WELLINGTON
MANAGEMENT®

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WELLINGTON OPPORTUNISTIC GROWTH: COVID-19 PERSPECTIVES

Any views expressed herein are those of the investment management team and based on available information through the date of this memo and are subject to change without notice.

COVID-19 AND MARKET PERSPECTIVES

Global markets have declined meaningfully in recent weeks, fueled by rising coronavirus infections globally and declining oil prices following news that OPEC talks collapsed without agreement on production cuts. Despite a meaningful fiscal and monetary response from multiple governments around the world, volatility levels remain high and markets remain under pressure. To date, COVID-19 containment efforts have proved largely unsuccessful, and the number of confirmed cases has accelerated world-wide, including within the United States. Investor concern has been exacerbated by a slow policy response by the US administration and a shortage of testing kits, access to which would enable health authorities to more accurately determine the true number of exposures and clinical cases, as well as mortality rates and the importance of co-morbid conditions. We are hopeful that a more aggressive emergency federal response will be forthcoming as testing capabilities improve and we become less reliant on epidemiological and clinical information coming from other countries. In the interim, we expect market volatility to persist as investors continue to assess the economic impact of increased travel restrictions and pervasive social distancing measures.

PORTFOLIO IMPLICATIONS

Amidst the continued volatility in the markets, we remain focused on looking for companies that can offer sustainable growth and have wide competitive moats. Given constrained liquidity conditions, we are trying to be judicious with use of turnover. Where possible, we are looking for chances to upgrade the portfolio with longer-term winners, even if in there could be some near-term uncertainty.

In our view, the probability of a fairly meaningful, sharp recession has increased due to business and factory shutdowns as the government takes extraordinary measures in an effort to mitigate the spread of the virus. While it is difficult to position the portfolio for the extreme closure scenario where all economic activity ceases, we are taking a very critical eye to leverage and in some cases, solvency, in an effort to reduce exposure to companies that would need to access the capital markets in the near term.

As it relates to portfolio positioning, we continue to have an underweight to more cyclically exposed stocks. Sector positioning remains consistent with longer term exposures—we are most notably overweight information technology (software and payments names) and underweight healthcare (pharma, biotech). On the margin, we've added exposure to information technology where we felt valuations were disconnecting with the fundamental reality. We've funded these additions with eliminations and trims of names that have either relatively outperformed, or where we have less conviction in the fundamentals in event of a prolonged economic downturn. Again, all of these has been done opportunistically given liquidity conditions, and we have also been compiling a list of potential adds/new positions.

We recognize the situation is very fluid and our opinions can and should change as facts do. We will endeavor to update you when we have something material to share about our outlook, positioning and/or research agenda.

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