

# THOUGHTS ON THE MARKET

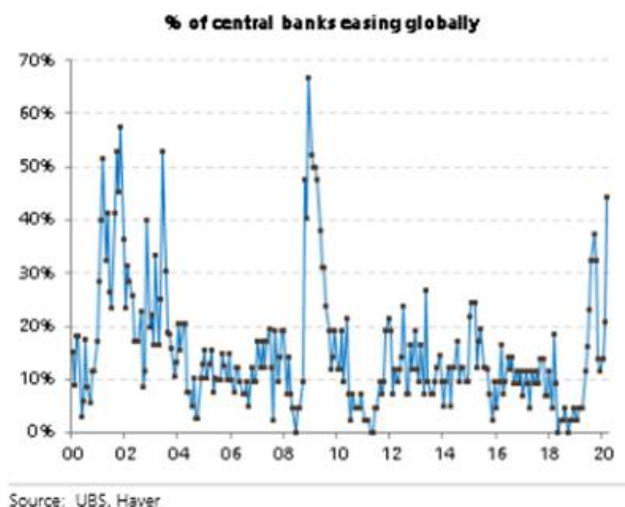
20<sup>th</sup> March 2020



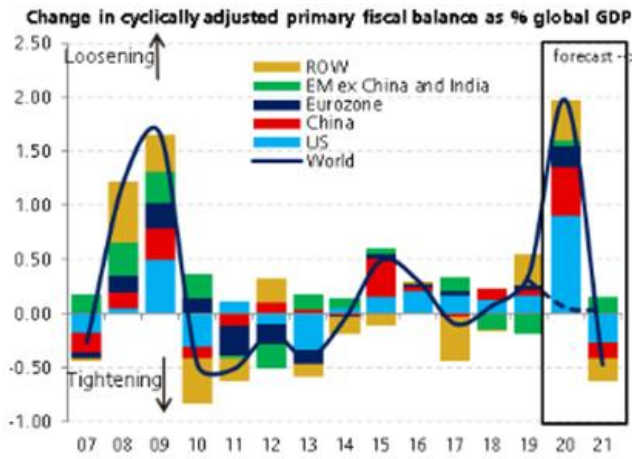
## OVERNIGHT DEVELOPMENTS

### 1. POLICY RESPONSE

- Global monetary and fiscal policy is being unleashed. Of the largest 43 central banks in the world, 60% have reduced policy rates since January 20th (see Chart below) in what is the most aggressive simultaneous easing cycle since 2008. Interestingly, despite being capped by the zero lower bound, DM central banks (10/16 have eased) have been more aggressive than their EM counterparts (16/27) and we expect all of the former to be at zero rates in coming months.
- Four central banks have supported this policy easing by launching QE programs (US Fed (USD700 billion at least), ECB (€870 billion), the Riksbank (SEK300 billion) and the RBA yesterday) and the BoE is likely to add to that number at their next meeting. The largest QE program as a share of GDP is the ECB after they launched their €870 billion Pandemic Emergency Purchase Program and there was a strong hint in the accompanying statement that self-imposed issuer limits may not be applied.



- On the fiscal side, stimulus excluding promises of credit guarantees (which are off budget items and are not accretive to GDP) has increased to nearly +2% of global GDP - exceeding that approved in 2009 during the global financial crisis. The most notable addition is the US's USD1.2 Trillion (5% of GDP) which alone lifts the global fiscal impulse by 0.9% of global GDP.
- In many ways the policy impulse won't prevent a global recession, but it does help in two ways – firstly, unlike the 2008 financial crisis which was followed by a decade of balance sheet repair and which culminated in the weakest recovery in history, the policy impulse this time around reduces the risk of a severe prolonged recession. In addition, the stimulus means that if the Cov-19's negative impact on growth dissipates in 2020, the recovery in growth and financial markets should be reasonably swift.



