Clients have contacted us concerned about the coronavirus and its effects on the global economy, financial markets, and of course their individual portfolios. The Investment Committee at Zevin Asset Management hope you spare a moment of your time to read our thoughts, worries and strategy regarding this issue.

Many strategists, economists, and financial journalists have published reports forecasting the likely economic and financial market impact of the coronavirus. But the truth is, virologists, epidemiologists, and other health professionals are still in the early stages of studying this new zoonotic virus. They simply don’t know how long it will last, how far it will spread and ultimately how devastating it will be. Until scientific professionals can provide a reliable forecast of the future distribution and possible vaccine containment of this virus, it is virtually impossible to accurately predict its economic and market impacts.

That being said, at Zevin Asset Management our investment strategy aims to protect our client’s capital from serious risk. As Andrew Grove, a pioneer in semiconductor development said, “Complacency breeds failure. Only the paranoid survive.” Our investment team has a healthy paranoia towards capital loss, and our investment process is structured to be inherently non-complacent. This is accomplished by controlling for three types of risks:

1. Macroeconomic. Where are we in the global business cycle, what are the likely future paths for the cycle, and what risks do we foresee? Certain asset classes and equity sectors outperform at various stages of the cycle. Core to our process is studying the stage of the business cycle, allocating accordingly, and aiming to protect against the less likely but more negative outcomes.

2. Individual company risks. Are there any risks which can be uncovered in a company’s financial results? A central tenet in our investment process is to methodically analyze individual companies to identify high quality, stable firms with strong earnings growth prospects.

3. ESG (Environmental, Social and Governance). Are there specific countries, regions, sectors or individual companies we might be considering for investment which could be more vulnerable due to ESG infractions? If so, our process would likely exclude them from client portfolios.

So how are we minimizing volatility and protecting our clients’ assets with these three types of risks in mind?

- We have already been closely monitoring China, which has been embroiled in a two-year trade war with the U.S. From a macroeconomic perspective, it has not been an attractive country to allocate capital to. In addition, the horrific record of the Communist Party on social justice issues coupled with their pervasive control of domestic companies makes it difficult to find sustainable investments in China. So direct client exposure to China, as well as the nearby region, is currently well below that of the global ACWI benchmark. That being said, many of the companies in client portfolios are exposed to China through their global supply chains and we are monitoring these risks.
Because we see heightened risks of economic and equity market volatility given the late stage of the current business cycle, we currently hold higher than normal levels of cash and fixed-income securities in portfolios, with accordingly less in equities.

Finally, our sector allocation is similarly tilted towards being defensive. Client portfolios generally hold overweight or market weight positions in defensive sectors (telecoms, real estate, consumer staples and healthcare) and underweight positions in more cyclical sectors (technology, financials, materials and industrials).

The coronavirus is clearly causing global fear and market volatility. A drawn-out viral pandemic, while impossible to predict, would likely result in further stock market declines that we have already attempted to insulate against. But we are not complacent. Our investment team is continuously monitoring the latest news on the coronavirus, as well as general market conditions and risks, in order to act accordingly to protect clients’ investments. As well, it is worth noting that in the event the CDC (Centers for Disease Control and Prevention) recommends employees work from home to prevent the spread of this virus, Zevin Asset Management has in place emergency procedures so operations would not be interrupted.

Please don’t hesitate to contact us with any questions.

Best regards from the Investment Committee at Zevin Asset Management