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Covid-19

The virus is now well established in major economies like Continental Europe, the UK, and the US. The US is now getting up to speed more in terms of shutdown to take the top off the peak of the infections.

It's fair to say that in the last couple of weeks financial markets have now gotten to grips more with the speed at which the virus has spread to and within major economies, forcing major policy initiatives such as population lockdowns. That's no longer a surprise.

Because some of the surprise element has been removed, a lot of the extreme volatility has subsided. It hasn't returned to normal levels yet and won't for some time – it's still elevated.

The issue the markets are grappling with now, which will play out over the next few weeks, is what the economic impact of the lockdowns will be. And how will that impact flow onto financial markets like shares and bonds.

The lockdowns that have occurred around the world will have a substantial impact on supply chains and demand in the global economy. We have seen this already take effect with airlines and travel and tourism firms and operators in NZ.

Then there is a twist in the tail to all of this – how does the impact on the financial markets flow back and affect the real economy. For example, is there enough confidence and liquidity in the bond market for companies to get the financing they need for their operations.

This is the bit that governments around the world are very concerned with and are already making some big efforts to mitigate the risks. Central banks are ensuring that there is more liquidity and certainty around transactions in some of these critical markets.

That has had a material effect already in the way those markets are operating. It has been a big driver in lowering volatility in these markets and there will be a lot more to be done over the next few weeks.

In this way, at this stage in the process, central banks (RBNZ, RBA, US Fed), are having a more direct impact than when they lowered interest rates, which will have an effect much later in the cycle.

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.

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 actions are major impacts for the economy and are affecting supply chains (the provision of goods and service), as well as demand.

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.

The 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 damage to the economic base which means the path out of this will be able to be taken with a bit more certainty.

Because of the extreme nature of the policies adopted to combat Covid-19, thoughts of a quick recovery, are gone from most economies around the world.

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

As we move forward there will at times be quite a big separation between the economy and financial markets. Financial markets tend to forecast ahead of time what happens in the economy. It's anticipated that the markets will recover ahead of the economy as signs start to appear that an economic recovery is just beginning to take hold.

One thing we do always have to keep in mind is that no one can ever forecast these events, or any event really. For example, we know there will be a recovery, but no one really knows when it will occur. There will however be no shortage of volunteers ready to have a go.

There is a lot we will need to learn about how all this unfolds going forward.

For all of these reasons the Accordia Portfolios:

- continue to be well-diversified and are performing in accordance with our expectations given the conditions
- 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
- are designed to weather this and move on.

In summary the Accordia 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