

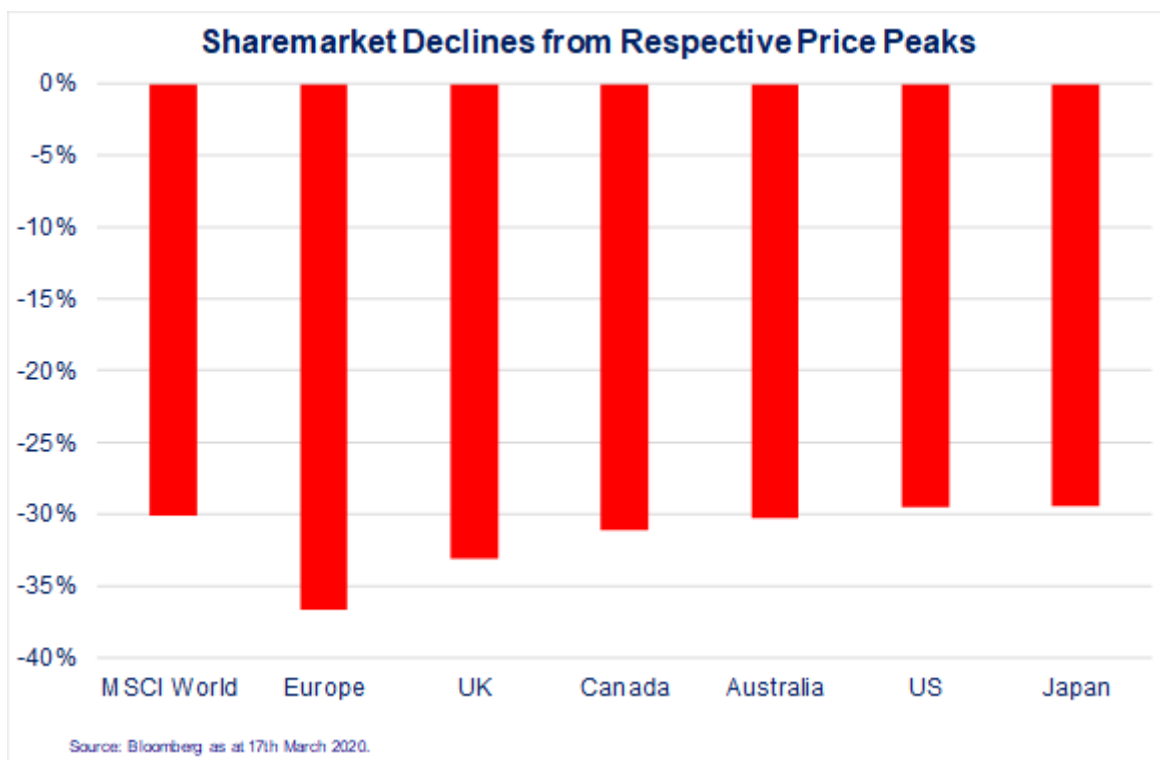
MARKET INSIGHTS

17th March 2020



EQUITIES

- Massive central bank stimulus around the world has failed to quell investor concerns about the damage the Coronavirus is inflicting on the global economy. Regional losses were extremely large overnight with the US market off -12%, Australia -10%, Europe -5.3%, China -4.3% and Japan -2.5%. This took all bourses down to peak-to-now losses of around -30%. In the US, greater-the-index losses were recorded in REITs (-16.6%), financials (-14.0%) and energy (-13.6%) in what was the largest daily losses since the October 1987 market crash.



- In other markets, oil (-9.7% to USD28.62 per barrel) dropped sharply as growth risks amplified and this sees the black gold down -55% from its early-January peak). Meanwhile, US duration was the best performing diversifier overnight as 10-year yields dropped -22 bpts to 0.74% in response to safe haven flows and policy actions from the US Fed over the weekend including rate cuts and the announcement of QE4.
- The worry for markets is that the Fed has announced zero rates and QE4 which along with equity injections into US banks were enough in early 2009 to end the global financial crisis. The trouble this time is that the announcements are not stopping sectors having to close to hopefully curtail the spread of the Coronavirus. The

primary hope one week ago was social distancing, but measures being discussed today are far more draconian and growth destructive.

