

CASTLESTONE
MANAGEMENT



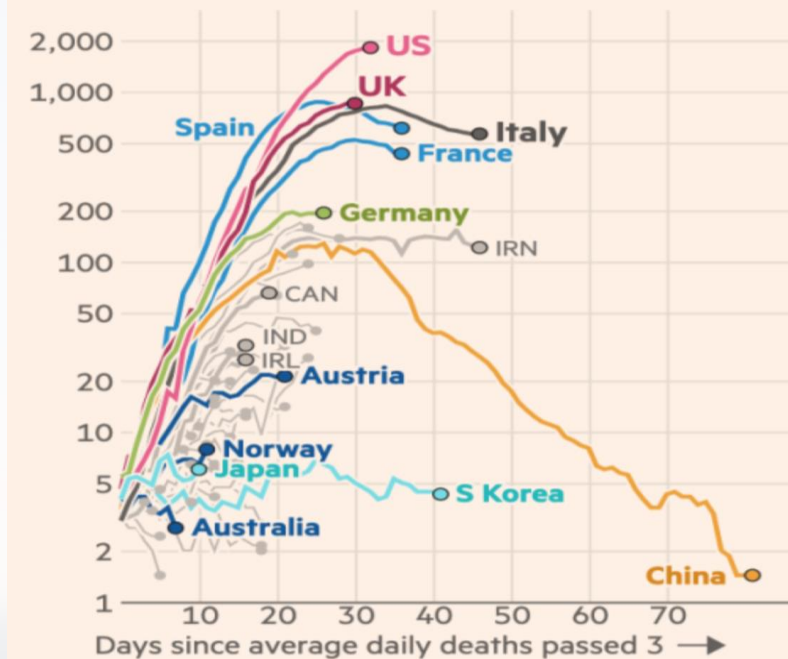
Castlestone Management Advisor Bulletin April 2020

Fear subsides as death tolls fall.

- Death tolls in Italy and Spain have begun to fall, other countries will follow.
- As the number of deaths from the coronavirus fall, fear of an uncontrolled pandemic subsides.

Italy and Spain's daily death tolls are falling; in the UK and US daily deaths still trend upward

Daily deaths (7-day rolling average), by number of days since 3 daily deaths first recorded



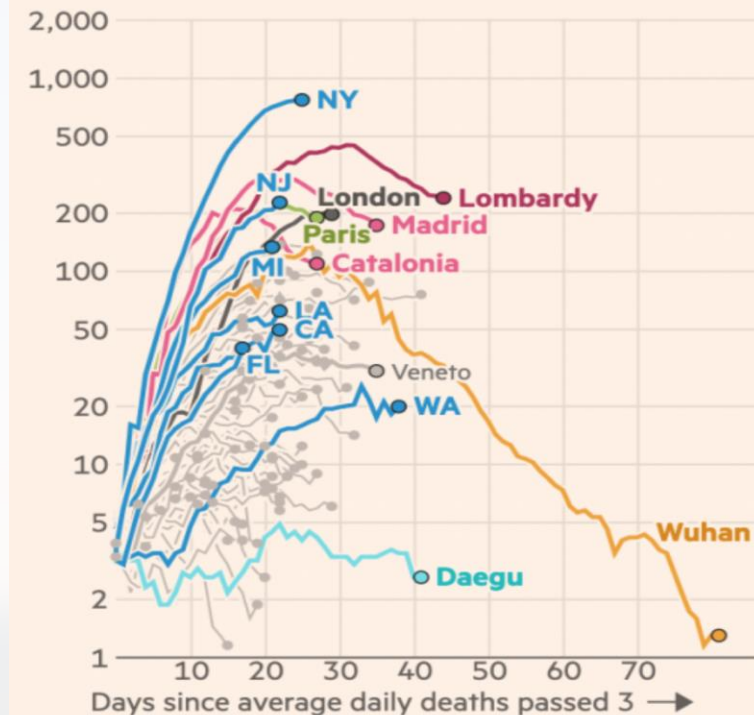
Source: FT analysis of ECDC; FT research
Data updated April 14, 19:00 GMT
FT graphic: John Burn-Murdoch / @jburnmurdoch
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Social distancing and other regulation have had an impact

