

# FOCUS

**SPECIAL REPORT**

**FRIDAY 20 MARCH 2020**



## Understandable anxiety

For the vast majority of people the current COVID-19 crisis is unprecedented. The human and societal impacts are sobering.

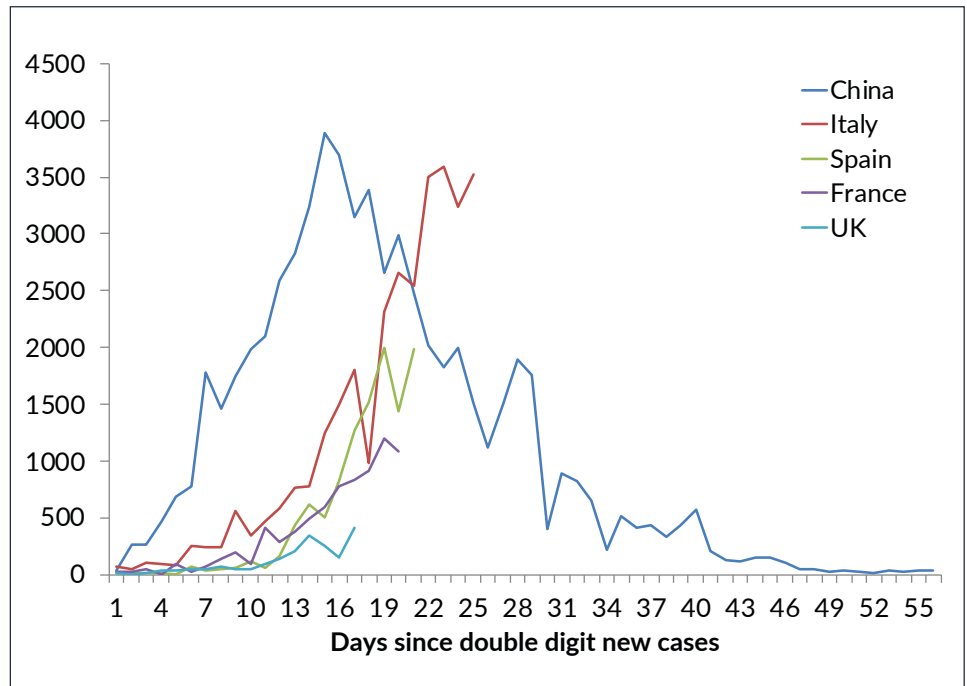
Financial market volatility has remained extreme. Investor anxiety at such a time is entirely understandable. And it is human nature to want to seek safety. History firmly underlines that acting on these instincts is detrimental to long-term investment returns.

### **COVID-19: Fast moving and uncertain**

The COVID-19 situation is both fast moving and uncertain. It rapidly shifted from an outbreak in China where the principal economic concern was the impact of Chinese manufacturer shutdowns on the rest of the world, to a global pandemic.

Countries like China, South Korea and Singapore have shown that through vigilant quarantining, social-distancing and travel restrictions it is possible to contain the virus within a relatively short few-month window. Some are sceptical of the accuracy of the Chinese data, but our discussions with a wide range of New Zealand companies suggest China's supply chains have opened for both exporters and importers. Data suggests the Chinese economy is back operating at over 80% of pre-crisis levels.

## New COVID-19 cases



Source: WHO, Forsyth Barr Analysis

It is unknown whether other countries have acted quickly and emphatically enough to contain, or at least slow, the virus' spread. The extreme measures now being taken mean a shutdown of much of the global economy for at least the next 2 to 3 months, or maybe much longer.

