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Covid-19

The virus is now well established across the globe.

The local and major developed markets have been trying to process the speed at which the virus spreads and the economic impact.

The main economic surprise which the markets have had to process is the extent to which economic activity has to be suspended while populations go into lockdown.

This has produced historically high levels of volatility in the bond and sharemarkets.

Governments and central banks have stepped up to the mark with substantial support.

Central banks (RBNZ, RBA, US Fed), have lowered interest rates – however this is not going to have much of an impact in the short to medium-term.

Why? Because the type of conditions that consumers and borrowers are facing mean that they will not rush out to spend or see a huge impact on their mortgage repayments. So, this won't shift the dial much for the moment.

Where central banks have been more effective is ensuring that there is sufficient liquidity in short term markets and even in markets that trade corporate debt. This is much more effective because it keeps those markets working so that real businesses can get sufficient finance for their operations.

Governments have also taken dramatic and historically significant steps to address the Covid-19 crisis.

As we have seen, they have closed borders and imposed lockdowns of varying degrees. These are major impacts for the economy and is impacting supply chains (the provision of goods and service), as well as demand.

This means a substantial drop-in economic activity for all of the developed economies and it is now starting to impact emerging economies as well. So there will be a major drop in global economic activity over the next few months.

To combat this, developed economies have been rolling out fiscal stimulus packages – government spending packages designed to get businesses and workers through the next few weeks of lockdown.

These packages are substantial. The initial package that the NZ Government announced was $12.1bn or around 4% of GDP. The US package is $2.2tn or around 10% of GDP.

This is substantial and will shift the dial. These actions won't stop a major recession in these economies, but they will go a long way to stop some devastating permanent damages to the economic base which means the path out of this will be able to be taken with a bit more certainty.

Markets reacted positively to this news and again we saw significant volatility, only this time on the upside with the major US indices rallying 20%. There is speculation and debate as to whether the markets have seen the "bottom", or whether this is a bear-market rally.

We do have a longer way to go than we initially thought – all talk of a "V" shaped, quick recovery, is gone.

Industries like Tourism and Travel have been hit very hard and it's clear coming out of this they will be smaller, and very different businesses for some time (years).

The larger economies that rely more on domestic consumption will generally do better coming out of this than smaller economies more reliant on domestic visitors and trade. NZ may have a bit more of an advantage as China recovers, but the demand and price impact for our exports is still unclear.

Borders will be closed for far longer than was first thought. This will impact passengers but not freight.

The good news is that Governments, central banks, businesses, workers and consumers, now all have a clearer view of how this is unfolding and the actions they need to take to get through the initial health crisis and then rebuilding.

Having said that there is a lot we will need to learn going forward.

The Portfolios continue to be well-diversified and are performing in accordance with our expectations given the conditions. They are impacted by short-term market movements which is what we expect. It's important to look through the short-term movements that can often overshoot.

They have benefited from the latest rally.

The Portfolios are designed to weather this and move on.

The Portfolios are well-diversified and designed to withstand these sorts of market movements - the underlying assets and structure are sound and will serve Clients well over their investment horizon.

With regards

Mark Wooster
Chief Investment Officer
Caliber Investment, the Manager for the Accordia Portfolios