- Cities taking strong action against the virus have seen results.
- A natural cycle of recovery will occur.
- An economic rebound will follow. (Central Banks are ensuring this)

New deaths in Lombardy and Madrid are falling, but deaths are rising ever faster in New York and London

Daily deaths (7-day rolling average), by number of days since 3 daily deaths first recorded



Sources: NHS; Covid Tracking Project; Providencialdata19; Santé Publique France; Berliner Morgenpost; OpenZH; Stockholm University; Leuven University

Financial Conditions Index shows the impact of Coronavirus is not as bad as 2008 Financial Crisis.

- The financial system is not broken.
- Banks are far better capitalized than in 2008.

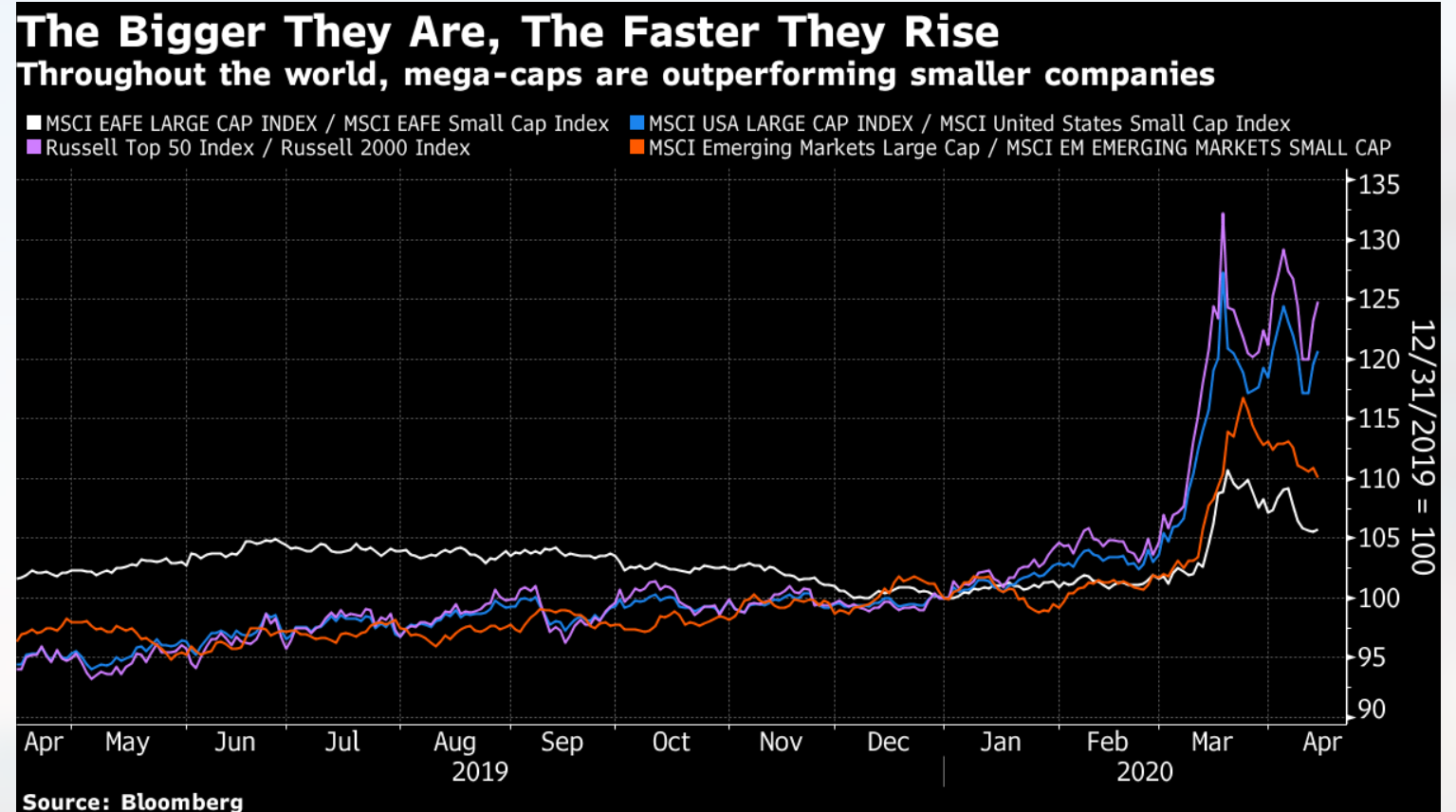
At its lowest, the financial conditions index was at its level from the week immediately after Lehman Brothers went bankrupt in September 2008. It is now back to where it was at on the Friday before Lehman went down — which is to say that we are now out of the territory where the entire financial system appeared to be broken. As the financial world had been in serious crisis mode for a year before the Lehman bankruptcy, we cannot say we are out of the woods. And of course it is possible that the Fed has avoided repeating one mistake only to make a new one.



