COVID-19 Facts and Market Update
13th March 2020

Financial markets have been sold off heavily since the end of February firstly in response to the Coronavirus (COVID-19) and then in response to an unexpected breakdown in the relationship between Saudi Arabia and Russia which caused oil prices to fall substantially. In the last week markets began to focus on COVID-19 again as the incidence and rate of spread was higher than previously anticipated. The current news cycle is overwhelming. Taking the time to remain calm and rational, whilst extremely difficult, is vital.

The disruption is likely to last for a few months yet as markets remain nervous in such uncertain times. The scale of financial market moves in response to the COVID-19 outbreak has been reminiscent of the global financial crisis, however the economic data whilst likely to slow for the remainder of 2020, suggests that the global economy is on more solid footing and very importantly, the financial system is much more robust than it was going into the crisis of 2008.

We don't believe that the COVID-19 spread needs to be an expansion-ending event. Australia has enjoyed 28 years of uninterrupted annual economic growth which, whilst tested with drought and fires recently could continue despite the increasing incidence of the virus. To avert a sharp slowdown, we need to see a concerted, coordinated and pre-emptive response on both fiscal and monetary policy. Monetary policy should be focused on supporting the functioning of financial markets while fiscal policy should be concentrating on supporting households and companies. A level of co-ordination between both is required for optimal outcomes. To this end it is timely that the government's $11 billion stimulus package in the next three months, reaching $18 billion by the middle of next year was announced yesterday and the Reserve Bank of Australia decreased the official cash rate last week. The speed of the fiscal stimulus is welcome but only time will tell if the amount is sufficient because the threat from the virus has been rising rapidly and we don't know how much damage it is set to wreak. The good news is that the government has left the door open to an even bigger stimulus package if needed.

Other countries are also stimulating their economies. The UK announced a $58.4 billion infrastructure package and the Bank of England lowered the cash rate by 0.50%. The US, whilst a laggard, is deferring taxes and considering other measures to combat the potential slowdown. China is starting to get back to work as Coronavirus rates are slowing.

Australian and international shares have been sold indiscriminately in the past week as the panic over the virus, which may lead to recession, has spread. The current situation is extremely fluid, and we are monitoring the virus containment activities globally as well as corporate profits and credit markets. Notwithstanding our vigilance, we acknowledge we are not virus experts or epidemiologists. The selloff in share markets seems overdone and whilst valuations were stretched in February, they now seem cheap. Another positive outcome will come from the fall in the oil price. Interestingly, it has resulted in cheaper petrol prices and will ultimately lead to greater consumption potential as we save money at the bowsers.

The strong run in markets in the last year means the current pullback is exceptionally uncomfortable. A lot of investors have been squeezed into equities by low interest rates. Some of this money is coming out of markets and it is always difficult to predict the bottom while fear has taken hold. We do not know if markets will turn around in the short term. However, our investment philosophy remains focused on the long term and on achieving investor outcomes through a broad asset classes and well diversified portfolios. We focus on maintaining a good cash reserve particularly for retirees so that they do not have to sell down shares and property in adverse times such as these.

Emmanuel Calligeris
Chairman, Investment Committee

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