

focus



Does anyone in financial markets
care about Covid anymore?

Looking at the performance of
the US sharemarket, one could
be forgiven for thinking not

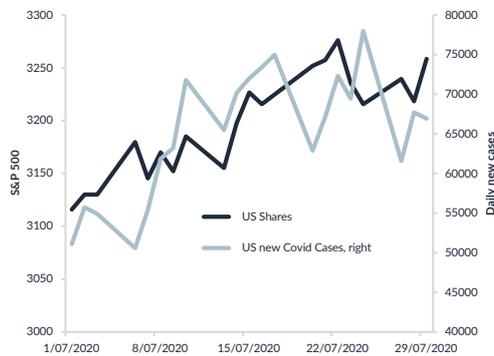


**...are investors
blithely disregarding
the Covid threat?...**

Daily new cases in the US grew by around 20,000 in July. Over the same period the US sharemarket rose around 5% (below).

This odd couple of rising virus cases and rising markets stands in contrast to March. Then, a similar jump in the daily cases saw the US sharemarket around 13% lower for the month.

An Odd Couple

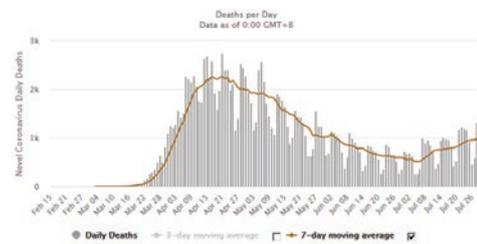


Source: Worldometer, Datastream, Forsyth Barr Analysis

So are investors blithely disregarding the Covid threat? We don't think so. There are a number of reasons why the infection count has become less relevant for investors:

Twice, halved, roughly. The US is experiencing about twice the number of new daily cases relative to the prior peak seen in April. However the number of deaths associated with Covid has roughly halved (below).

Daily New Deaths in the United States



Source: Worldometer



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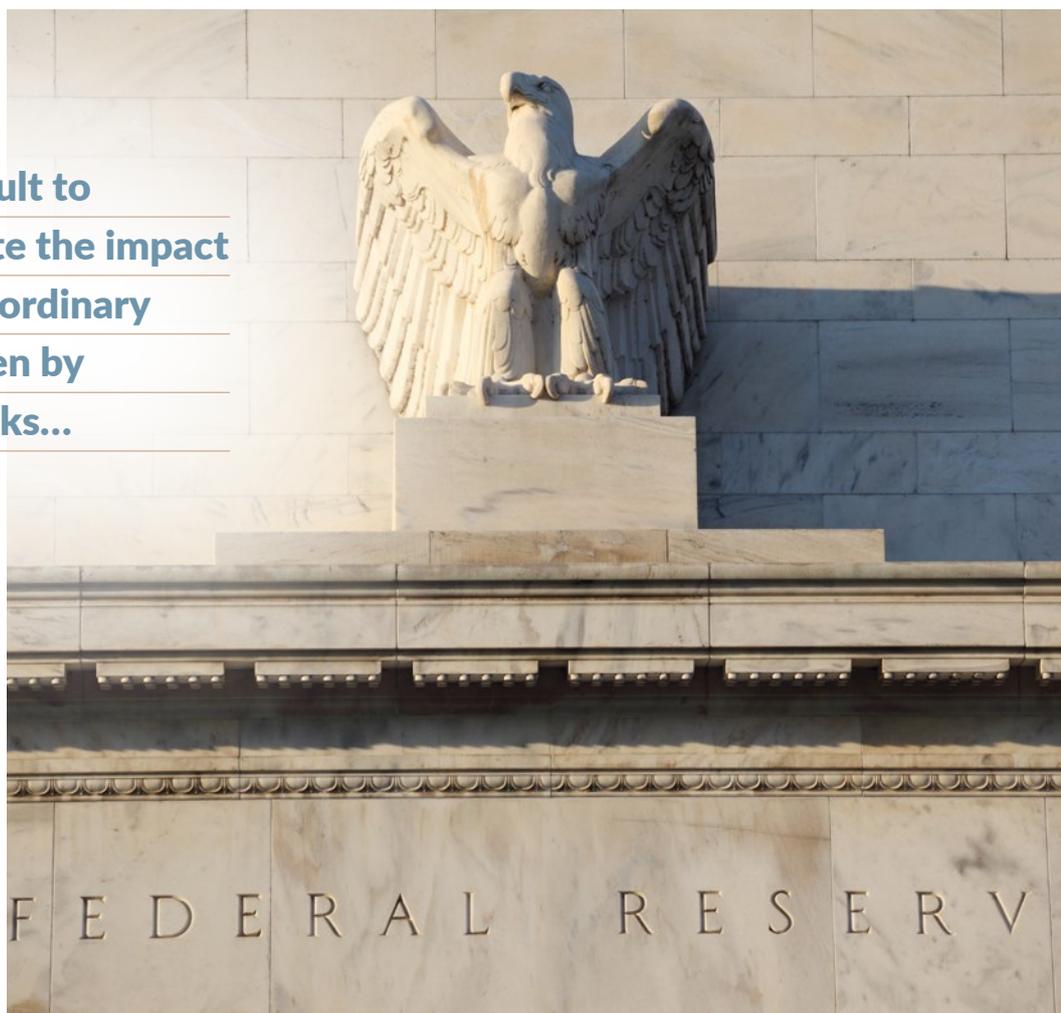
Investors fear Covid, but they fear lockdowns more. US GDP for the June quarter was reported Friday. This showed a decline of 33% at an annual rate – a postwar low. Lockdowns are devastating for the economy. However, while deaths remain well below prior highs, the prospect of fresh Lockdowns seems remote. Arguably masks are the new Lockdown, with over half of US States imposing some sort of mask wearing requirement. But clearly this is far less of a threat to economic activity.

Vaccines. We spoke of the hunt for a vaccine in our last Focus. The news here continues to be broadly positive. Johnson & Johnson has joined the queue of companies reporting promising signs from their vaccine candidate.

Friendly bankers. We believe the most important driver of markets over recent months has been central banks generally, and the Federal Reserve in particular. Indeed, since the Fed pledged unlimited support to the economy on March 23, the S&P 500 has risen almost 50%. This attitude was reinforced in early June with Chair Powell saying: "...we're not even thinking about thinking about raising rates".

Amazin' Earnings. While many companies' earnings were negatively impacted in the June quarter, some companies, particularly in the Technology and Healthcare sectors have, if anything, benefitted. Friday, for example, Amazon reported a doubling of earnings versus the same quarter in 2019.

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So are we out of the Covid woods? Possibly - we certainly believe case counts tell only part of the story for investors.

To be sure, the world economy has challenges ahead. Covid related deaths are picking up. A US election awaits in November – one that promises to be bitterly fought. The global economic recovery may prove stop-start as states and countries deal with Covid flare-ups.

All that said, we believe it is difficult to overestimate the impact of the extraordinary actions taken by Central Banks. Accordingly the bar for Covid driving sentiment as it did a few months ago is high.

Understanding that sudden changes in financial markets can cause concern or indicate opportunity, your Forsyth Barr Investment Adviser is available to provide you with advice and assistance at any time.



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