COVID-19 Facts and Market Update

31st March 2020

Events surrounding the COVID-19 pandemic continue to evolve quickly and furiously. As has been well broadcast, borders have closed around the world, public events cancelled and millions of people forced to isolate at home. The COVID-19 panic is causing a level of market volatility rarely seen before. The financial markets have had a tough time understanding the magnitude of depth of the problem and are now analysing the adequacy of the compensation by central banks and governments. As we have seen many industries are being affected with tourism particularly hard hit, so too education, hospitality, retail and the entertainment sectors.

Central banks around the world, including the Reserve Bank of Australia, have reacted rapidly and decisively to the crisis. They have unleashed massive stimulus programmes effectively doing "whatever it takes" to bridge the gap for companies whose revenue and profits have essentially evaporated. Economic activity is collapsing because of the contraction that government-ordered lockdowns and restrictions on public activity aimed at controlling the spread of the virus is having. The nosedive in activity has been accelerated by warnings from health officials along with fear and anxiety fostered by the daily reporting on the spread of the virus and by announcements of the shutdowns themselves.

The severity and speed of the demand shock is large, and the policy reaction has been the right one. There is no doubt that recession will be recorded around the world by the second quarter of 2020 however we are now faced with the question of whether this is going to be a V-Shaped recovery or a U-Shaped recovery? Unemployment rates around the world are likely to record very large increases. In Australia, some estimates of the unemployment rate see it recording over 10% from the current 5.1% level. Although the rise is likely to be temporary, it will be interesting to see whether the rate falls just as fast as it rises. The Covid-19 induced recession could last longer than financial markets currently expect. It is too early to tell.

The latest data (as at 29 March 2020) from the World Health Organisation (WHO) showed the number of confirmed cases was 638,146 across 202 countries, with the US now surpassing China and Italy as the most cases worldwide. In the U.S., the number of confirmed cases rose to 137,294 and total deaths increased to 2,414, with at least 20 states with more than 1,000 known cases within their borders. New York remains the hardest hit, with 59,513 total cases, an increase of over 7,000 yesterday and recorded the largest number of deaths in a day with 237, taking the total to 965. President Trump considered a mandatory quarantine for the New York City area over the weekend, however, decided against such measures.

In Australia, the total number of cases rose to 3,980, an increase of 9.5%, with the daily rate of transmission halving in recent days, however there are still concerns on the number of community transmission, particularly in NSW. As at 29th March 2020, NSW reported 127 new cases, a much lower number than the 174 on the 28th. Prime Minister Morrison announced stricter rules on outside gatherings limiting them to two people, urged people over 70 or with a chronic illness over 60 to stay home and a moratorium on evictions from rental properties for six months on the basis of 'financial stress'.

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Emmanuel Calligeris
Chairman, Investment Committee

Financial markets are extremely complex at the best of times. This is one of the most complex times to navigate markets ever. If the tentative signs of the "flattening of the curve" in Australia is indeed occurring coupled with the very large policy response, markets may begin to settle. As we have mentioned in our updates, the Investment Committee warned that markets were becoming expensive when it broke the record high just over a month ago and it was a good time for clients in CARE or using a bucket strategy to top up their cash reserves. We have not shifted from our view on recommending our clients remain calm and invested. Considering the substantial corrections, we have already seen in the market, it seems appropriate that cash be deployed as some value has been restored. We maintain our Investment Philosophy consistent with our process and look to rebalance the growth assets within the portfolios back to benchmark being wary that volatility will remain high in the near term.

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