FORSYTH BARR

FOCUS

SPECIAL REPORT

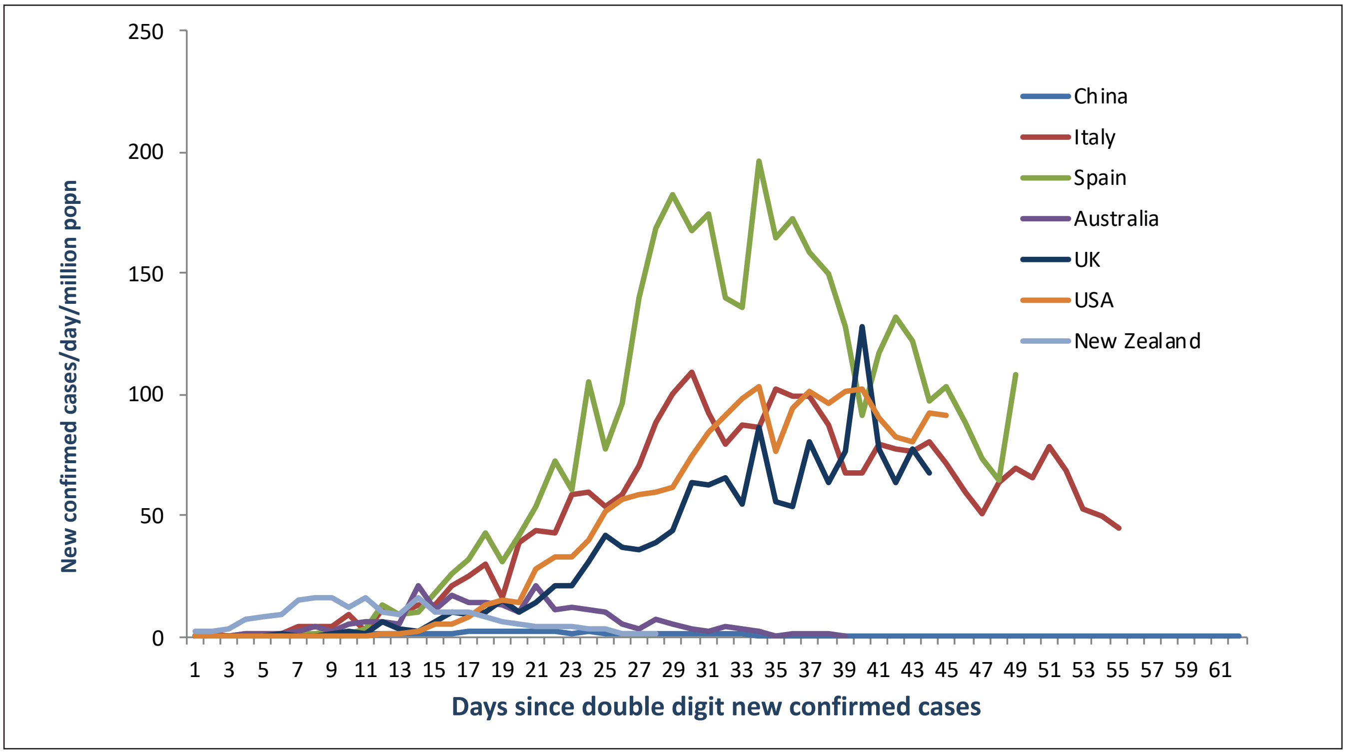
FRIDAY 17 APRIL 2020

A post-pandemic world

Signs are emerging that the global infection rate from COVID-19 may have peaked. While some countries are further ahead than others in the battle against the pandemic, the overall trend is looking more promising.

While we can't rule out the chances of second or third wave surges in infections, financial markets tend to be forward looking. This means sharemarkets tend to discount the bad news experienced in the near term, while pricing in the expected recovery and rebound in economic activity at some point in the future.