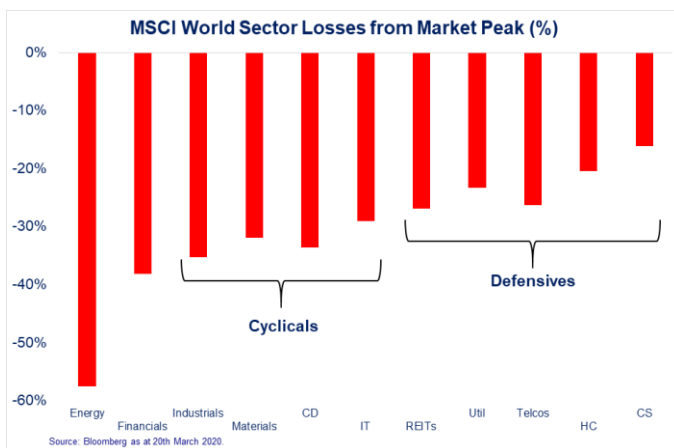
## 2. MARKET MOVEMENTS

### OIL MARKETS

- Oil recorded its largest daily rise for more than four decades overnight (+22% to USD 24.97 per barrel) but it still remains well below the required level for the sector to record earnings growth. The market is being hit from the growth destruction from the Coronavirus on the demand side, and a production war between Russia and OPEC on the other. Unfortunately, the resultant decline in crude prices over the past month is unlikely to produce the economic dividend that most economist believe as social isolation will see households raise their precautionary savings, and secondly, oil investment is likely to plunge with current rates of return so low.

### SHAREMARKETS

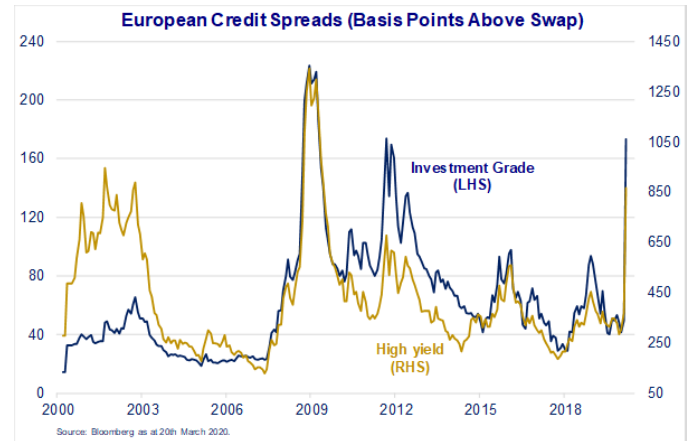
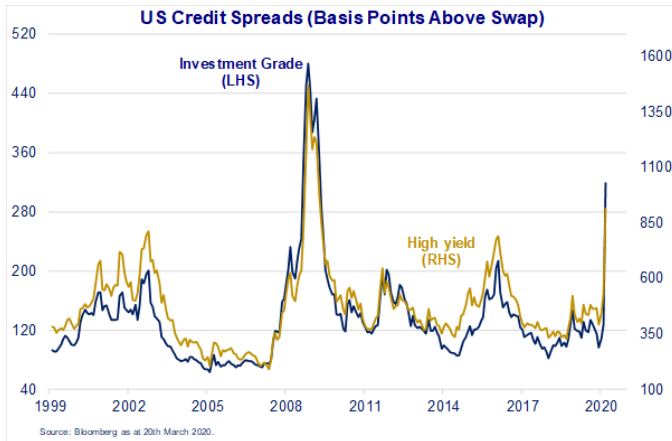
- Regional sharemarkets were more subdued overnight. After large losses in the previous few sessions movements overnight were underwhelming and it does appear that markets are moving lower and factoring in a large decline in activity as the Coronavirus has stopped global economy stopped in its tracks, and the associated industry closures has opened up a major growth hole. It appears that global economic growth could decline -20% q/qa in the June quarter with the collapse in industrial production signalling a -30% drop in global EPS growth with risks tilted to the downside.



