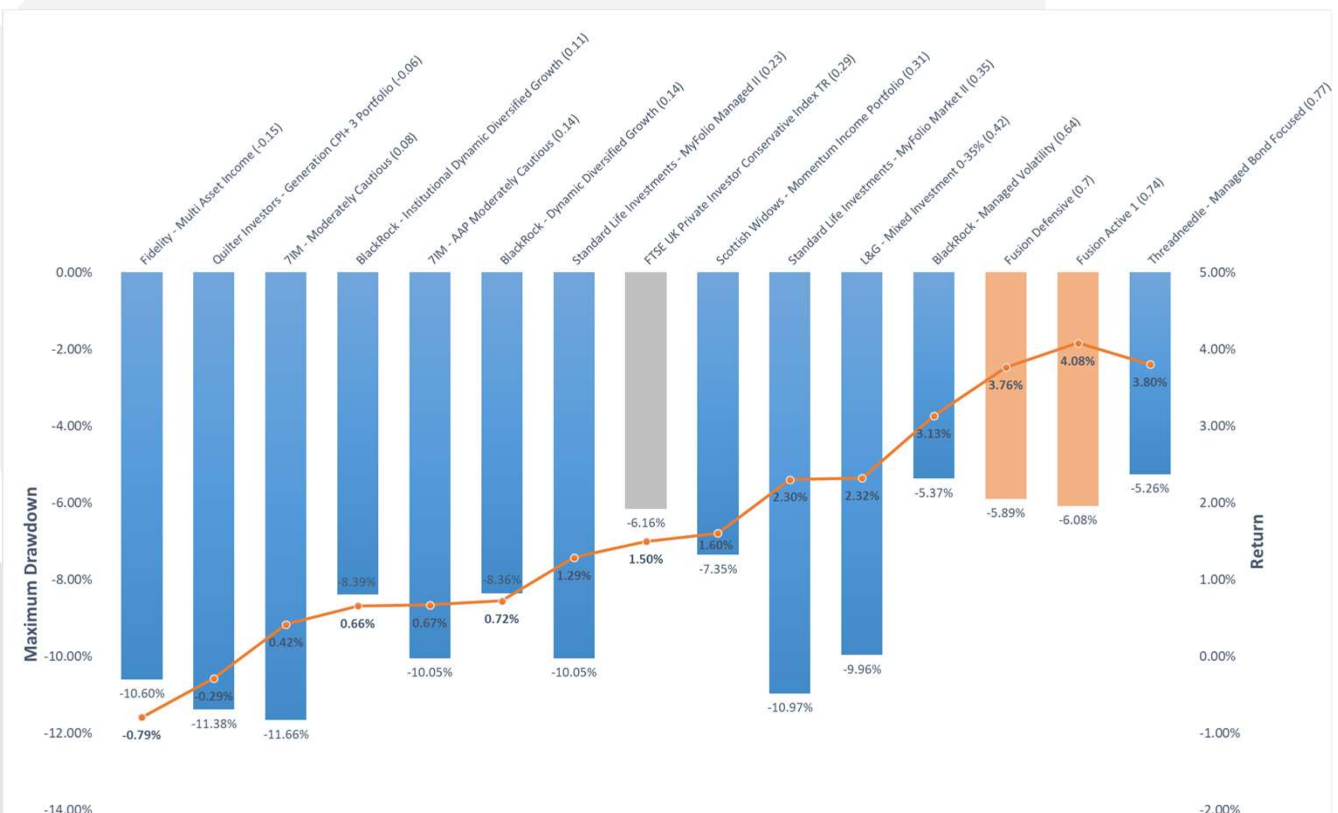
Performance analysis to 15th of March

We have consistently emphasized our view on the fragility of the markets (See Market Commentary for the January 2020 re-balance) and our focus on loss mitigation. Here we review portfolio performance during the current market moves, in comparison with major competitors and benchmarks. Overall, we see that Fusion's approaches to both Global Asset Allocation and Asset Selection have played their roles in diminishing negative development.

Since the current market re-pricing has wiped off several years of portfolio returns, we consider a 5-year horizon for the comparison. Each graph shows the relative positions of Fusion portfolios compared to a number of multi-asset funds from a range of the biggest providers within the same risk category. We have ordered the funds on the graphs in accordance with their 5y Sharpe ratios, with the highest Sharpe ratio funds on the right-hand side of the graph. The graphs also show the 5y returns figures and the maximum drawdowns.