Money flowing into Large Cap stocks

- Large cap stocks are recovering quicker than small cap.
- Index funds are market cap weighted
- Indexing is a popular strategy now

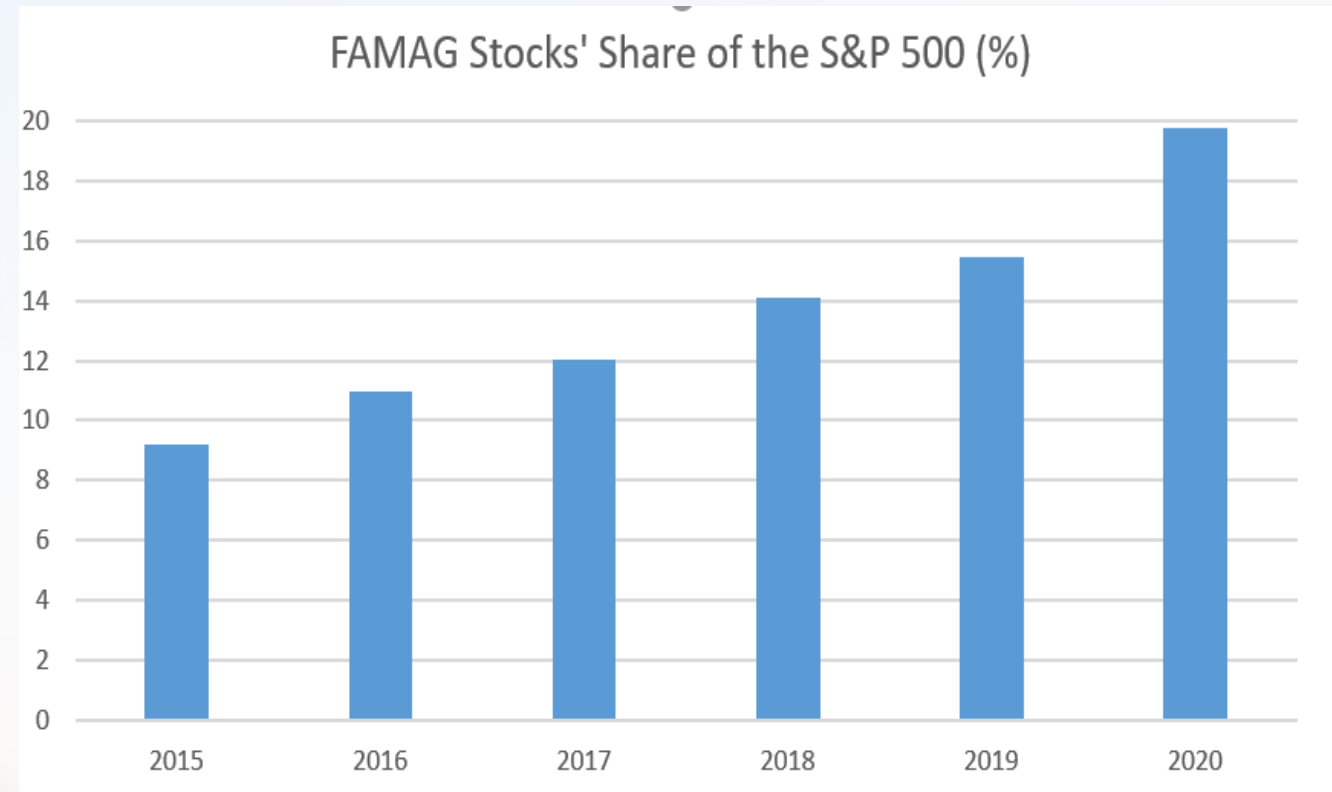
This chart shows how large-cap companies have performed compared to small-caps in the U.S., the rest of the developed world, and the emerging world, according to the MSCI indexes. In all cases, large-caps have greatly outperformed during the crisis. Mega-caps, represented by Russell's Top 50 index for the U.S., have outperformed particularly. In general, the leadership of the big is a U.S. phenomenon:



FAANG Continues to lead

- The market cap of the FAANG Stocks has moved back to 20% of the S&P 500
- Some FAANG stocks, like Netflix, Amazon, and Facebook may be benefitting from the current crisis
- As consumers change their habits, moving more online, the FAANGs benefit

Facebook, Amazon, Microsoft Corp, Apple and Google (which these days trades under the name of parent company Alphabet Inc.). These are the five largest companies in the S&P 500 by market cap and have been for three years (Exxon Mobil Corp. kept Facebook out of the top five in 2017). The following chart shows the combined weight of the five FAMAG stocks in the S&P 500 on this date for each of the last five years:



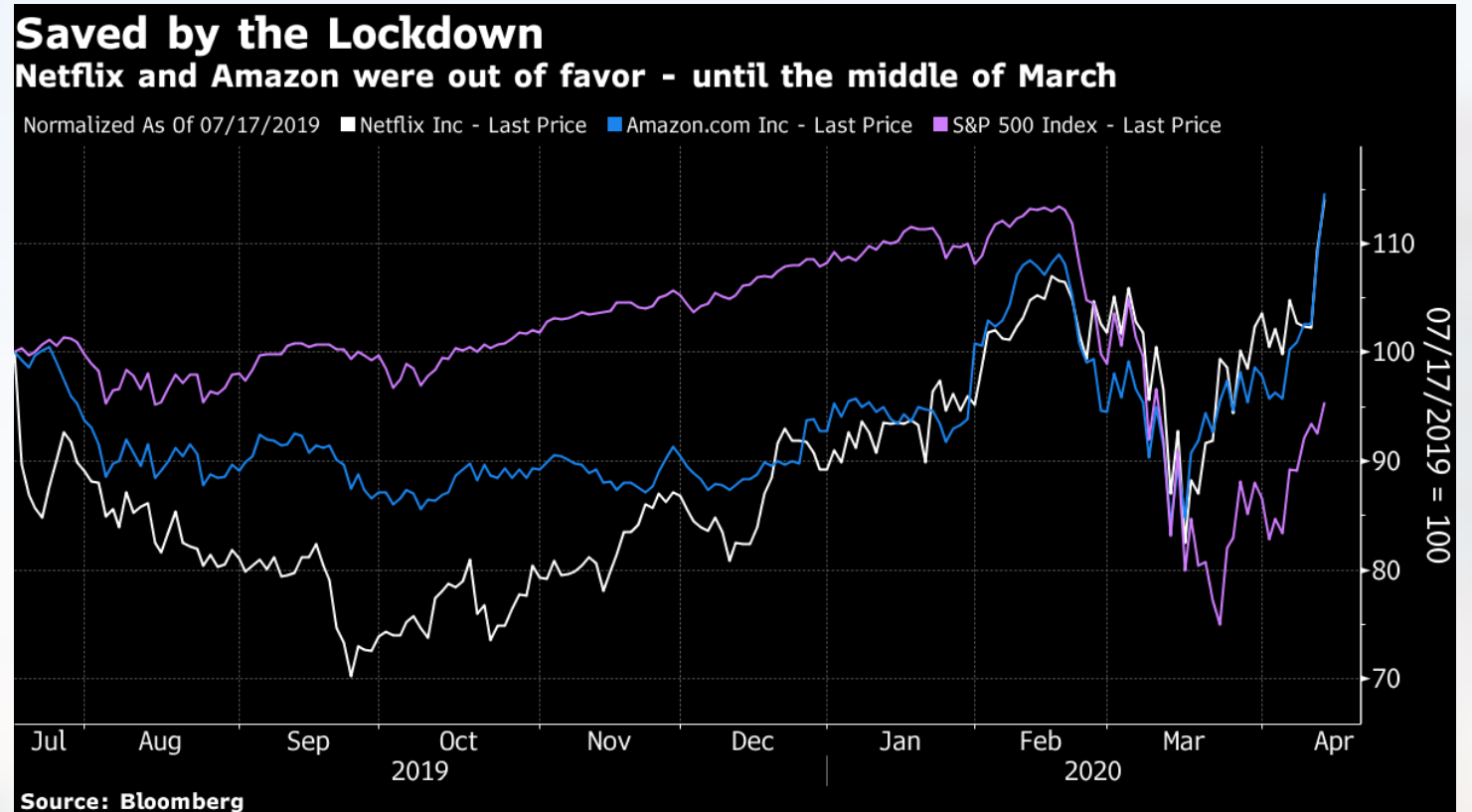
FAANG Progression since inception

- It should surprise nobody that this is primarily about the FAANG internet stocks. Initially named for Facebook Inc., Amazon.com Inc., Netflix Inc. and Google, the moniker has widened since then. The NYSE Fang+ index also includes Apple Inc., Nvidia Corp., and some of the big Chinese internet names, such as Alibaba Group Holding Ltd. This is how the Fang+ index has done compared to FTSE's all-world index since inception in 2014:



Effects of lockdown

- The lockdown has given this trend extra juice.
- In particular, Netflix and Amazon are seen as companies that will unequivocally benefit as a result of our current incarceration.
- The following chart, which starts with Netflix's poorly received results for last year's second quarter, shows that both companies had been out of favour until the lockdown — and then suddenly turned around:



Treasury yields remain low

- The yield on the 10-year Treasury Yield is currently below 1%
- Global government bond yields remain equal too or below US Treasuries



