



The Oil Price Rout – Monday 9th March 8am

We made a comment on the adverse moves at the end of February and in it we mentioned most corrections involve a combination of current events (Corona Virus, US elections), market fundamentals and structural issues. It was in the structural issues that we mentioned that the demise of fossil fuels was a significant background factor.

Whilst news of the virus continues, we begin Monday morning with news of a dramatic (30%) collapse in the oil price following the breakdown of OPEC talks last week. Saudi Arabia has responded by flooding the market and the motive is clear, to drive the US shale producers out of business.

As a result we have seen markets fall sharply. With oil stocks in the UK market (BP and Shell) being down about 20%, this alone will have a significant impact on stock markets, as together they are about 15% of the index. US shale companies, whilst not a large part of the equity market are a large part of the lower grade bond market, where they have borrowed money to finance their expansion, and therefore pose a credit risk to the banks.

Although the markets were volatile last week, they did not fall much further than the week before. On Friday's close, global markets were down roughly anywhere between 7 and 14% year to date, whilst our portfolios were down between 2% and 6.5%. This morning, we have seen markets have opened down 20% from their highs and this is defined as a "Bear Market", and thus grabbing more headlines and automated responses.

As ethical investors we have avoided Oil and Gas exposure and have limited exposure to large financial organisations. We are not immune as sentiment is poor with fear, and increasingly automated computer driven selling effects all shares. In the ethical world it has been public transport that has felt the pain. There will be responses from central banks and governments, we have the UK budget this week, and as we result we see the real risks being a boom into the summer as viruses die and the market readjusts for oil.

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