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Covid-19

There are now some early signs that some of the hardest hit developed economies such as New York in the US, Italy, and Spain, are flattening the curve in terms of new infections and hospitalisations.

While there is a lot of economic pain to go through yet, as we have indicated, financial markets are beginning to look-through this to the recovery that seems most likely to be at least a few months down the track.

Central banks continue to support markets where liquidity has been an issue and this has given participants a lot more confidence that they can transact and set prices in these markets. The markets most affected continue to be corporate debt markets and short term money markets.

There has been more of a recognition that the short term economic growth numbers will be very bad. But there is also a realisation that these are artificial in that it is a government mandated shutdown of the economy.

Mainstream media are looking all the way back to the Great Depression in the 1930's for a comparison. Comparisons of this nature are always flawed with this one being especially so.

This is a very important point as the way in which participants in the economy and markets view this is critical. There is a recognition that we are in unchartered territory.

We are seeing some businesses who were struggling before Covid-19 fail with resulting job losses. The encouraging element to this news is that it seems to be getting reported in an even manner with the crisis not being identified as the only or main driver.

The uncertainty now is how will economies come out of lockdown and back to some form of normal economic activity without opening the population up to successive waves of infection that would not only result in more deaths but greater economic pain that has its own challenges.

NZ provides a useful example of what is required:

- Careful management of the alert level to ensure there is no rush back to dangerous behaviour – unsafe contact and gatherings – managed social distancing
- Tight control of the border to head off new infections
- Effective contact tracing and management (isolation and quarantine), of new cases and clusters

Share markets have continued to advance taking heart from recent developments both here and overseas:

- A number of countries may be past or approaching peak infection and hospitalisation rates
- Governments continue to provide fiscal relief to individuals and importantly continued and new support for businesses
- These support packages are very large and are very strong signals that governments around the world are totally committed to limiting the damage to their economies
- There is now talk of, and planning for, economies to come out of lockdown

There will still be continued volatility and uncertainty as we haven't been here before, so markets will have to adjust as they move forward.

We continue to believe there will be quite a big separation between the economy and financial markets. Some countries more so than others.

Financial markets tend to forecast ahead of time what happens in the economy. We are seeing that develop more recently.

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.

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