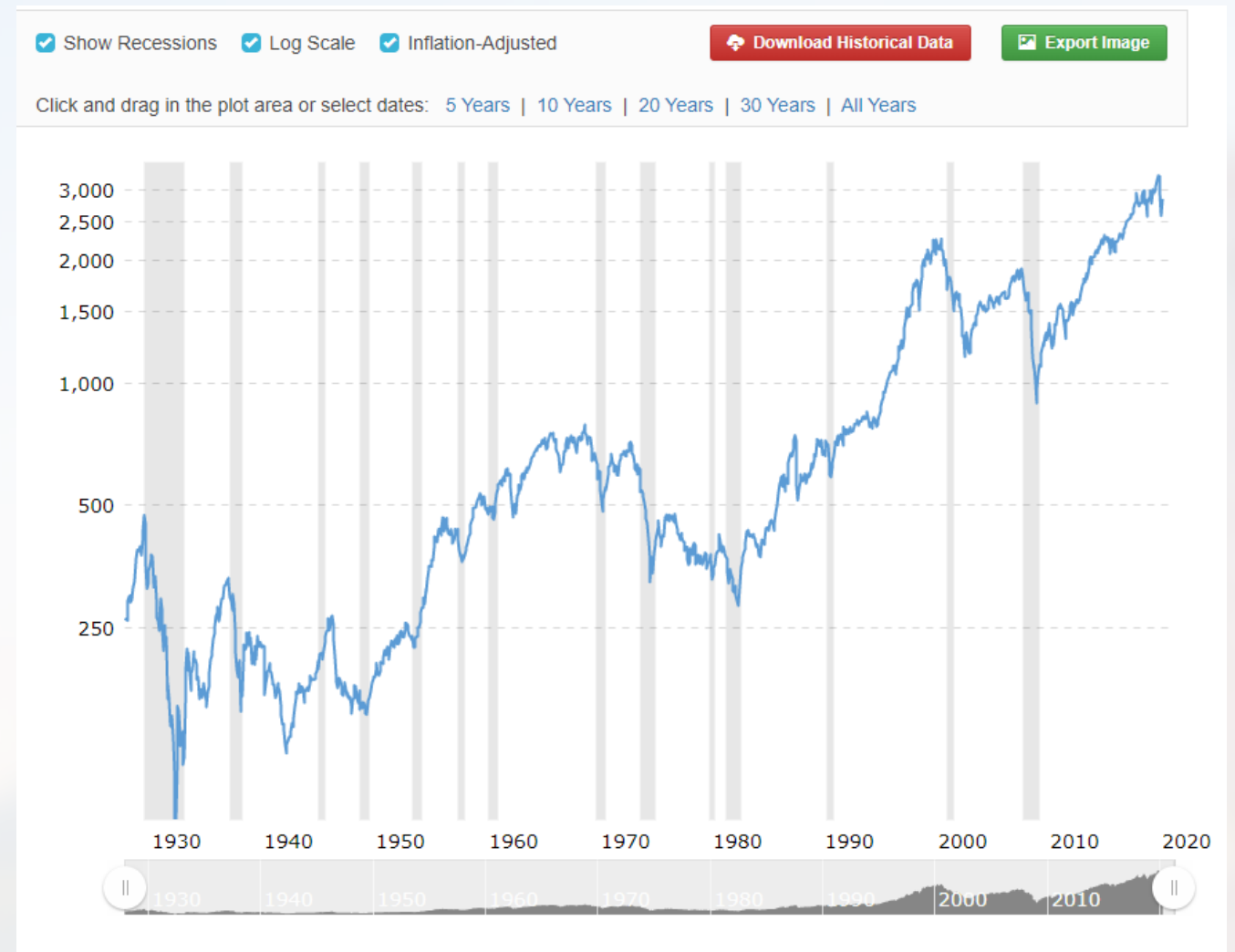
Treasury Yields are far less attractive than during the 2008 Financial Crisis

- During the 2008 financial crisis Treasury yields fell to 2.5% to 3%
- They rebounded to the 4% level
- Today Treasury yields are below 1%
- In 2008 investors had a alternative to stocks, today they don't.



Historical perspective of stock moves

- Long scale puts stock moves on an even comparison
- Today's S&P 500 pullback is small when compared to history.



Current rebound is underway

- S&P 500 under cut the 2018 low but has held
- Stocks will still need time, but it looks like a bottom has been put in



Common concerns in the market

- How much of the effect on earnings has already been priced into the markets already?

Recovery is being priced in now – as we said it would be!

- How will the increase in unemployment affect the recovery?

It will cause a dump/disruption etc. But will return to normal.