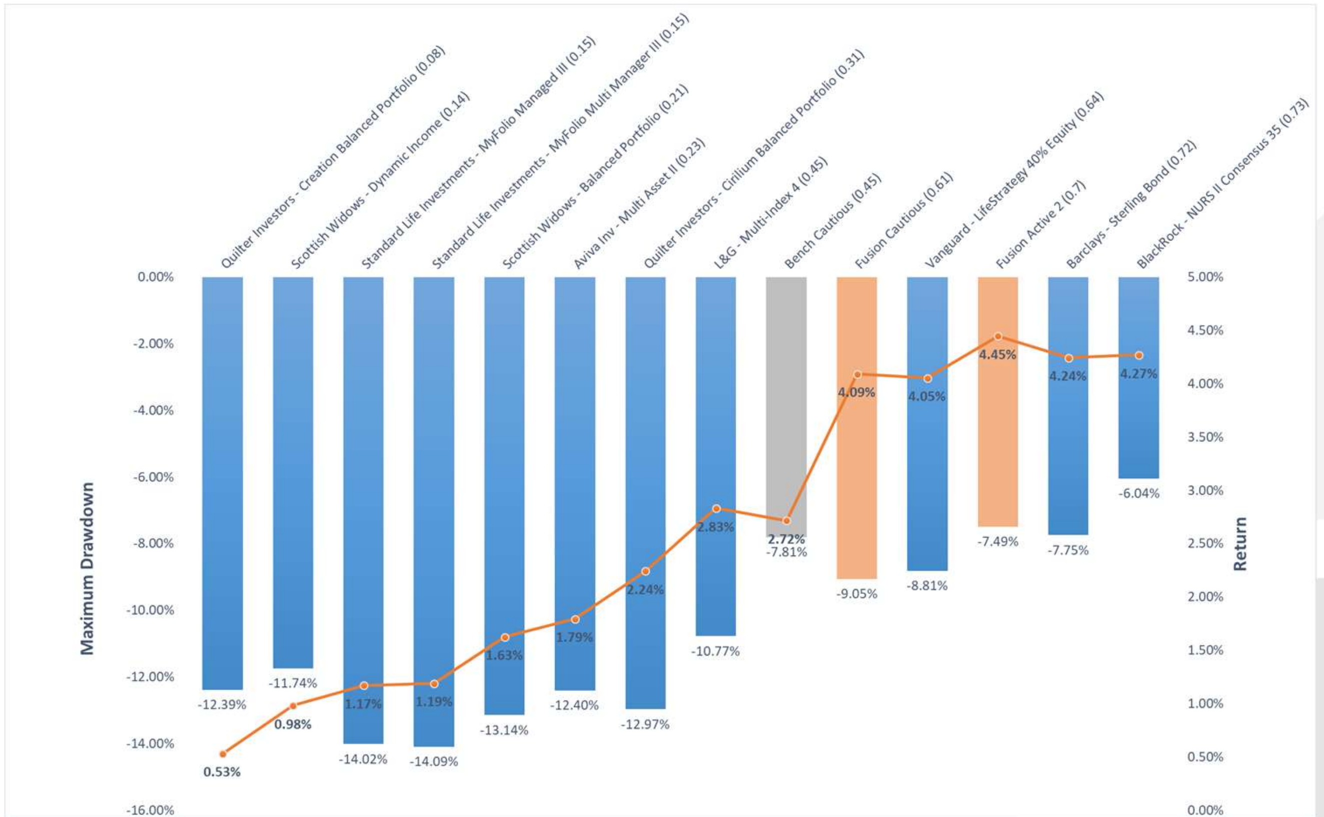
The graphs show Fusion portfolios, both the Optima and Active ranges, consistently outperforming the benchmarks as well as most of the funds from other providers on Sharpe Ratio, Return and the Maximum Drawdown levels. The consistency of these results across all risk levels illustrates the success of Fusion's investment approach to mitigating portfolio losses in times of severe market stress.

