LHV Portfolio Management

Monthly review of investments

March 2020

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Global equities fell by 31% from their highs in just a couple of weeks.

The larger cash position as well as gold related investments offered hedge to the portfolios.

In a few weeks, several stocks included in our active watchlist fell to so low levels that we decided to take advantage of the panic sales and bought positions in them.

Corona crisis brought the markets down

In March, the spread of the novel coronavirus reminded us all that we are still living in a world full of uncertainties and unexpectancies. Just within one month all the borders between countries were closed and economic activity stopped. Stock markets fell 31% just in a few weeks and bond markets lost almost all the buying interest.

If usually stock markets fall by 30-40% in 3-6 months before the economic depression then this time the coronavirus brought a wave of panic and the same drop took place in just a few weeks time.

We were holding larger than usual cash positions in the portfolios as we were entering the current crisis. Our view was that the growth cycle had lasted for too long, stock prices were too high and this was not the time to take maximum risks. Bond markets were even more discouraging as investors took risks but in turn got zero return as a reward.

Market indices	March	2020
Eurozone bond index	-3,4%	-1,1%
Global equities	-13,4%	-19,6%
North America	-13,1%	-18,3%
Europe	-14,3%	-22,6%
Emerging markets	-15,3%	-21,8%
Estonia**	-20,0%	-20,8%

* MSCI indices return measured in EUR ** OMX Tallinn index

Crisis brings opportunities

In a few weeks, corona crisis escalated rapidly. **Several stocks included in our active watchlist fell to so low levels that we decided to take advantage of the panic sales and bought positons in them.**

Global equity index (3y return)

* MSCI All Country World Index return measured in EUR

We do not expect to hit the exact market bottom, nevertheless we believe that when taking disciplined approach, it is possible to pick very attractive long term investments from current crisis. We purchased Scandinavian and emerging markets stocks. Probably we will continued volaltilty in the coming months but in general it is time to take more risks.

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It is common that after the periods of extensive deficit spending, the inflation rate increases to 5% level or more.

The sentiment in the stock markets has turned negative and that is the time to add risks.

Governments flood the economies with money

In our opinion, we are at the beginning of an era with vast government budget deficits. Meaning, in order to boost economic activity, governments will inject exceptionally large amounts of money into the economy.

The first one to bring extensive stimulus measures to the economy was the US. The government accepted the bill worth of 2.2 trillion dollars, which makes up around 10% of the GDP of the US.

In Europe, German government has created a support package worth of 750 billion euros to finance social expenditures and struggling enterprises. Around 200 billions of that sum, in other words 7.7% of GDP will immediately be injected into the economy.

Shinzo Abe, the Prime Minister of Japan announced that over the year, the country will inject 555 billion dollars worth of stimulus in the economy, which makes up 10% of GDP.

Historically, the government deficit spending has had crucial role in boosting the economy. Similarly, mentioned policies have brought back inflation which central banks have failed to do while repurchasing financial assets. It is common that after the periods of extensive deficit spending, the inflation rate increases to 5% level or more.

Over the last quarters, we have been rebalancing the portfolios toward investments that would considerably benefit from the increase of deficit spending.

We expect inflation to pick up

As we will be exiting the crisis, we see the most upside potential in stocks because central banks and governments are flooding the economies over with borrowed money and liquidity.

In our opinion, the era after the corona crisis will be favorable to gold as well. The current boom in borrowing means that in the countries without savings, central banks will have to finance their borrowings.

Bonds and cash will be the most negatively affected by inflation. If inflation is increasing but interest rates will be artificially held at low levels, interest instruments do not perform well in reality.

Time to add risks

Best purchases in the stock markets are made when investors have lost hope that the situation will get any better.

If one month ago it was generally believed that the coronavirus will disappear as fast as it hit us, then now it looks to be the opposite. Society has accepted the harsh reality.

Regarding stock markets, now it is the time to add more risks, not to reduce them.

Wishing you good health and all the best,
Mikk Taras and Kaius Kiivramees