NZFUNDS | Investment Research

COVID-19

Market update 4 - 2020 vision

Executive Summary

- The investment environment inflicted upon the global economy by COVID-19 has changed.
- Markets have found the bottom and will rise from here, well before COVID-19's peak infection is reached.
- The United States approved a bazooka. The most powerful economy in the world has acted.
- We ask, what year is the best year to buy shares? There is no better time to buy shares than now.
- We are now fully invested and are focused on outperforming as share markets rebound.
- As we did when the market declined, now it is time to ensure we outperform as markets rise.

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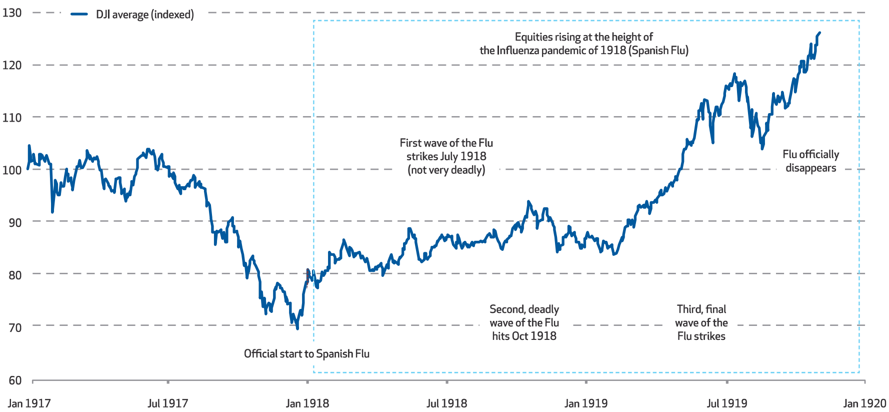
COVID-19 impact on equities

The 1918 Flu pandemic could be a good comparison



Source: FactSet, UBS.

Market update 4

The investment environment inflicted upon the global economy by coronavirus (COVID-19) has changed. While the medical emergency continues apace, and the impacts of social isolation on individuals and businesses remain, it appears that markets may have found the bottom and will rise from here, well before COVID-19's peak infection is reached.

The bazooka

The New Zealand Government announced the largest stimulus packages in New Zealand's history. In the United States, the Senate approved a bazooka – the largest economic stimulus package in modern history. The US$2.2 trillion (NZ$3.7 trillion) package will give American families and businesses a financial shield against the ravages of COVID-19.

To put US$2.2 trillion into context, at 10% of United States GDP, it is more than twice what the 2008 bailout package was worth. The 1948 Marshall Plan, where the United States bailed out Europe, was US$144 billion. This United States' stimulus package dwarfs even a world war level of investment.

The stimulus packages announced throughout the world are good for both citizens affected by COVID-19 and for financial markets. The United States was slow to come to the party given their ideology of not interfering in free markets. However, the extent of the share market fall has motivated the most powerful economy in the world to act.

2020: The perfect market entry point

We all wish we could have perfect foresight when investing in financial markets. If we did, we could confidently pick the bottom of the share market during this current bout of volatility. However, without some sort of crystal ball, we are likely to get it wrong. Instead, we ask, what year is the best year to buy shares?

Portfolio Positioning

In the **Investment Report | 2H 2019** published in September last year, we were cautious, given the extent of the ten-year share market rise. We became more defensively positioned.

In 2020, irrespective of the short-term economic effects of COVID-19 and acknowledging the horrendous burden on hospitals, medical staff and those of us infected by the virus, most companies in New Zealand, the United States and beyond will survive.

There is no better time to buy shares than now. Share markets are priced at levels not seen since the global financial crisis. Given low interest rates, coupled with the economic stimulus packages, we expect a three to four-fold gain in shares over the next five years, just as they did post-2009 and following the tech crash in 2000.

We are now fully invested. We wrote on **20 March 2020 | COVID-19 Market update 3** that we were entering the third phase of our investment strategy and are focused on outperforming as share markets rebound.

During the transition from mitigating the downside to participating in a rebounding market, we gave up some of our returns. However, we expect our systematic strategy will increase our share market exposure to leapfrog market returns, and our competitors, as the market increases. As we did when the market declined, now it is time to ensure we outperform as markets rise.

We retain options to mitigate further bad news. Volatility will continue, however, as guardians of your retirement savings, if we were to wait for a vaccine, the market may have already increased beyond its previous highs.

For our clients and advisers

As we embark on our first week of lockdown in New Zealand, NZ Funds wishes all our clients, advisers, and their families the very best. Be kind. Stay home. Stay safe. Save lives.

James Grigor, CFA
Chief Investment Officer

James began his career at NZ Funds in 2000 as an intern, becoming an Equity Analyst in 2004.

Following a deployment with the New Zealand Defence Force to the Middle East in 2009, James relocated to London where he worked in management consultancy and private equity.

James returned to New Zealand in 2015, and following a senior role at Macquarie Bank, returned to NZ Funds in 2017.

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