Antares Insights – March 2020

Coronavirus and portfolios: We're not waiting for a vaccine

As active managers, the Antares Equities team meets every day to discuss and challenge our views on stocks and the market. It was all-hands on deck for the February reporting season (where pleasingly many of our companies had good results) but it quickly morphed into the coronavirus crisis.

As the crisis has unfolded we have changed our base case outlook for global and Australian growth and made a number of changes to our portfolios.

Pre-Virus

Before the coronavirus outbreak, we expected the global economy to accelerate into the back end of 2020 as global manufacturing data (PMIs) turned around, the US China trade war subsided and the peak of Brexit uncertainty had passed. The US economy appeared strong and globally consumer confidence appeared to have improved. Although the outlook for the Australian economy was weak, there were some positives as house prices rebounded strongly and the Reserve Bank had indicated a willingness to cut rates if needed.

Share markets were at historically extreme valuations, supported by low global interest rates. Growth stocks in particular were pushed to ever-higher multiples.

Reporting season saw generally weak results with more earnings misses than beats and an overall bias to guidance downgrades. This dampened the outlook and saw some stocks marked down, but any impact has now been overwhelmed by the outbreak of the coronavirus.

The Virus spreads – can we immunise portfolios?

The onset of the coronavirus has caused us to re-think our base case for growth. There are still many unknowns and the market has fallen by well over 10% – a lot of bad news has already been priced into the share market. And we are confident that the lower interest rate environment will persist for some time.

However, we have identified areas that we believe remain high risk including:

- Companies with suspect balance sheets (eg high debt levels) where cash flow is at risk of disruption.
- Companies where a critical supply chain may be dependent on one source and is disrupted. However, as China returns to work it is possible for a rebound in stocks that might have been sold off in this category that can show they can safely source product).
- Earnings risk in stocks which are still trading at very high price to earnings multiples.

Hence we are turning our attention to balance sheet strength, liquidity, inventory levels (stock turn) and re-financing risk. If the coronavirus persists it may bring some of these issues to the fore.

What have we done?

Essentially, across our portfolios we have introduced new stocks that have fallen materially below our valuations in the sell-off. And we have reduced others that we feel will have a more challenged operating environment given the economic slowdown or that could display some of our concerns about balance sheet strength and liquidity. Additional strategies across some portfolios have included:

- Investing some of our cash positions into stocks;
- Adding to some of the cyclical, coronavirus impacted stocks as we believe their valuations are now attractive from a long-term perspective;
- Adding non-directly impacted stocks (eg we've added Coles because its price fell despite a positive earnings result)); and
- Increasing portfolio diversity by adding a range of stocks in different sectors with different attributes given we are investing in a period of uncertainty.

With such an uncertain and fluid situation we continue to diligently monitor, analyse, and discuss news and developments for markets and companies at our daily meetings. And we continue to actively manage our portfolios, identifying opportunities that we believe best position them for long-term growth for our clients.

Important information

This document is provided by Antares Capital Partners Ltd ABN 85 066 081 114, AFSL 234483 (“ACP”) and its investment management division trading under the name of “Antares Equities”.

This information may constitute general advice. It has been prepared without taking account of individual objectives, financial situation or needs and because of that you should, before acting on the information contained in this document, consider the appropriateness of the advice having regard to your personal objectives, financial situation and needs. ACP recommends that you obtain professional advice and read any relevant available information pertaining to the information contained in this document and obtain professional independent financial advice to determine whether the information contained in this document is suitable for you and your investment needs.

You should obtain a Product Disclosure Statement (PDS) relating to the financial products mentioned in this communication issued by ACP, and consider it before making any decision about whether to acquire or continue to hold those products. A copy of the PDS is available upon request by phoning 1800 671 849 or on our website at antarescapital.com.au.

ACP is a subsidiary of the National Australia Bank Limited group of companies. An investment in any financial product offered by any member company of the National Australia Bank group of companies is not a deposit with or liability of, and is not guaranteed by National Australia Bank Limited or its subsidiaries and is subject to investment risk, including possible delays in repayment and loss of income and capital invested. This document has been prepared in good faith, where applicable, using information from sources believed to be reliable and accurate as at the time of preparation, no representation or warranty (express or implied) is given as to its accuracy, reliability or completeness (which may change without notice).

Any opinions expressed in this document constitutes ACP’s judgement at the time of issue and is subject to change. ACP believe that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made as at the time of compilation. However, no warranty is made as to their accuracy or reliability (which may change without notice) or other information contained in this communication.

Past performance is not a reliable indicator of future performance. Returns are not guaranteed and actual returns may vary from any target returns described in this document. Any projection or forward-looking statement in this document is provided for information purposes only and no representation is made as to the accuracy of such projection or that it will be met.

In some cases the information is provided to us by third parties, while it is believed that the information is accurate and reliable, the accuracy of that information is not guaranteed in any way. None of ACP, any other member or the NAB Group, or the employees or directors of the NAB Group are liable for any loss arising from any person relying on information provided by third parties. This information is directed to and prepared for Australian residents only.

ACP disclaims all responsibility and liability for any loss, claim or damage which any person may have and/or suffer as a result of any persons reliance on any information, predictions, performance data and the like contained within this document, whether the loss or damage is caused by, or as a result of any fault or negligence of ACP, it’s officers, employees, agents and/or its related bodies corporate.
.
Securities mentioned in this communication may no longer be in ACP portfolios.