

FOCUS

SPECIAL REPORT

FRIDAY 13 MARCH 2020



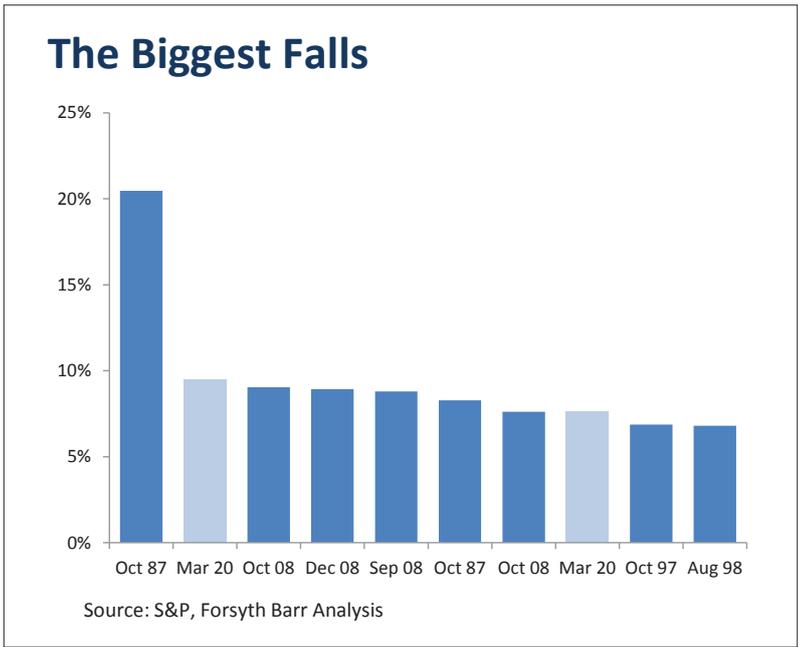
Trials and Tribulations

The novel coronavirus that began in Wuhan in December (Covid-19) lit the fuse of fear that finally ended the 2009-2020 bull market – the longest in history.

The bull market that began with a whimper has ended with a bang. On Thursday night the United States equity market spent a good portion of the trading day in freefall. The United States market ended 9.5% lower. A travel ban by President Trump on continental Europe was the proximate cause of the decline. However anxiety had been building steadily, not helped by a collapse of the Russian détente with OPEC (the Organisation of the Petroleum Exporting Countries) last weekend that sparked a dramatic drop in oil prices.

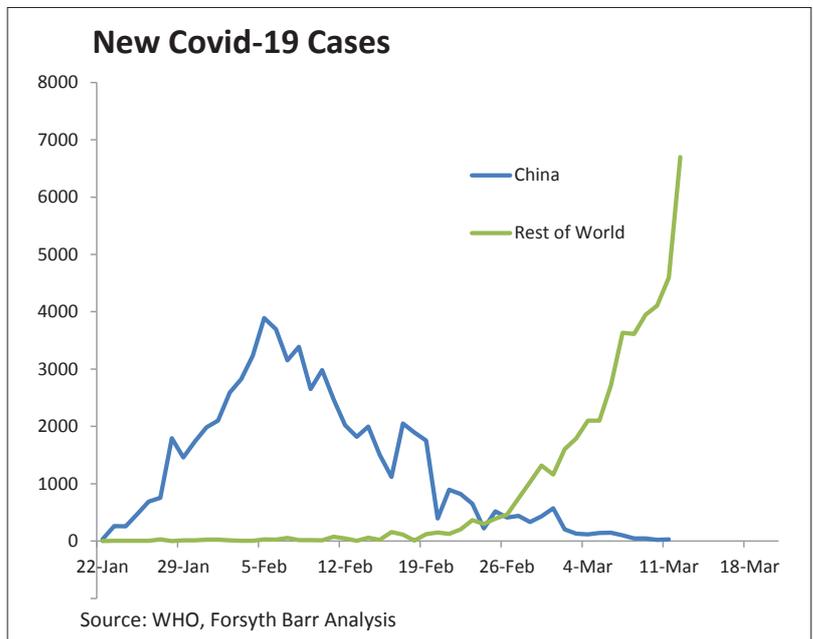
The New Zealand sharemarket has fallen in sympathy, as it normally does after offshore turbulence.

Days like this always feel unprecedented. Thus a historical lens is useful. The decline in the United States market is the second biggest in the last 50 years, still somewhat dwarfed by the 1987 Crash.



The decline this week has been abrupt, but unfortunately sharemarkets periodically swoon dramatically. Thursday's decline and the 7.6% drop a few days earlier, are two of the ten biggest falls since 1970. While significant, it is also a reminder that financial markets are a mirror of the world we live in. The biggest declines incorporate the Global Financial Crisis (four of the ten largest falls), the '87 Crash, the 1998 Russian debt default and the 1997 Asian Crisis. Many more stumbles reflect innumerable other geopolitical events over our lifetimes – oil shocks, the Gulf War, Brexit and the European Debt Crisis.

The bulk of market troubles still relate to the Covid-19 outbreak (now labelled a pandemic by the World Health Organisation). Accordingly relief will probably need to come from this source. The news here is mixed. The virus has spread rapidly in Europe, Iran and the United States, with new cases rising sharply (below). Against that, China appears to have the virus under control, with new cases dwindling into insignificance. While many question the veracity of Chinese official statistics, the trend is clear. By all accounts, China's economy is already recovering. In that respect China's playbook of quarantine, social-distancing and travel restrictions is an illustration of how to manage the outbreak.



So what are we watching for now? There are several channels that we will monitor on behalf of our clients.

1. **The progression of the virus.** New cases peaked after around a month in China with a swift, coordinated response. The peak will likely be larger and later in the rest of the world, with more sporadic measures.
2. **Central Banks.** Cutting interest rates has no medical benefit. Nonetheless, Central Banks will play an important role in minimising the collateral damage of business shutdowns, travel bans and tourism cessation. We expect the United States Federal Reserve (the Fed), possibly in conjunction with other Central Banks, to seek new ways to provide relief to the economy. The Fed meets next Thursday, New Zealand time.
3. **Governments.** The response from Governments thus far has largely focused on stemming the spread of the virus. This likely culminated in the Trump travel ban on Europe. From here, Governments will reach for the chequebook to help the economy. The United States again will be a focus. This is complicated by the election year, but it behoves neither party to be seen sabotaging rescue spending. We expect to see a steady stream of measures - but it will be a noisy process and we would not rule out brinkmanship by either Democrats or Republicans.

So how should we as investors behave through this turbulence?

Notwithstanding the mutation in the Covid-19 sell-off into something more complicated, our core message remains one of staying the course. Our judgment and experience suggest not reacting to this volatility, indeed it can easily do more harm than good.

Well-constructed portfolios are built to ride through tough markets. We reiterate: the value of a company is not determined by next quarter's earnings, but the next 40 quarters or more. Accordingly the best defence to uncertain events is to own sound, profitable businesses over the long-haul. The Forsyth Barr Investment Committee remains comfortable with a broad, long-term exposure to a range of carefully selected shares.

Volatile market conditions are unsettling, yet investors with clearly defined investment objectives are well-placed to manage investment uncertainty. As circumstances evolve from here, we will continue to research opportunities which have the potential to reward investors, as market sentiment improves. Your Forsyth Barr Investment Adviser, supported by the resources of our research team, is available at any time to provide you with further assistance, if needed.



Bernard Doyle
Strategic Adviser Wealth Management



Kevin Stirrat
Director/ Strategy, Wealth Management Research