

# Market & Economic Update

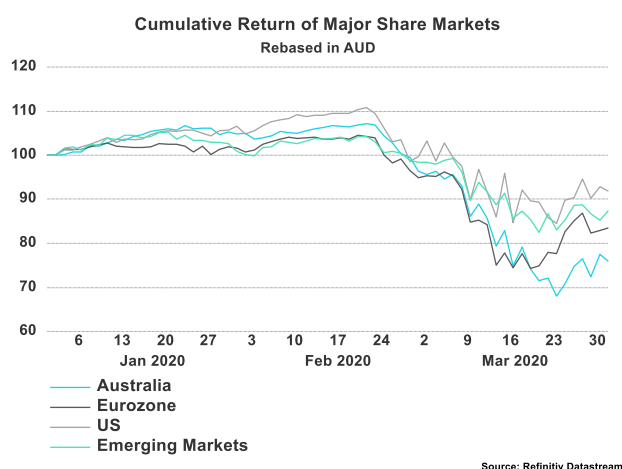
March 2020 Quarter

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## Markets in review

This quarter ending 31 March was extremely volatile for global equity markets. After reaching all-time highs in early February, equity markets across the globe began to price in the impacts of the Coronavirus (COVID-19) and fell sharply. All major markets fell rapidly in excess of 20%, constituting a bear market. It took 15 trading days to reach this 'bear market' in Australia. This meant that the longest bull market in history has now ended (2009-2020).<sup>1</sup>

Stock markets in Australia (S&P/ASX 200), The United States (S&P 500) and Europe (EURO STOXX) plummeted by 36%, 24% and 29% respectively at their lows, priced in Australian Dollars.<sup>2</sup> Markets finished the quarter bouncing off the lows, however the volatility in the current market means large directional changes can be expected to occur very suddenly.

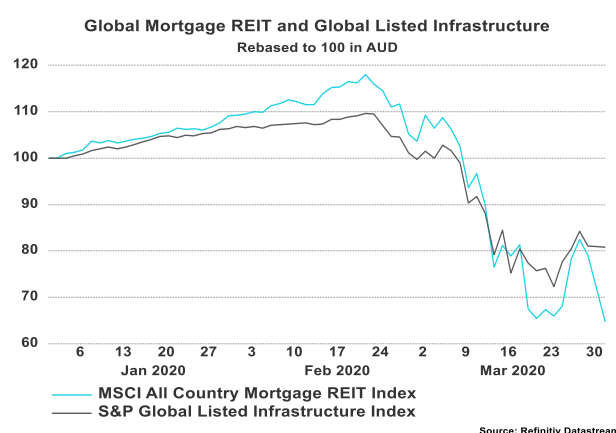


Source: Refinitiv

## Impact on sectors

The nature of this market environment is unique as there is an indiscriminate lockdown on most economic and social activity in society. Many

asset classes have been impacted. This includes real estate and infrastructure as businesses have been severely affected by the emptying of hotels, shopping centres and industrial complexes due to the introduction of social distancing laws. As well as this commercial impact, the threat of increased unemployment means increases in mortgage defaults are being priced into Mortgage Real Estate Investment Trusts (REITs). The impact of these lockdowns on the price of listed securities in these sectors can be seen in the graph below.



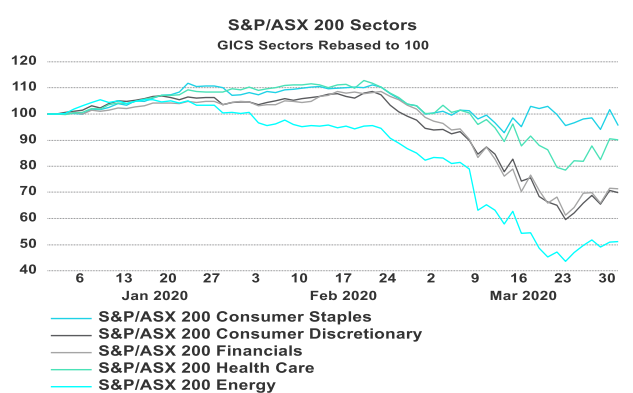
Source: Refinitiv

There has been significant downward pressure on sectors such as consumer discretionary, energy (as mentioned in the [last update](#) regarding oil prices) and financials. Retailers have been hit hard by the enforced social distancing rules and even those still trading have seen customer numbers plummet. Online retail has been a bright spot for those companies with an online presence as individuals turn to internet shopping during the lockdown. Banks have been hit hard as the large increase in unemployment is expected to cause mortgage stress and many small businesses who have been forced to close will struggle to meet loan repayments.

<sup>1</sup> Sydney Morning Herald

<sup>2</sup> Refinitiv

Conversely, a number of sectors have held up well including consumer staples and healthcare being the biggest relative winners. With restaurants, cafes and hotels closed across the country for an indefinite period of time, consumers spending in supermarkets has been much higher than usual as people are purchasing food to cook at home. In addition to this, the panic buying of non-perishable food items, cleaning products and toilet paper which has been occurring in recent months has also made a big positive contribution to the supermarket sales.



Source: Refinitiv Datastream

Source: Refinitiv

The chart above illustrates the striking performance divergence of ~25% between the consumer staples and consumer discretionary sectors and highlights the impacts on current consumer spending.<sup>3</sup>

## Outlook and portfolios

The magnitude and length of the economic downturn in Australia and around the world is highly uncertain. The measures being taken by governments to shut down large sectors of the economy in order to manage the pandemic crisis have been deliberate and are unprecedented. We

expect the extreme volatility in financial markets to continue until there are signs that the spread of the Coronavirus is being managed across the globe. This will provide greater clarity around the true economic impact of the shut down measures which have been imposed by governments around the world.

It is vital at this time of extreme market volatility and uncertainty that investors focus on the investment horizon which is relevant for their own personal circumstances and financial requirements. The worst thing that a client can do after a large equity market fall is to lock in losses by selling their equity exposure, if they don't require the assets to fund their living expenses.

The importance of diversification across different asset classes cannot be emphasized enough. Different types of assets, such as stocks and bonds, are expected to perform differently under different market conditions and economic scenarios. Combining these different types of assets into one portfolio is one of the most effective ways to reduce volatility and experience a smoother ride.

Timing the market is extremely difficult and we don't recommend trying to predict the future movement of the market and buying and selling accordingly. We instead recommend retaining the stock market exposure and focus on identifying high quality managers with appropriate investment styles.

<sup>3</sup> Refinitiv

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