OUTLOOK FOR FINANCIAL MARKETS as at 4/3/2020

As I write this, the media is saturated with stories of the Coronavirus (COVID-19) outbreak. Reports include a complete lockdown in the city of Wuhan (Hubei province in China) the epicentre of the outbreak, cancellations of flights into and out of China, postponement of travel plans for many, and toilet paper shortages in Australia, just to name a few. Researchers currently think that between 5 and 40 coronavirus cases in 1,000 will result in death, with a best guess of 9 in 1,000 or about 1%. But this depends on a range of factors: your age, sex, general health and the health system you are in. In fact, the death rate could be a lot lower because most cases of most viruses will go uncounted because people tend not to visit the doctor with mild symptoms. None the less, with the deaths and hospital admissions reported, many people have been understandably spooked and the authorities are doing their best to take steps to control the outbreak. What this has meant is that in China, possibly Iran, South Korea and Italy, some manufacturing has been temporarily shut down resulting in shortages of some items people use, but more importantly shortages in components some other manufacturers need to complete whatever products they manufacture. Supply chain disruptions affect all sorts of things and short term have the potential to impact economic growth and therefore company profits. That has been the catalyst for the sell off in sharemarkets since the 20th February – USA shares as measured by the S&P500 are down 7.6% since their most recent peak (20/2/20 to 4/3/20) and Australian shares as measured by the All Ordinaries Index are down by 10.8% (20/2/20 to 5/3/20).

Is it a good time to buy or sell?

I don't know, nobody does. Shares in the USA as measured by the S&P500 index fell significantly during the 21st to 28th February, followed by a 4% to 5% rise on Monday 2nd March, a 3% fall on Tuesday 3rd March, and a 4% to 5% rise on Wednesday 4th March. Central banks are providing stimulus (*i.e. the Reserve Bank of Australia cut its official cash rate by 0.25% to 0.5% on the 3/3/20 and the US Federal Reserve cut its official cash rate later that day by 0.5% to the1.0%-1.25% range)*. Governments including Australia, China, the US etc have also announced plans to spend more money to stimulate their economies. Note in Australia's case we have also had to endure a drought, bush fires and flooding in recent times.

What I would say is the world has had to deal with these type of situations before – Influenza, Swine Flu, Asian Flu, Spanish Flu, Bird Flu, SARS, Ebola, AIDS, Cholera, Smallpox, Typhoid, Measles, Encephalitis, the Plague, Bubonic Plague etc. and in more recent times due to improvements in technology and resultant treatments has been able to overcome and control these viruses more quickly. They are already working and apparently making progress on finding treatments to eventually bring COVID-19 under control. I am no medical expert, but I feel optimistic that this situation will only take a few months to control.

My prediction is that if economic growth and company profits decline in the short term then they will eventually recover (*perhaps quite quickly*) leading to increases in things like share prices. I don't believe coronavirus will have much impact on medium to long term investment returns and as a consequence, investors should stick with their investment strategies (*be diversified*), be patient and ride out any short-term declines in the value of those investments. This is the best strategy if you cannot accurately predict short term price movements (*it is extremely difficult to time the market*) but believe that medium and long-term outlooks remain sound.

The only qualification I would make to this approach is for new investors (*with cash ready to invest*) to gradually build-up to their planned sharemarket exposure over a few months (*or until things become clearer*) rather than investing all of this planned exposure on day 1.

Note, some investments still work in the current environment.

In a diversified portfolio some of your investment's valuations will be largely unaffected in the short term by the current economic impact of COVID-19:

- Direct commercial property investments leased to quality tenants on long term leases;
- Private Equity investments which are not listed on a stock exchange where the prices can fluctuate well in excess of any changes to the underlying valuations;
- Direct infrastructure investments that are not listed;
- Some Hedge Funds;
- Some Fixed Interest Bond Funds may well make some short-term gains.