- The largest overnight rise was in Europe (+2.9%) but Wall Street (+0.5%) barely moved as defensive sectors were sold heavily (led by utilities were down -5.5%, consumer staples -2.9% and healthcare -1.9%), whereas energy (+6.8%) improved in the wake of higher crude prices, and this was supported by consumer discretionary (+3.4%) and financials (+2.3%) which had been sold down heavily in recent sessions.
- In Asian other markets yesterday Australia declined -3.4%, Hong Kong -2.6%, China -1.3% and Japan -1.0%. Overall, there has been modest difference in peak-now performance of regional markets, other than in Europe where the Coronavirus case increase has been the strongest, the policy response until yesterday had been modest, government balance sheets are there weakest and banks are the most vulnerable.

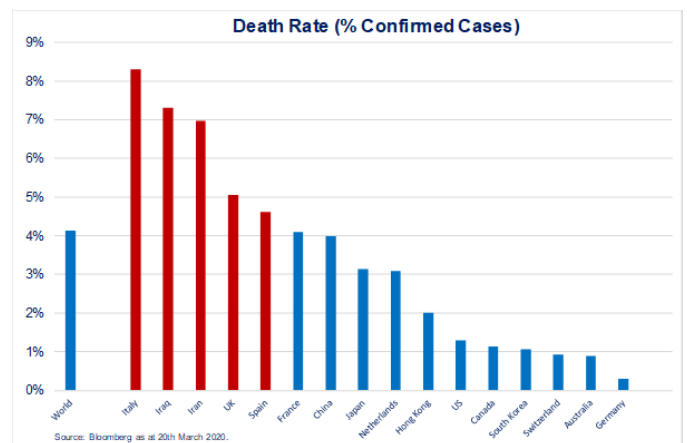
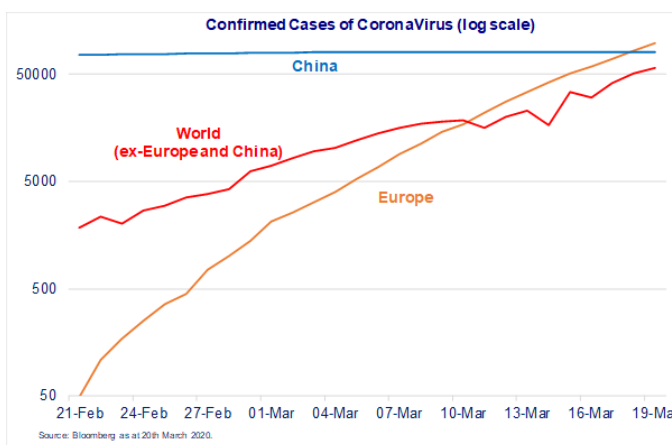
## CREDIT MARKETS

- Global oil prices rose +22% overnight, but credit spreads continued to widen as global crude prices still remain well below the industry breakeven price of USD40 per barrel. Accordingly, spreads in US IG increased +32 bpts (the 32nd in the past 36 days) to fresh post-GFC highs of +319 bpts (see Chart below) and US HY followed suit (+ 69 to 983 bpts) also hitting yet another post-GFC high. There was no place to hide for investors with all ten sectors in each credit grade higher but HY energy increased by +145 to 2213 bpts.
- European credit markets also were subjected to large downside pressures, even though the ECB is continuing to buy IG securities which limited the spread blow out to +9 (to 173 bpts to be aligned with the spread in the 2011/12 European debt crisis) whereas European HY recorded another strong surge (+31 to 866 basis points).



## 3. CORONAVIRUS UPDATE

- Coronavirus cases rose +21.5k overnight to 236.4k, deaths rose 1,076 to 9,790 and the death rate rose to 4.14% (13th rise in the past 20 days despite surging case numbers).
- Europe (+14.9k to 98.2k) continues to lead the world in terms of total cases and new cases, and now Italy has surpassed China in total deaths (3,405 vs 3,245).
- Among countries, the most cases are in China (+53 to 81,155), Italy (+5,322 to 41,035), Iran (1,046 to 18,407), Spain (+3,485 to 17,305), Germany (+3,148 to 14,481) and the US (+2951 to 11238). Australia has 681 cases (+116).



Yours sincerely,



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