Market & Economic Update - Coronavirus

March 2020

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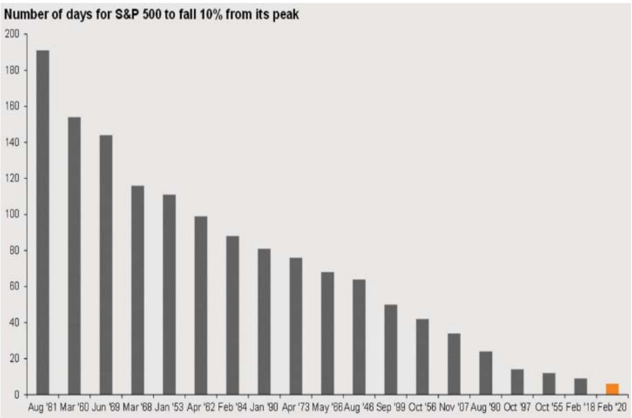
CENTREPOINT ALLIANCE

Markets in Review

Global equity markets have sold off over the past week, following news of an acceleration of new COVID-19 coronavirus cases in previously less affected countries such as Iran, Italy and South Korea. The speed of the correction (a stock market correction is defined as a fall of at least 10%) is unprecedented, falling the required 10% in just 6 days as illustrated below.



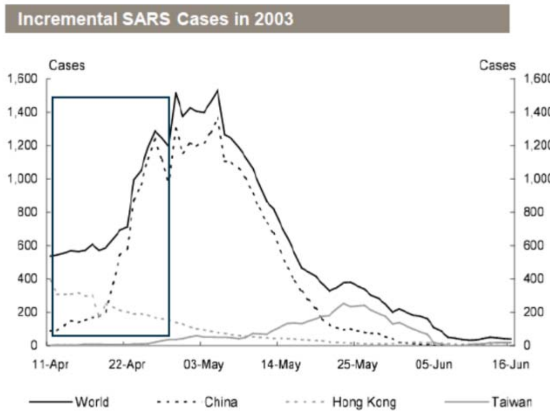
Source: JP Morgan Asset Management

We've already seen numerous companies bring down earnings estimates, particularly those in the travel industries as businesses postpone non-essential travel. Global GDP growth estimates are also expected to come down. PIMCO estimates first quarter GDP in China to contract by 6%, [click here to view the PIMCO article.]

It is worth noting, however, that global equities were close to record highs just a few weeks ago and volatility has been well below historical averages. Market corrections should be considered a normal part of investing, and Strategies to navigate the recent volatility are outlined in the Outlook and Portfolios section below.

Lessons from History

With such poor Investment sentiment, it is worth looking at prior outbreaks and the effect on markets. Although the precedents for coronavirus are limited, the lesson from SARS are that markets usually recover and will tend to bottom out around the time when peak cases start to decline. The next two charts show new global cases for SARS peaked around May 2003, and share markets bottomed around this time.



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Outlook and Portfolios

Despite the recent volatility and correction in equity markets, we do not recommend allocating capital away from growth assets and into cash. It is extremely difficult to time the market and taking this type of action may cost portfolios dearly over the long run.

The Centrepoint Alliance Model Portfolios have been designed to be "all weather portfolios" with allocations to specific types of investments which will provide downside protection in the event of falling equity markets. The styles and strategies used in order to do this include:

1. Equities Downside Protection: AB Managed Volatility Equities Fund and State Street Global Equity Fund invest in stocks with Higher Quality and Lower volatility, protecting against some of the market downside whilst capturing most of the upside.
2. Allocation to Alternatives: An allocation to alternatives provides diversification benefits and improved downside protection as a result of the low correlation of these assets with traditional asset classes (such as Australian and Global equites and fixed interest).
3. Fixed Interest strategies with Interest rate duration: Western Asset Australian Bond Fund and PIMCO Global Fund have a high allocation to Government Bonds and high interest rate duration. The higher interest rate duration usually provides some overall portfolio protection during stock market sell offs and blends well with growth assets.

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