COVID-19

Review and update

A note from Pete Gunning, Russell Investments' Global Chief Investment Officer, on how Russell Investments is positioning its portfolios in light of recent market volatility.

The Novel Coronavirus (COVID-19) is driving historic market volatility. With crude oil prices falling to the lowest level in years and global markets in upheaval, many equity markets are at or nearing bear market territory. We understand you might have questions about how Russell Investments is navigating through the current environment.

As a global firm with offices around the world, we have not experienced any disruptions to our business. Our business is running smoothly while we take sensible precautions to keep our associates safe. Aside from the direct threat to people's health, COVID-19 is also a threat to their financial security. As always, Russell Investments remains focused on our clients' long-term investment objectives.

History has shown us corrections do happen, sometimes quickly, and we believe market volatility will likely continue in the weeks and months ahead. And while the impact on real economies and financial markets may be significant, we believe they will be transitory.

Market volatility

From the market peak on February 19 to the market close on March 10, many equity markets are down over 15%. To put this correction in perspective, equity valuations are roughly in line with where they were during the middle of last year. As we typically see in the early stages of market dislocations, the markets have largely not discriminated between companies that are relatively well-positioned to weather the storm and those that may see significant business impact. The energy and financial sectors, however, are down more than the broader market during this recent bout of volatility.

Portfolio positioning

Given the current environment, we are dynamically positioning our portfolios to manage risks and take advantage of market opportunities.

- **Strategic positioning** – Our portfolios continue to be positioned for factors we believe add value, for broad diversification in managers and positioning strategies, and with some tactical moves at the margins.

- **Fixed-income positioning** – Credit spreads have widened dramatically in recent weeks, and we have invested in attractive opportunities in certain parts of the credit markets. Ongoing volatility will likely present other opportunities in the coming months.

- **Implications of low interest rates** – Central banks appear to be moving towards a globally synchronised zero-interest-rate policy regime. That will have an impact on yield-sensitive investors and financial markets. Many investors will begin to move further out onto the risk curve. We will be watching this closely in the coming months.

- **Currency implications –** As U.S. interest rates come down, the spread between U.S. yields and yields in other markets have begun to evaporate, reducing demand for the U.S. dollar. Continued dollar weakening could have a significant impact on currency markets.

- **Rebalancing –** Where appropriate, we have rebalanced portfolios to move back to strategic targets--as asset class mixes often get out of alignment during periods of extreme volatility.

- **Volatility and risk budgeting –** At the portfolio management level, significant volatility becomes a risk budgeting exercise. There will be opportunities to take some risk with the expectation that you will get paid, and we will selectively take advantage of these dynamics.

Over the past 84 years, Russell Investments has helped its clients manage through numerous market cycles, disruptions and volatility. Simply put, we are not distracted by short-term market dislocations. As prudent stewards of client capital, our primary focus and consideration remains the same: meeting your long-term investment objectives.

If you have additional questions regarding current positioning in your Russell Investments portfolios, or if you would like more details on our business continuity program and the precautionary measures we've taken to date, please reach out to your relationship manager.