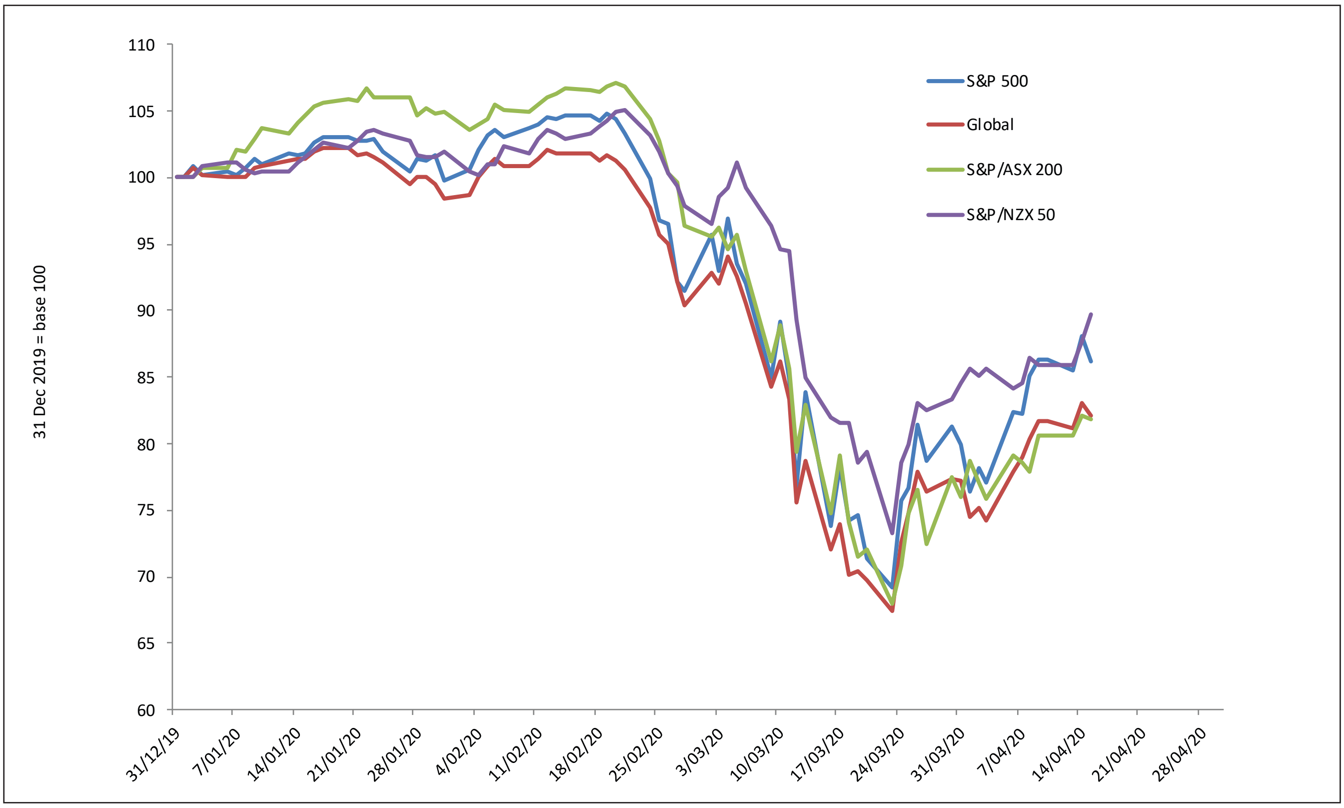
COVID-19: International Perspective



Sources: WHO, Worldometer, Our World In Data, ECDC, Italian Health Ministry, Forsyth Barr Analysis

The rebound in sharemarkets over the last few weeks has been remarkable, and due in no small part to the unprecedented level of financial support provided by central banks and governments around the globe. While the tens of trillions of dollars that have been injected into banking systems and bank accounts won't necessarily stop a recession from happening, the financial rescue packages should reduce the severity of the downturn and assist in a speedier recovery.

A Tumultuous Year



Source: Datastream, Forsyth Barr analysis

Border controls, social distancing and economic lockdowns for all but essential industries have had a profound effect on economic activity. The lifting of restrictions is likely to be gradual and will vary from country to country. So we don't know how long the current drag on economic growth will last.

But what we do know is that once we recover, the world will be a different place from the one we lived in prior to this crisis.

Is globalisation over?

For countries with prolonged border controls or restrictions, any business reliant on tourism, travel, and immigration will struggle. Until the virus is wiped out, or a medical treatment is developed, people will continue to be wary about social contact. Going to the movies, having a drink or a meal out, or attending a major sporting event will be some of the activities that will be restricted or avoided for some time.

The virus has also shown how vulnerable the human workforce is. The rapid pace of automation and robotics is likely to reverse the trend of outsourcing manufacturing to cheaper offshore markets. This will be particularly important for essential products such as pharmaceutical drugs and medical supplies. This theme of self-sufficiency in food and essential services, including increasing investment in health services, will likely dominate policymaker's minds for the foreseeable future.

This is likely to spur a boom in those businesses offering solutions in things such as 3D printing, robotics, artificial intelligence, and fully automated manufacturing.

Remoteness bringing everyone together

While remote business and communication has been around for a while, the lockdown has accelerated its use and likely acceptance on a more permanent basis. Whether it's working from home, on-line schooling, tele-medicine, socialisation via Zoom parties, and internet-based entertainment, this trend is here to stay. Not only does this trend benefit companies providing the hardware and software required to deliver these services, it also boosts the demand for telecom and data management. With the increasing trend to on-line life, cyber security will also grow in importance and we should expect a number of new businesses to grow in this area.

Virtual retail

Retailers with an on-line presence are taking off. Consumers can buy almost anything on-line from food, clothes, furniture, office equipment, to toys and games. Wholesalers are likely to by-pass retail outlets giving direct access to consumers for bulk purchasing at cheaper prices. This will increase the demand for warehousing, logistics, and freight or trucking companies. To make the distribution safer and faster, robotics and automation will proliferate.

Low rates locked in

One certainty we can assume is that interest rates will remain low for a long time as the world takes time to recover. While we can't rule out further volatility in financial markets, historically low rates should increase the long-term appeal of shares, particularly in companies with strong balance sheets and in sectors positioned to benefit from the changes the global economy is likely to experience.

Well capitalised companies will also benefit from low cash rates, increasing their ability to buy out distressed competitors. Merger and acquisition activity will increase as the economy rebounds and this will benefit the sharemarket overall and some companies in particular.

Change can be confusing, but it can also be positive. When considering how you should position your portfolio to manage the risks and capitalise on new opportunities, your Forsyth Barr investment advisor will be able to provide advice and help you through this challenging time.

Kevin Stirrat
Director / Strategy, Wealth Management Research