Low risk level group

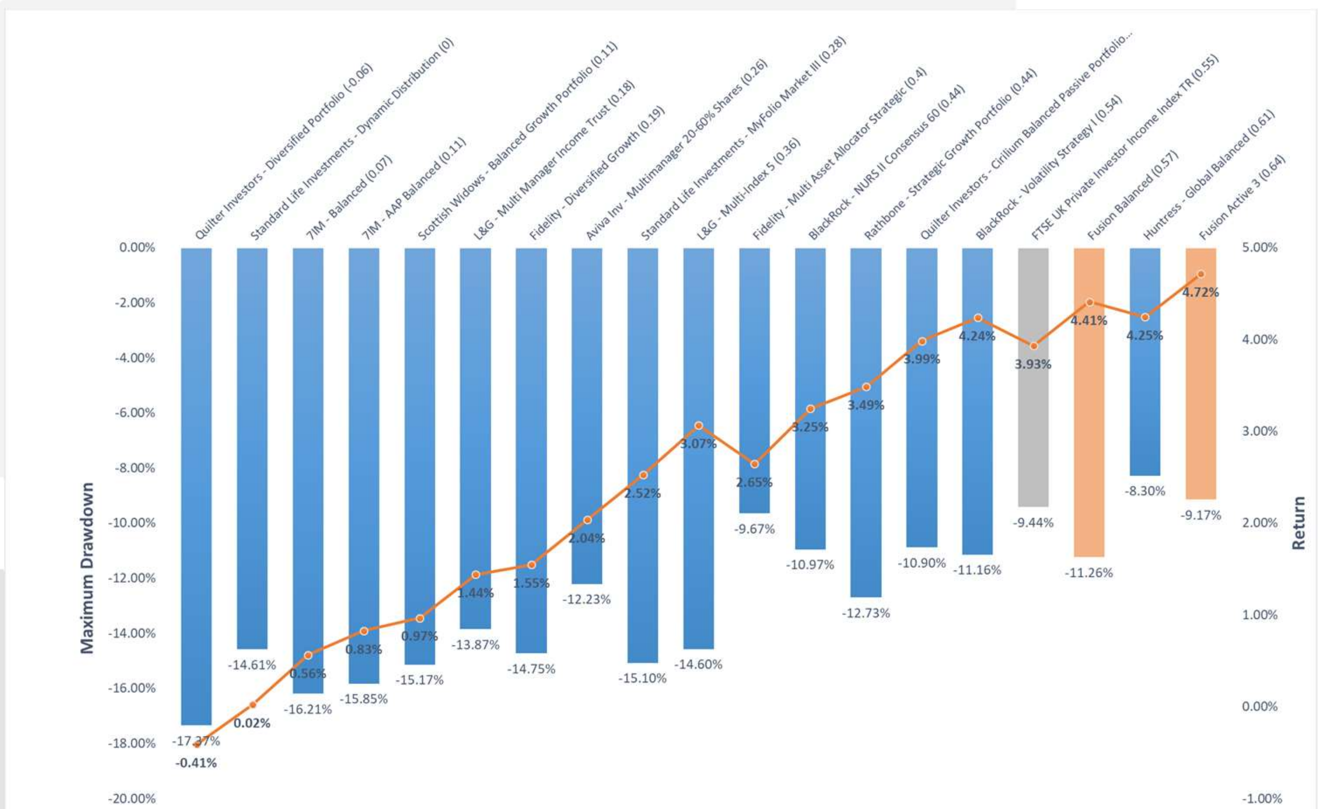


FUSION ASSET MANAGEMENT

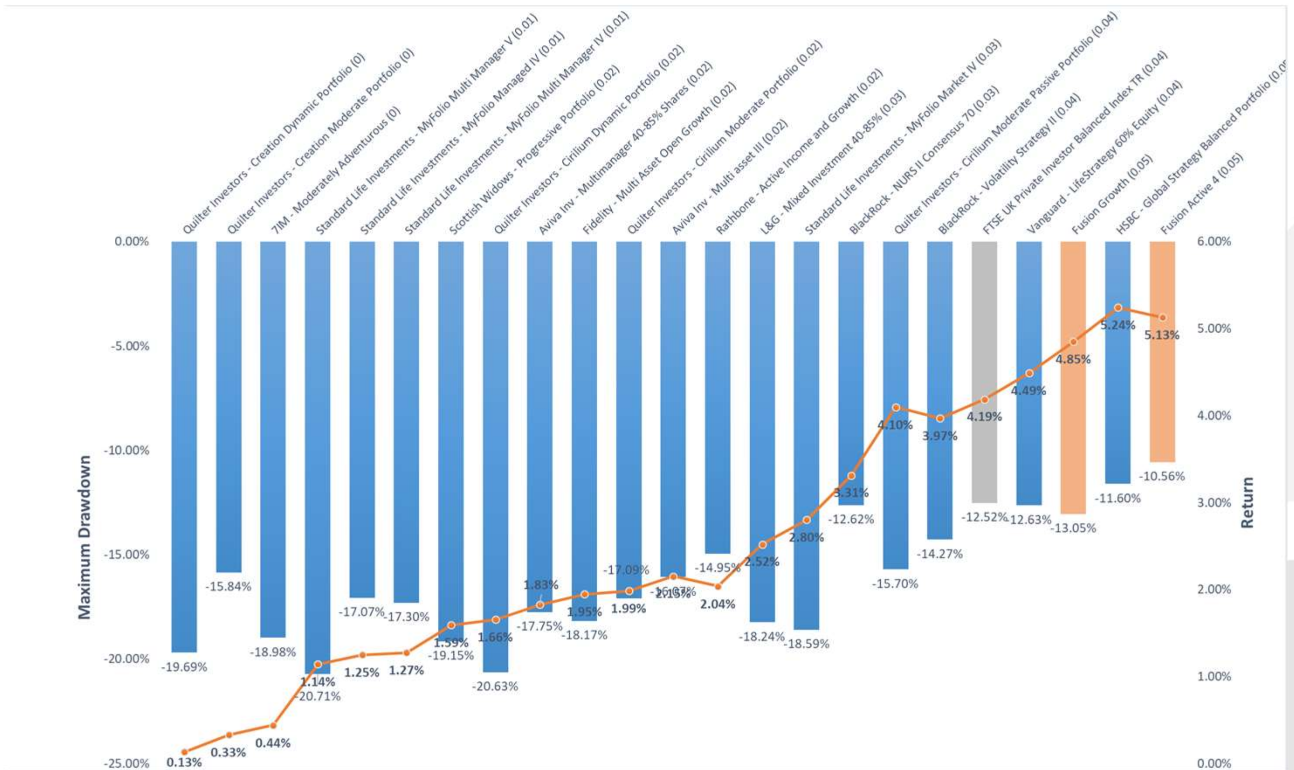
Medium - low risk level group



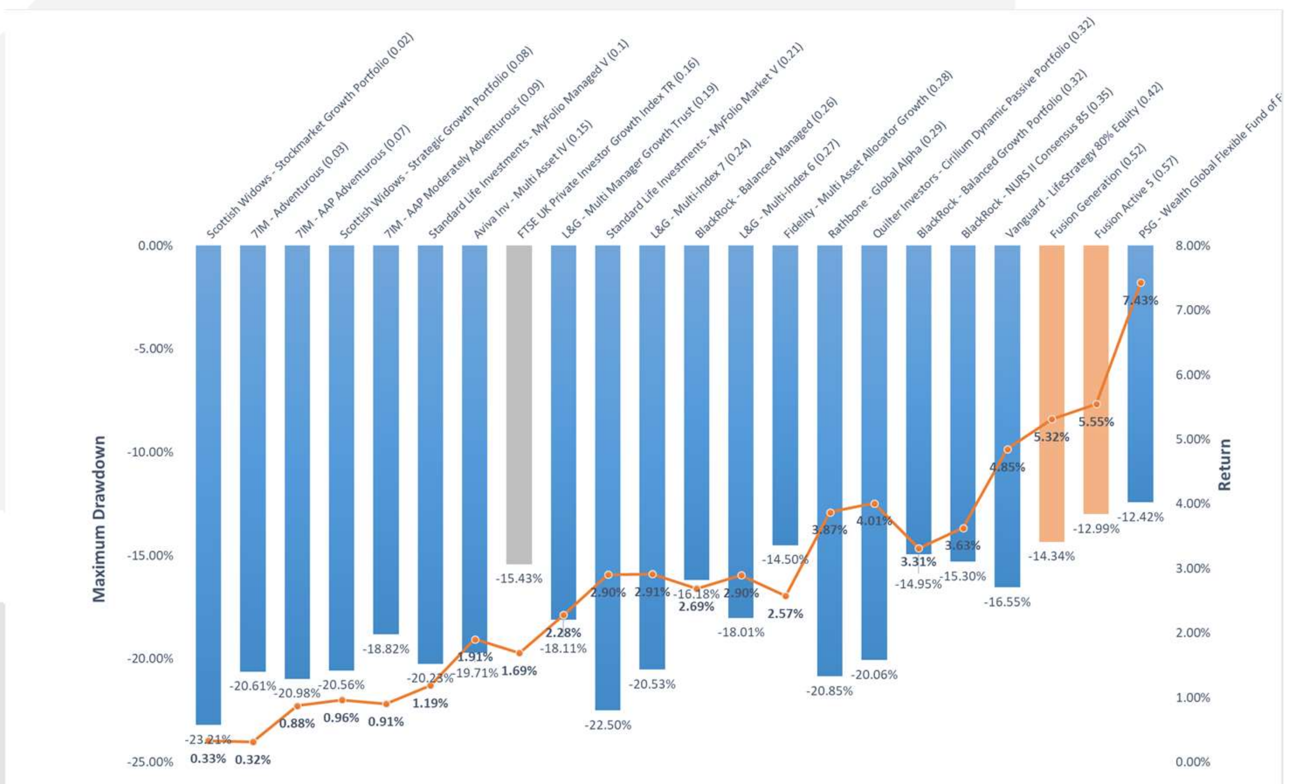
Medium risk level group



Medium - high risk level group



High risk level group



FUSION ASSET MANAGEMENT

Notes

All the calculations are inclusive of investment management charges.

Please be aware that reported performance of mutual fund portfolios on day-to-day basis can be misleading as not all funds report prices, especially during market disruptive events, and often underestimate the actual losses. In comparison, Exchange Traded Funds (ETFs) portfolios are accurately priced intraday.

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