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Lockdown:
What needs to happen to get business trading and spark investment markets into recovery?

The 2008 Financial Crisis required a financial solution;
the 2020 Pandemic solution is Medical

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Whilst keeping the human side of the coronavirus in mind, we have spent some time considering the longer-term effect to the economy and the worldwide stockmarket. We have also looked at the immediate effect it has had to the value of investments and when the government may be able to issue guidelines to allow certain lower risk parts of the population the option to return to work to help kick-start the economic recovery.

It is important to understand that whilst government monetary support is welcome *(see section 'Markets today')*, this is not the solution to coronavirus. This is a battle that must be fought and won by the Healthcare and Pharmaceutical industry.

Timothy James & Partners are directly regulated by the FCA to provide independent financial planning and investment advice. We specialise in looking after self-employed, business owners and those individuals who are referred to us. We have taken some of the research and commentary that comes across our screens daily to provide an update and outlook. We currently advise on over £1.1 billion and look after over 5,000 clients. We hope this opinion provides some useful information.

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What is the Health care industry doing about COVID-19?

One of the fund managers that we follow is Polar Capital who run a healthcare and biotech fund management business presiding over c.£2 billion. Typically their funds hold between 40 and 50 different worldwide pharmaceutical biotech and healthcare company shares. Dr Dan Mahony and Gareth Powell, the co-founders of the Polar Capital's healthcare team recently gave us an update on what they have heard first-hand about the industry's effort to tackle COVID-19. This insight, will provide some education and give you a view on how long we may be in economic lockdown unable to work, the potential solutions and the key data coming out of the pharma-companies over the coming 18 months.

The World Health Organisation has been very clear that countries need to test more. Dr Tedros Adhanom Ghebreyesus, the Director General has said he is keen to **increase diagnostic testing** on as many people as possible to collect more data about the virus to help provide solutions.

There are two types of tests:

Viral test

to determine whether there is an active on-going viral infection. Usually a throat swab.

Antibody test

to establish whether a person has been previously infected or has an on-going infection and has antibodies against the virus. This is a blood test.

There have been over 500,000 viral tests carried out per week in Germany and the UK is currently running at 50,000 per week with the intention to increase the number of tests. The technology has been around for years but the problem is now about scaling up and getting the test kits manufactured and distributed. There is a lack of testing in America which has been causing problems.

The throat swab test is available and needs to be manufactured in large quantities. It isn't new technology but has been around for years. The objective here is to see whether the patient has been previously infected and it determines whether an individual has antibodies against the virus.

The second test is an antibody test and is critical to establish the scale of the disease as many people may have been infected, but only have had mild symptoms and then recovered. Currently, there is no way of knowing how many of the population are in this category. This antibody test will give a better understanding of the scale of the virus. Again, it is the quantity of test kits required and labs available to provide the subsequent results that creates the near-term problems.

Pharmaceutical, biotech companies and academia are working 24/7 to find a vaccine for COVID-19. For example, there are currently 202 clinical trial listings, 88 studies actively recruiting of which 44 are focused on vaccines and therapeutic treatments with 22 in clinical trials completing over the next twelve months.

There are three categories of therapeutics for COVID-19 being worked on currently. Their aim is to find a medicine to treat the virus and provide a remedial solution.

Antivirals

These are drugs which will help an individual once they have been diagnosed to reduce the symptoms to stop the replication of the virus. The objective of this treatment is to slow down the impact of symptoms, keeping people out of hospitals and helping people leave earlier. Many clinical trials are on-going which are focused on using existing treatments for Ebola and Malaria towards helping with Coronavirus. The second set of drugs being researched are anti-inflammatory.

Anti-inflammatory

These drugs are taken by patients who have a serious infection that has attacked their immune system which has effectively gone 'out of control' and can cause lung damage and a poor patient outlook. There are two drugs which are already being used for rheumatoid arthritis and they are currently in trial to see how effective they are against coronavirus. Initial data should be available in the next three months. The third category of drugs and development is specifically to target SARS-CoV-2.

Antibody Drugs

These will take time to develop. They are designed to block the virus and fight off COVID-19 infection. Some of these drugs have already been used to fight off the Ebola virus in Africa. The initial data should be available in respect of these antibody treatments in the next 6-12 months.

Of course, **vaccines are the long-term ultimate goal** for prevention and there are currently 52 vaccine candidates of which two are currently in clinical trials. An American pharmaceutical company called Moderna is already progressing and there is a further Chinese biotech company in clinic.

What this means for us

The news on vaccines from these various companies is that they are 12-18 months away from a solution. The view is that is when we will receive the first data. The real problem with vaccines is that the pharmaceutical 'world' is going to have to make hundreds of millions of doses and they have to go through clinical trials to prove they are safe, bearing in mind how many people will require them.

The speed of which the pharmaceutical industry worldwide may provide help and a vaccine will impact how quickly the worldwide economy recovers. The stock market tends to price in the future value of company performance and the current valuations probably reflect all of today's bad news.

