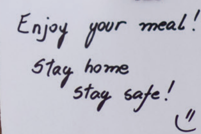
FORSYTH BARR

FOCUS

SPECIAL REPORT

FRIDAY 1 MAY 2020



The gang's all here: "Mr Market", "Tina" and "FOMO"

Well, for most of us it's been a unique month. We've been isolated within our bubbles, maybe socialising over Zoom, binge-watching Netflix, home-schooling the kids, or (by the looks of it) desperately craving takeaways. And, if you hadn't noticed, equity markets had their strongest month in over 33 years.

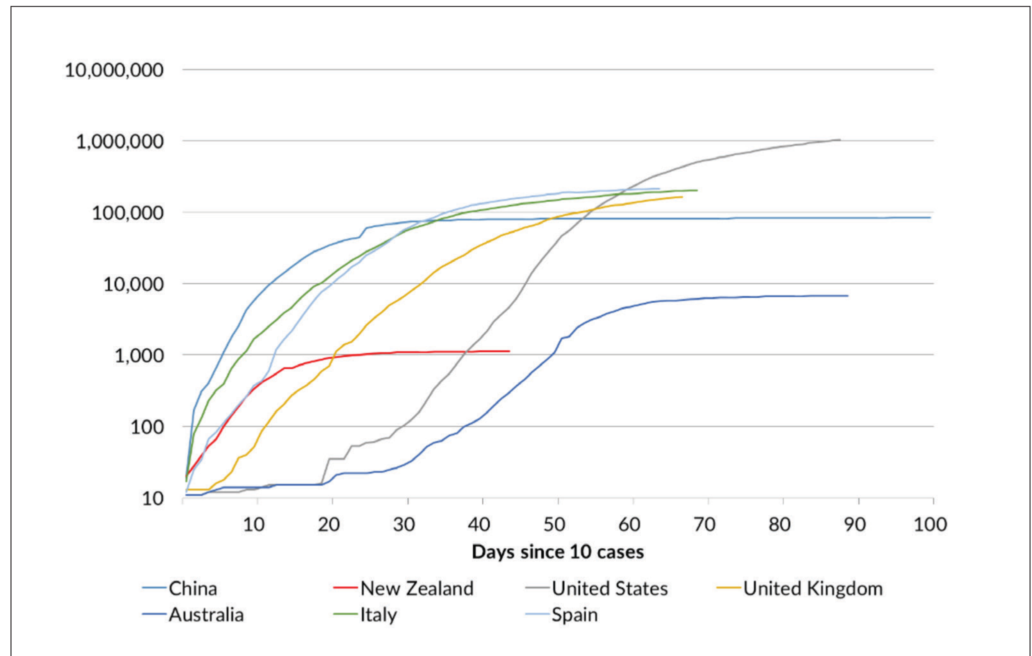
Greed to fear and back to greed

So why have markets bounced?

Markets oscillate between greed and fear. The legendary "Father of Value Investing" Benjamin Graham, introduced the idea of "Mr Market". Mr Market is an imaginary highly emotional investor whose mood swings between euphoria, apathy, and panic. When Mr Market is optimistic, and focussed on the positives, he's willing to pay a high price for stocks. But when Mr Market's mood sours, negative thoughts dominate his thinking and he wants out of his stocks, no matter what the price.

In the past month, Mr Market's disposition has become distinctly more positive. The COVID-19 data has helped. Lockdown measures have been effective in containing the virus's spread, and a number of countries are starting to ease restraints.

COVID-19 cases: Lockdown measures have worked



Source: WHO, Forsyth Barr analysis

Remember Tina?