## Policymakers pulling out the “bazookas”

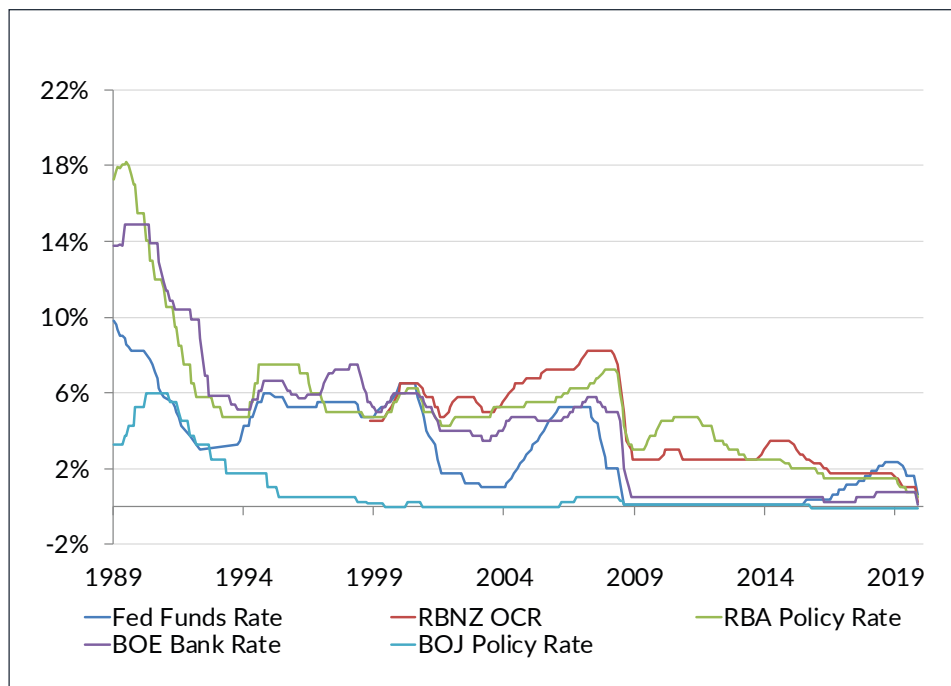
The resilience of the global economy and the pace of recovery once the crisis has passed will depend upon the scale and, more importantly, the effectiveness of the policy response. Governments and central banks are responding emphatically.

In the last week the United States Federal Reserve dropped the Fed Funds Rate 100 basis points to 0% (back to Global Financial Crisis levels) and announced US\$700 million of QE (quantitative easing or the purchasing of government bonds or other securities). The United States government has proposed a US\$1 trillion stimulus package. The German finance minister said Germany will “deploy a bazooka” to combat the crisis. Other major countries such as China, Japan, the United Kingdom, France, and Australia are responding with force.

In New Zealand the Reserve Bank cut the Official Cash Rate from 1.0% to 0.25%, and government announced a NZ\$12 billion package including wage subsidies aimed at small and medium sized businesses, increased benefit payments, and business tax support. More is to come. Fortunately, the health of the New Zealand government balance sheet means the country is well positioned to respond.



## Central bank cash interest rates



Source: Thomson Reuters Eikon

In the near term, when consumers have been forced to hibernate in their homes, there is little policymakers can do stimulate spending. Sadly, such a large demand shock will mean some businesses will fail and people will lose jobs. However, once the virus is brought under control, the massive amount of monetary and fiscal stimulus, together with pent-up demand, could drive a strong rebound in global economic activity and company earnings. These strategies worked after the 9/11 terrorist attacks and worked after the Global Financial Crisis.

## Mankind and markets are resilient

**COVID-19 is a crisis, but it's not the first crisis mankind has faced. Today we're in the 11th bear market (a 20% of greater decline in equity prices) since 1950. On each of these occasions the risk of remaining in the market seemed immense. Ahead of time no one can tell you for certain when or where the bottom will be, but on every occasion mankind and the economy has proved resilient.**

In times of crisis, the risk for an investor is inevitably that the pressure of a market downturn becomes too great. Some sell, crystallising the fall in asset prices, and in doing so exclude themselves from the recovery, once the crisis is shown to be under control. Having and sticking to an investment plan with clear objectives is the best measure to counter this human instinct. Conversely, indiscriminate market selling creates opportunities for investors to acquire quality assets at more favourable prices, which will benefit portfolio returns over the longer term.

At Forsyth Barr we deeply feel the responsibility and trust our clients put in us to manage their assets, particularly during such turbulent times. Our goal is to build and manage investment portfolios that will endure and build wealth over the long term. Unfortunately, extreme events impact markets. These are not pleasant. But they do not last forever. We are working to best navigate the current environment and find opportunities that will benefit portfolios in the years ahead. Your Forsyth Barr Investment Adviser, supported by the resources of our research team, is available at any time to provide you with further advice if required.



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