Key COVID-19 Timelines

The potential timelines to watch out for are related to the trials and data coming from the initial testing results and general progression of the solutions and aids created by the pharmaceutical industry. They can be summarised by the following:

- **April 2020** – we will find out about Remdesivir's experimental Ebola virus treatment in dealing with the disease progression and the success of self-isolation in Europe versus Asia.

- **In May 2020**, we may see the result of the **antibody tests** to see how many people have actually been infected. It is possible that governments will use this data to determine who is able to go back to work and who is the least at risk to start getting the economy back on track.

- **Between June and December 2020** in the second half of the year, governments will receive updates on the on-going clinical programmes in relation to antiviral treatments, anti-inflammatory treatments and indeed, antibody drugs. The safety data will also be available from the first vaccine program.

What is critical and worries the World Health Organisation and World governments is the potential re-emergence of COVID-19 this winter. That is certainly a risk on the horizon for the world's economic and stock market recovery. It is important to have some viable drugs to ease the symptoms and keep people healthier for longer.

Source: Polar Capital: Key COVID 30th March 2020

The effect on Worldwide Stock Markets and Business – Opportunity?

There is no question that the Coronavirus and OPEC negotiations have caused stock markets to tumble. However, any positive news from the pharmaceutical industry, which indicates how they are progressing toward a medical solution, could potentially result in a stock market recovery.

The last 6 weeks have seen sharp market falls of up to 35% and we expect news flow to continue to create negative sentiment. It is predicted that UK fatality rates and confirmed cases will peak over the next couple of months, and up until that point, we expect individual investor sentiment to remain poor. However, last weeks' Financial Times (29th March 2020) reported that over the previous two weeks, 74% of all trades placed were buys from professional investors taking advantage of the current lower valuations. If global viral and anti-body testing creates positive results in June it may well be the news stock markets and governments have been waiting for.

The 2008 Financial Crisis required a financial solution; **the 2020 Pandemic solution is Medical**

Therefore, if you have pensions or investments, **do you hold or sell to cash?** If you have cash receiving little or no interest **should you venture into the stock markets?**

Markets today remain low, despite investors reacting positively to the world's central banks measures to deliver liquidity and an increasingly robust fiscal response from governments promising all manner of support from cash hand-outs to loan guarantees. The Bank of England interest rate has been cut from 0.5% to 0.25% and again to 0.1%. The lowest rate in the Bank's 325 year history.

Market	Index	Index Level	Last Day	2020 YTD	Since Market High
US stock market	S&P 500	2,488	-1.51	-22.97	-26.52
UK market	FTSE All Share	3,037	-1.00	-27.62	-28.66
Euro market	EuroStoxx 50	2,757	-0.97	-26.38	-28.67
Hong Kong market	Hang Seng	23,710	2.04	-15.89	-18.40

Source: Bloomberg 9am, 6th April 2020

There are some clear losers such as airline companies, oil and gas, mining or bank stocks that investors would do well to avoid. However, opportunities arise to buy strong leading franchises such Amazon, Mastercard and Visa, all down 15-25% which may bounce back strongly.

Equity and credit markets have already priced in a 70-90% chance of a recession and therefore on a five-year view, this could potentially be a historic buying opportunity, but the market is unlikely to find its footing until international COVID-19 transmission rates peak, similar to the Chinese recovery.

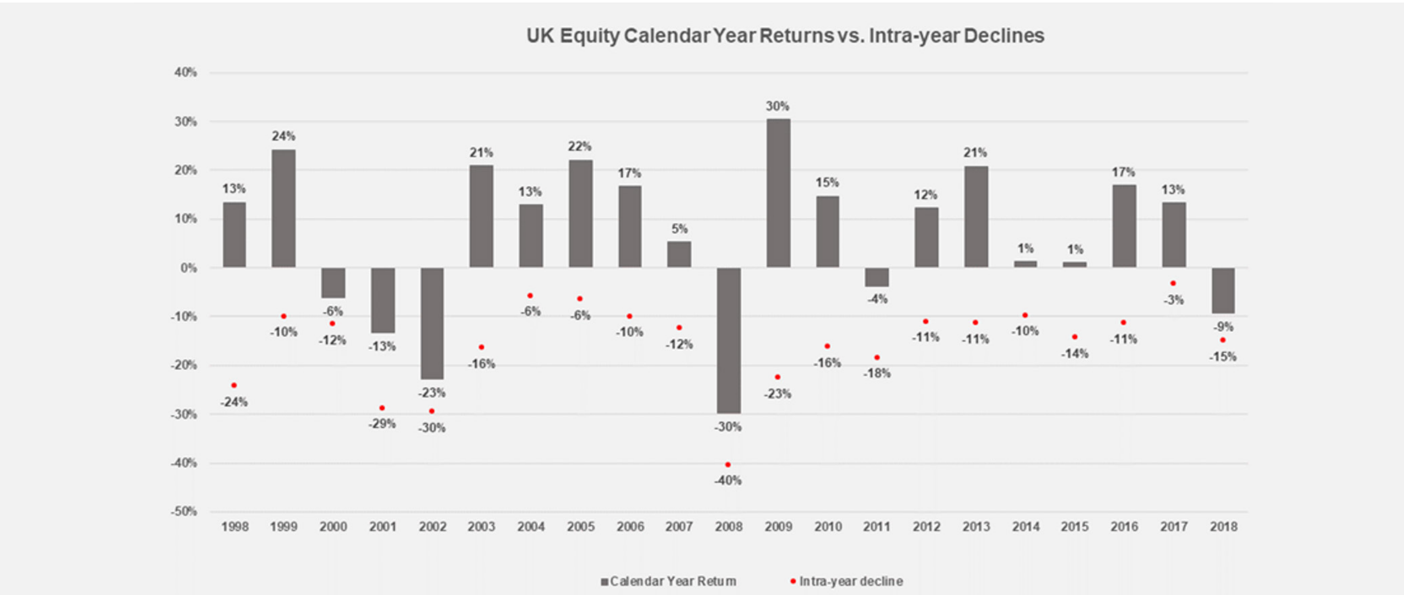
> "The stimulus being injected by central banks and governments can't stop the virus, but it will outlast the virus and it should subsequently supercharge the recovery"