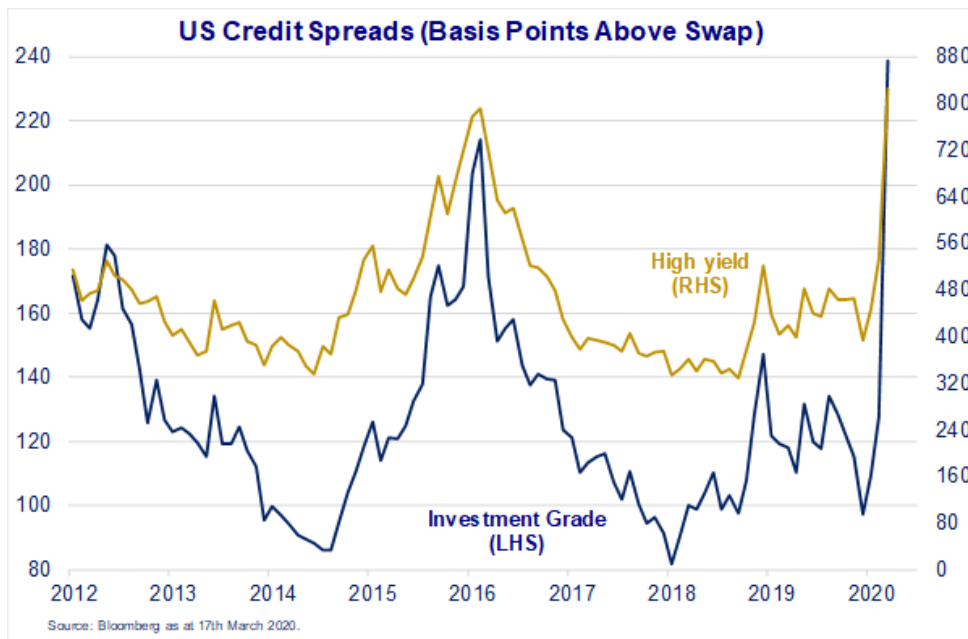
- Industry stoppages have had a far greater negative effect on growth than first thought as evidenced by Chinese data yesterday where industrial and services production contracted -13% in January and February combined (and by -26% in February alone), retail sales collapsed -21% (see chart) and fixed asset investment fall -25%. These declines are potentially analogous to the largest contraction in global economic activity since the end of WW2.



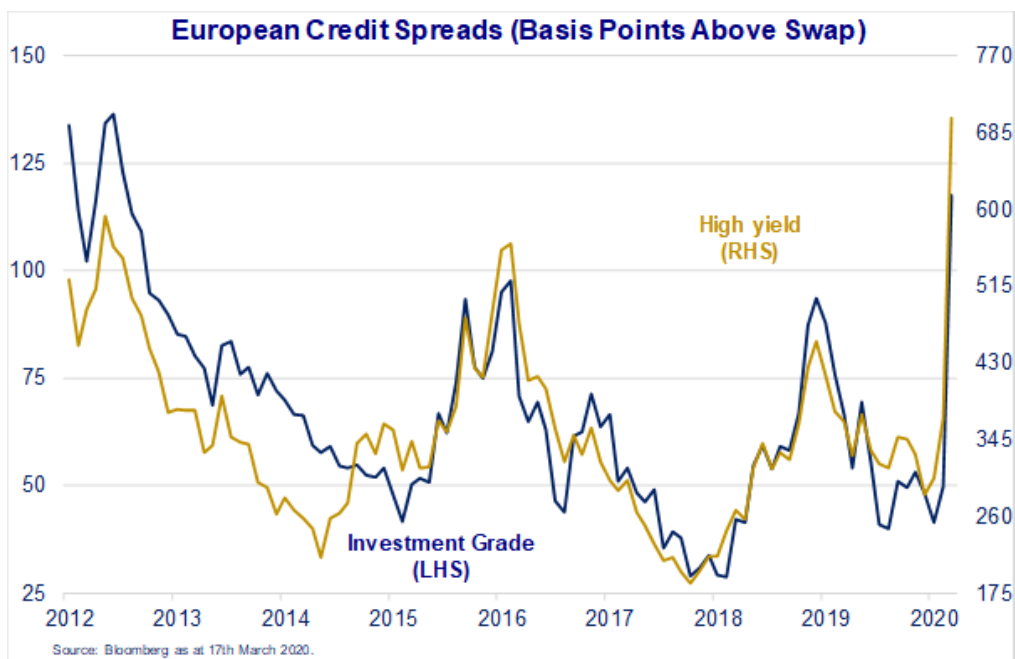
- Monetary and fiscal policy can't stop this or even slow it down and nearly all major economies (other than the US) came into 2020 in a fairly weak state. Recessions occur when shocks collide with vulnerabilities. Depressions occur when shocks collide with vulnerabilities and public policy failures facilitate corporate failures which spark bank failures and a major contraction in the money supply.
- All the Fed can do is keep the financial system viable as corporate defaults inevitably accelerate given the massive leverage build up over the past decade and the large economic contraction now underway. The CV is now a solvency crisis and government bailouts are now needed.