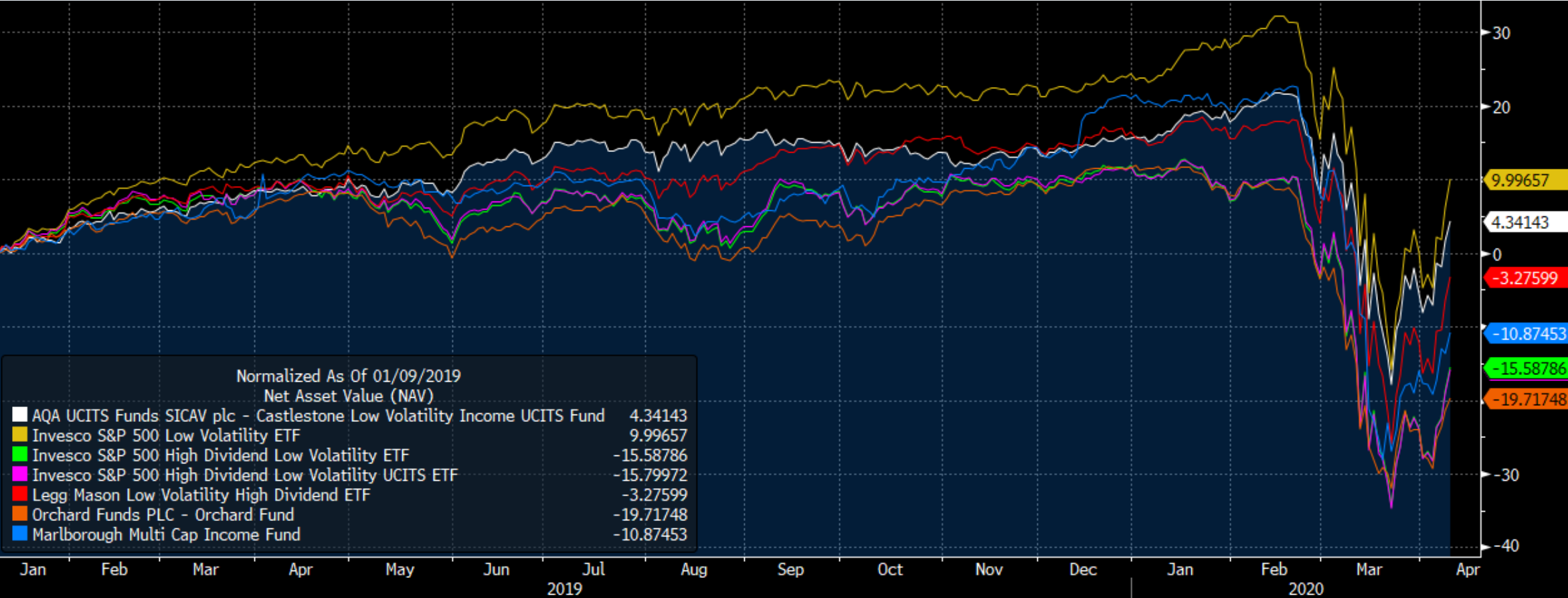
- Updated viewpoint on long term effect of the Coronavirus on the US economy, seeing as the UK OBR recently said that UK unemployment would rise to 10%, but that after restrictions are lifted, growth will recover quickly with no lasting damage.

Growth recovery will be SLOWER it is likely COVID-19 will reappear again.

- If possible, some talking points supporting some of the non-US Tech stocks we own.