Source: James Thomson, Rathbone Global Opportunities February 2020

The possibility exists that the market will bounce back on the back of positive testing and that we are positioning ourselves for a potential recovery in 2021 when a vaccine will be made available. It's possible worldwide governments will use the results of the testing data to gradually allow people back to work through the summer to start the business and economic recovery. This assumes the results provide positive data.

The following chart is interesting as it illustrates the lowest point in the stock market, in any one year, versus where it finished up.

Whilst the current situation is clearly a market crash and not just a 'wobble', please cast your eyes to the following time periods; 2000 to 2002 (dot.com crash and Twin Towers) and 2008 (Financial Banking Crisis). It is clear from the returns following these periods (2003 and 2009) that those who remained invested benefited from those returns. In fact, currently our clients who hold large levels of cash which are surplus to their annual requirements are now dripping this into the markets to buy at a discount.



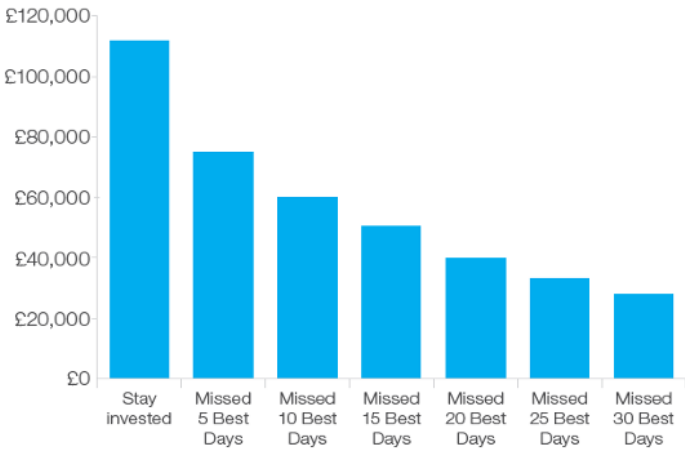
Source: Fundhouse, Thomson Reuters

As the old investment adage goes, **it's time in the market, not timing the market**, which is key to returns. In view of the above, there is a possibility of a forthcoming stock market recovery in the event of positive news from the pharmaceutical companies.

By delaying or cashing in your investments, there is the risk of an investor missing out on the best days in the market as illustrated in the chart to the right:

Data source: Thomson Reuters
Returns are total returns of the FTSE All Share Index over the period 1st May 1989 to 30th April 2019 based on a £10,000 initial investment, with the assumption that all dividends paid out are reinvested.

When viewing past performance data, please remember that this is not an indication of future performance.



• To summarise:

We appreciate that many questions arise at time like these such as;

- Is this the right time to sell?
- Is this the right time to hold?
- Is this the right time to start investing?
- Is this the right time to add to investments?

The answer to these questions depends on your own personal circumstances, financial objectives and investment time-horizon. We would encourage you to contact your Timothy James & Partners Consultant to discuss this further.

Remember: Investing with a long-term outlook and with long-term goals is the best way to reduce the impact of stock market fluctuations and to see out periods of volatility.

The value of your investment may go down due to negative investment performance, charges, withdrawals or currency fluctuation.

This document serves to give you information on; investment markets, going back to work, and what the pharmaceutical industry is doing to find a remedy to COVID-19. It is the opinion of Timothy James and Partners that has been compiled from multiple sources and it shouldn't be considered factual.

If you have any questions, or would like to discuss this document. Please give your Consultant a call.

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