CREDIT

- Despite the US Fed throwing the everything including the kitchen sink at the financial markets, credit spreads continue to signal major stress in the system with another notable widening of spreads overnight. US IG spreads are now out to their widest level since the GFC (+21 to +239 bpts above swap rates) with energy (+34 bpts to 417 bpts) once again leading the blow outs, but financial subordinated debt (+30 bpts to 304) is now out to the extremes recorded in 2012.

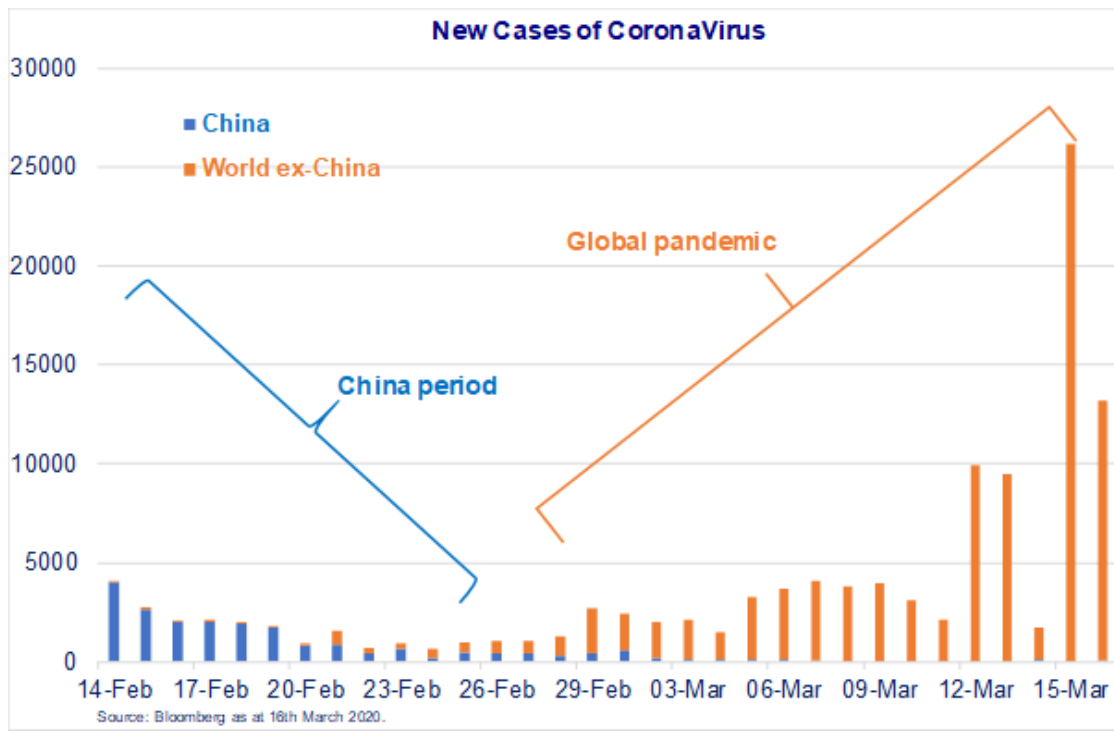


- US high yield also posted a large rise (+80 bpts to +825 bpts) as investors fret about lower rated credit quality in the impending recession. Energy again led the gains (+143 bpts to 1890), but all sectors rose in excess of 45 bpts overnight.



VIRUS UPDATE

- The number of Coronavirus cases continues to surge (+13.2k to 179k overnight). All the growth is coming from the World ex-China (+13.1k to 98.1k) where the number of cases has doubled in the past 96 hours and is now well passed the number of Chinese cases. The number of deaths has increased to 7,079 and the death rate has risen to +4.0%.



- Europe is at the epicentre of the spread with the former reporting daily case increases at a higher rate than China did at its peak, and the region contributed over 90% of the case increases from yesterday. There are now 9 countries with over 2,000 cases – China (a total of +81,032 but this is seemingly peaking), Italy (27,980), Iran (14,991), Spain (9,428), South Korea (8,236 – but cases seem to be flattening out), Germany (+202% in 72 hours to 7,174), France (5,423), the US (4,138) and Switzerland (2,200). Australia has +377 cases.
- To me the next epicentres are likely to be the US, and UK and Switzerland the latter two of which are undertaking policies to combat the virus’s spread.

Yours sincerely,



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