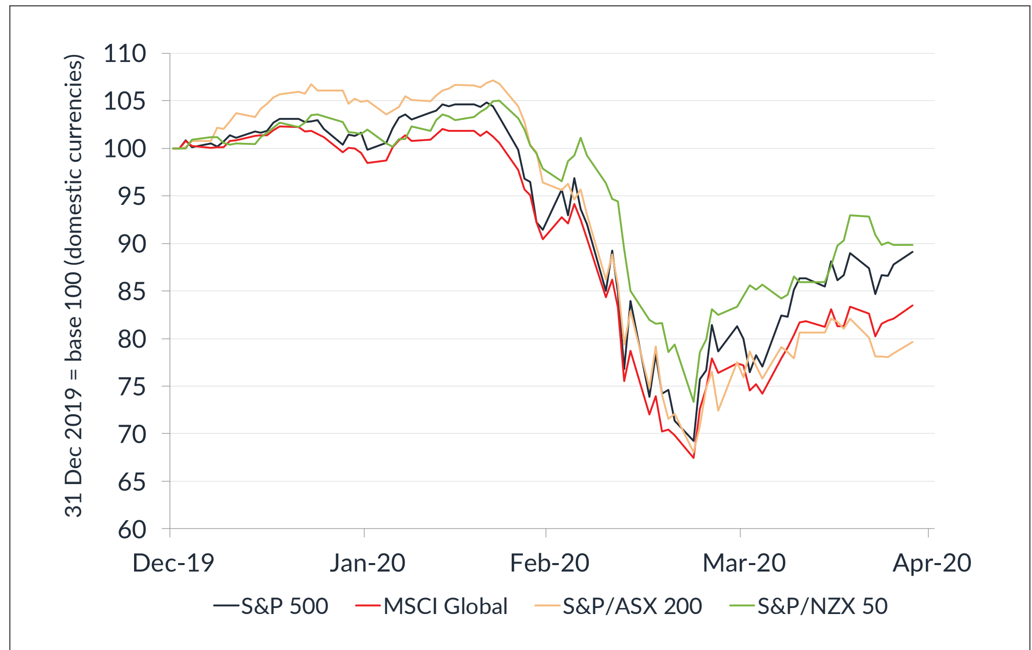
We've previously introduced "Tina". Tina is shorthand for, in a world of ultralow interest rates (and low returns from bonds and term deposits), "there is no alternative" (for some investors) to equities, to generate an acceptable investment return.

We suspect Tina has helped spur the mood of Mr Market. A few investors looked at the returns on offer from hibernating in cash or bonds and said "no thanks". Markets started to rally. Fear of missing out (or "FOMO") kicked-in and other investors followed, not wanting to be left behind.

US and New Zealand markets leading the pack (again)

After the fastest bear market in history, in which the US market dropped -34% in 33 days, it has rebounded just as quickly. The S&P 500 index has jumped +30% over the last 38 days, to be -14% below its all-time high. The New Zealand market moves have been similar, down -30% at the peak, to be only -13% now. Australia has lagged, falling -36% at the peak, and remains down -22% currently.

