23 APRIL 2020

COVID-19 & MARKET UPDATE

WHERE ARE WE AT?

We're now two months into the new reality of life with COVID-19. Here are some updated thoughts and what this means for you.

WHAT IS DRIVING MARKETS/VOLATILITY?

Following a dramatic sell-off that commenced at the end of February, markets bottomed around mid-March. Since then, markets have recovered nearly 20%. Markets have been known to overreact and factor in worse case scenarios until clearer information becomes available so It is not unusual for shares to recover well ahead of more positive news flows, particularly as uncertainty dissipates.Part of the recovery has been in response to massive government stimulus spending and Monetary Policy (Interest Rate Cuts & Quantitative Easing) over the last few weeks aimed at cushioning the coronavirus impact on economies. So have we already seen the low for shares? It's difficult to determine as there is still potential for further developments with the virus, and we don't know how long the shutdown will last.

GOVERNMENT STIMULUS PACKAGES – ARE THEY HELPING?

Record low-interest rates and an easing of lending regulations have been accompanied by several waves of fiscal stimulus by the federal and state governments. On the whole, these moves should support business investment and cash flows, while also assisting households and individuals during these difficult times. The JobKeeper wage subsidy scheme, along with tax breaks and temporary changes to super laws relating to withdrawals during hardship, should all help to ease the economic burden many Australians are now facing.

RECESSION OR DEPRESSION?

THE CURRENT CONTRACTION IS QUITE DIFFERENT TO 1929

Many commentators are trying to grab headlines by suggesting Australia is at the beginning of a prolonged recession, drawing comparisons with the Great Depression that preceded the Second World War. While we are expecting a sharp decline in activity for the near term until the virus related restrictions are eased, government policy has come a long way since the 1930s and theyhave done the opposite in terms of Stimulus Packages and Monetary Policy, today – thus the links to a Depression could be in the company of scaremongering.

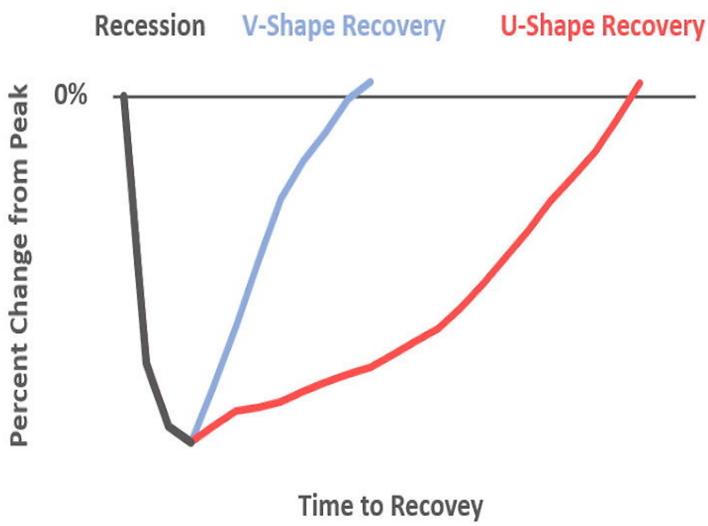
WHAT DOES THIS MEAN FOR YOUR SUPER/INVESTMENTS?

DECLINE IN NEW CASES AND EASING OF SOCIAL RESTRICTIONS:

We see this as one of the key catalysts that will begin the recovery process as it will allow segments of the economy back to work. How long this takes will have a great impact on whether economies recover quickly (V Shaped) or slowly and gradual (U shaped). To date, Australia has had outstanding success in stopping the spread of the virus. This places us in the enviable position of being able to slowly relax restrictions. While some of the travel and social distancing measures may have appeared draconian in nature, these have protected our healthcare system and its workers from being overwhelmed. By avoiding worst-case scenarios, such as what took place in parts of Europe and the US, domestic measures of confidence and sentiment have already shown signs of improvement. This augurs well for the eventual path to recovery.

U SHAPED OR V SHAPED RECOVERY:

Because the coronavirus shutdown has created such a big hit to economic activity that will take a while to fully recover from, low-interest rates and easy monetary policy will likely be with us for a long time to come. As investors eventually lock onto a more positive growth outlook, this will be positive for growth assets like shares.



SUMMARY

While markets are still some way off their February highs, if history is anything to go by, it is reasonable to expect that these levels will eventually be exceeded over the medium to long term. That's not to say that it won't be a bumpy ride! One of the benefits of well-constructed, diversified portfolios, across various asset classes, is that this can leave you better positioned to ride out unexpected and unforeseen risks, while continuing to deliver reasonable, risk-adjusted returns over a multi-year horizon.