
WORRY, BUT DON'T PANIC

As you know, Baillie Gifford's investment philosophy is very long term and we have been investing in this way for more than a century, so it has been tested in all sorts of turbulent times. Over the last 20 years we have experienced several global crises, each different from the last, but with the same recurring lesson – that our long-term investment horizon, our calm heads, and a supportive client base, should see our Investment Trusts and Funds emerge from the current crisis at least as robustly as they entered it.

Market backdrop

Concerns of a sharp shock to financial markets caused by a supply shut down have now spread to fears about a broad economic slowdown in 2020. Further near-term volatility in markets is likely and it remains unclear how quickly the virus will be contained.

What is interesting about this unfolding crisis compared to previous ones is that there is an extreme degree of short-term uncertainty, but there is a reasonable likelihood that the threat will have abated within six months to a year if the right measures are taken to protect people and economies. At this stage, demand is being delayed, if you like, rather than cancelled altogether.

This means that this crisis is one driven by liquidity (short-term) rather than solvency (long-term) concerns, which has been a driver of previous crises (the global financial crisis, Asian crisis). So, governments and central banks must act to keep the banking system lending. Such action is key to keeping businesses afloat during this period.

It is interesting to note that Asia, where it all began, seems to have a more coherent policy. China is an important model, where we've seen what looks so far like a short-lived dislocation, with indicators tentatively suggesting things are going back to normal. Government stimulus should also help this.

What should investors do?

The answer is, fundamentally, don't panic. If you are investing in a company on a 10-year view because you think it has got wonderful opportunities and will grow to be a multiple of its current size, you should ask yourself what's changed in the last two months? Obviously, there are all sorts of near-term challenges. About short-term growth, about how companies are operating, about doing the right thing for stakeholders, for staff, for society in general when you're confronted with a pandemic. Everyone has an obligation to respond to that in a way that's socially responsible, including ourselves. That is where we are now. However, it will not make a significant difference to whether great companies will be successful on a 10-year view.

The value of your investment and any income from it can go down as well as up and as a result your capital may be at risk. Past performance is not a guide to future returns.

What are we doing?

What we do now on the investment side will impact returns long into the future. And what we believe we should do on behalf of clients is best summed up as ‘not much’. At Baillie Gifford we have always taken the view that companies that lack financial strength – which for us generally means high levels of debt relative to cashflow – are, sooner or later, likely to experience an existential threat. Of course, we had no foreknowledge of coronavirus, but what we do know is that every so often something comes along which knocks the economy off balance for a while. Coronavirus is not the first and won’t be the last shock to the system. What’s important for a portfolio of good quality growth companies is to maintain perspective, and not to engage in the futile exercise of trying to guess what investors are going to do next as prices disconnect from fundamentals. Good companies will come through this period with opportunities intact and the wherewithal to take advantage. Not that we are complacent. We are reviewing all our holdings to make sure, in our mind, they are all still good growth companies.

Our focus for now is to continue with our long-term investment research. Where we have influence, we will encourage the companies in which we invest to stay resolutely fixed on the long term too. If anything, we expect to see some opportunities emerge to buy or increase holdings in companies that we already admire, but at temporarily depressed prices. Above all else, we won’t be acting in haste.

If you wish to find out about any of Baillie Gifford’s Investment Trusts and Funds, please visit our website at www.bailliegifford.com. Alternatively, if you wish to contact us directly, we would be delighted to hear from you. Please use the email address below.

trustenquiries@bailliegifford.com

IMPORTANT INFORMATION AND RISK FACTORS

The views expressed in this article should not be considered as advice or a recommendation to buy, sell or hold a particular investment. The article contains information and opinion on investments that does not constitute independent investment research, and is therefore not subject to the protections afforded to independent research.

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). The investments trusts managed by Baillie Gifford & Co Limited are listed UK companies and are not authorised or regulated by the Financial Conduct Authority. Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Some of the views expressed are not necessarily those of Baillie Gifford. Investment markets and conditions can change rapidly, therefore the views expressed should not be taken as statements of fact nor should reliance be placed on them when making investment decisions. Please remember that the value of a stock market investment and any income from it can fall as well as rise and investors may not get back the amount invested. Investments with exposure to overseas securities can be affected by changing stock market conditions and currency exchange rates.

All information is sourced from Baillie Gifford & Co Limited and is current unless otherwise stated.