Stock market indices year to date

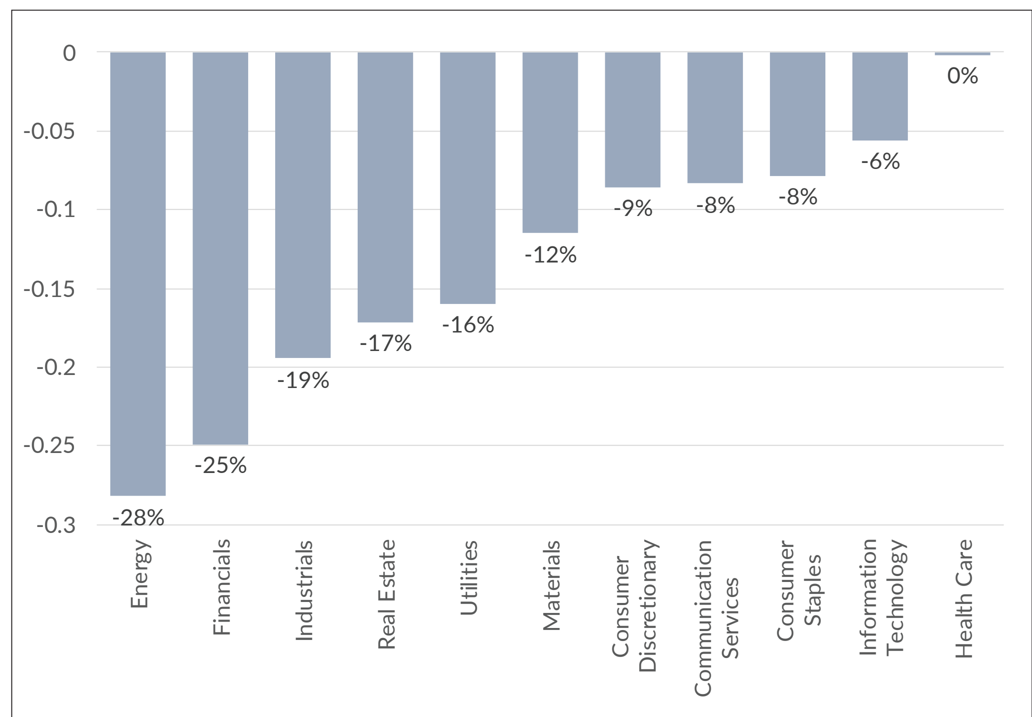


Source: Thompson Reuters, Forsyth Barr analysis

It would be nice to "pat ourselves on the back" and say New Zealand's outperformance reflects how well we've managed COVID, or the positive outlook for the economy. In reality, it reflects the defensive nature of many of the leading companies on our market. Healthcare companies like Fisher & Paykel and EBOS, consumer staples such a2 Milk, electricity utilities, and telecommunications are all likely to be more resilient through an economic downturn than most.

The US market is similarly defensive, dominated by large technology companies like Microsoft, Amazon, Alphabet (Google), and consumer staples like Johnson & Johnson, Walmart, and Procter & Gamble. More cyclical sectors - like energy, financials, and industrials - that are more exposed to the level of economic activity have lagged.

Defensive sectors have outperformed: Global equities sector returns since 1 February



Source: Thompson Reuters, Forsyth Barr analysis

Important reminders for investors

The performance of markets over the past few months provides important reminders for investors.

Mr Market's mood can quickly shift from negative to positive (or vice versa). This could quite possibly happen again soon. History tells us pandemics often hit in second waves when lockdown measures are lifted. Singapore, initially lauded for controlling the virus, has seen a surge in cases through April after restrictions were eased. Or perhaps markets might react when the damage lockdowns have done to economies and company earnings becomes more visible?

But it's extremely difficult to time markets. We don't believe it's possible to consistently time or predict short-term movements. As famed fund manager Peter Lynch said, "I can't recall ever once having seen the name of a market-timer on the list of the richest people in the world. If it were truly possible to predict corrections, you'd think somebody would have made billions by doing it."

The math is stark. If you put $100 in the S&P 500 index on 1 January 1990, today you'd have $1,470, a healthy return of 9.5% per annum. But if you missed just the 10 best days over this 7,914 day period, today you'd only have $620! The risk is clear. Often the best days are when the outlook still seems bleak. If you're looking to time markets, you need to do it almost perfectly.

We all prefer positive news over negative. Investors generally feel better when markets go up, and it can be disconcerting when they go down. But the past two months are a clear reminder for investors. Volatility will always be a feature of markets. The key is managing your response to it. Your Forsyth Barr investment adviser, with the support of our research team, is available to provide you with ongoing advice on how best to manage market conditions to meet your investment objectives.

Matt Henry
Head of Wealth Management Research

We have begun producing short videos to provide snapshots on key market topics. These will include regular market updates, along with analysis of individual stocks and sectors (this week, including updates on Ryman Healthcare and a2 Milk). You can find these video updates in the Research Video insights section of the Forsyth Barr website: https://www.forsythbarr.co.nz/research-library/research-video-insights

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