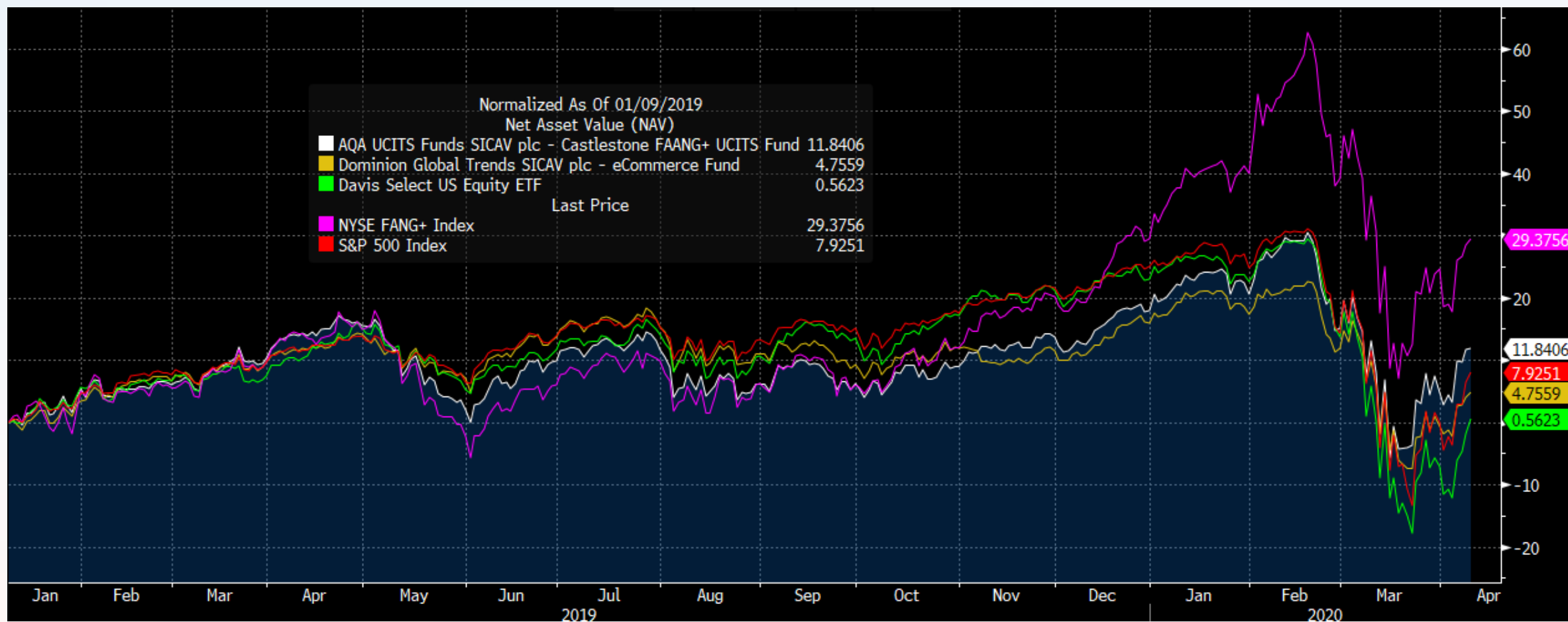
10 Year Bond Yields | Compliance EU | Market Cap Weighted | Nothing else to Own

Comparisons of Low Volatility funds/ETFs



Source: Data sourced from Bloomberg. Note: Past performance cannot be relied on as a guide to future performance.

Comparisons of FAANG+ funds/ETFs



Source: Data sourced from Bloomberg. Note: Past performance cannot be relied on as a guide to future performance.

Recap

1. Clearly, we can see that the COVID-19 infection rate ENDS (declines)
2. Market react “events are not getting any worse – and therefore may get better”
3. Assumption” out of the territory where the entire financial system appeared to be broken”
4. Chart shows how large-cap companies have performed compared to small-caps in the U.S
5. Chart shows the combined weight of the five FAMAG stocks in the S&P 500
6. Yield 10yr Bond is 0.74% (not 2%/2.5%)
7. The dividend yield on the S&P 500 is higher than US Treasury yields

Gold has a safe haven move

Golden Years Are Here Again

Gold is its highest since 2012, more than 60% up from its low

■ Gold Spot \$/Oz - Last Price



Source: Bloomberg

80% of open-ended property funds suspended as 'history keeps on repeating itself' -

All of the fund suspension notices have cited the issuance of the market uncertainty clause as a catalyst for ceasing trading, while pointing to soon-to-be implemented FCA rules that require a fund to suspend trading if material uncertainty applies to more than 20% of a fund's immovable assets.

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