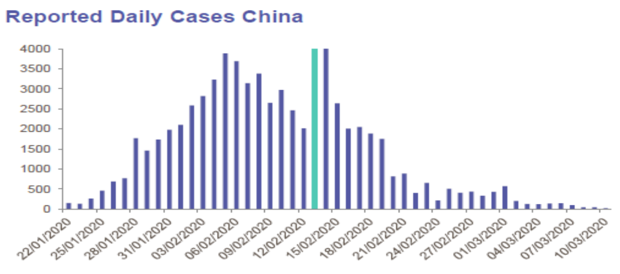
11 MARCH 2020

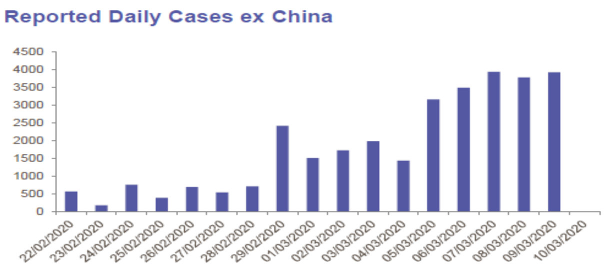
LATEST CORONAVIRUS MARKET UPDATE

SUMMARY

- **Equity markets remain extremely volatile in short term with coronavirus concerns and oil price fall but with recovery potential**
- **Potential stock market supports including possible containment and central bank/fiscal actions together with record low bond yields**
- **Uncertainty likely to remain in the short term**
- **An expected rebound in the global economy in the second half of the year**

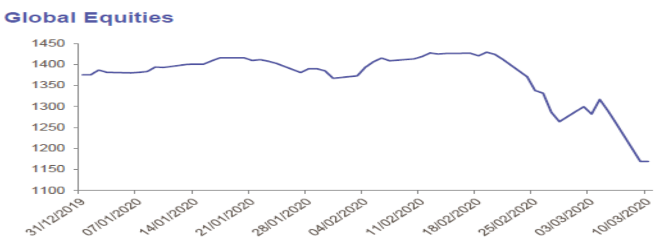
Coronavirus has continued to cause significant volatility in global stock markets. The initial concerns were focused on China but a sharp rise in global new daily cases from 1,200 a week ago to 4,000 currently has increased concerns on underreporting of the virus. Daily new cases in China (and South Korea) have fallen, with cases in China falling from a peak of 3,800 to just over 40 currently which suggests the virus can be contained if extreme measures are taken. Italy continues to experience large increases in new daily numbers with total cases now 7,375.





Source: Bloomberg Mar 10th

Equity markets remain extremely volatile with the above uncertainty with markets moving +/-3% most days last week although only finished down -0.2% for the week. Markets fell over 7% on Monday as the Lombardy region in Italy was placed under quarantine which has since been extended nationwide across Italy which has raised fears over the potential economic hit and exacerbated by an oil production row between Russia and Saudi Arabia. The US market rebounded yesterday with a rise of nearly 5% on a bout of optimism on Wall Street but US market is currently down c. 4%, which exemplifies the increased volatility, which is likely to continue.



Source: ILIM Mar 10th

Central Banks / Fiscal supports – following last week's 0.5% cut in interest rates by the US Federal Reserve, another 0.75% cut is expected at next week's Fed meeting. Similar to the Fed last week, this morning the Bank of England announced an intra meeting interest rate cut of 0.5%. The European Central Bank is expected to cut rates by 10bps to -0.6% on the deposit rate at its meeting tomorrow could also expand asset purchases from €20bn to €40bn per month for at least a temporary period while it could use Long Term Refinancing Operations to encourage banks to lend to those sectors and corporates most vulnerable to a slow down. Central banks are also examining ways of ensuring an adequate supply of credit to corporates. On the fiscal front, large tax packages have been announced across Asia with Hong Kong and South Korea implementing programmes worth over 4% of GDP with other support measures also by China, US, IMF and the World Bank. The UK is announcing its budget today in which a large fiscal stimulus is expected and European authorities are also anticipated to provide additional stimulus.

Global economic growth in Quarter 1 this year is expected to shrink by up to 1% as the virus continues to spread and activity is impacted. Rather than a 'V' shaped recovery, consensus expectations are now for a more modest increase in global growth to just over 3% in Q2 with a rise to 4%+ in Q3. At the moment given the slower than expected progress in terms of getting people in China back to work and the risk of greater dislocations across the rest of the world, the risks to growth in both Q1 and Q2 are to the downside. Nevertheless once the virus is ultimately contained, growth should recover relatively quickly and result in better growth in the second half of the year.

Bond yields have continued to fall to new all-time lows which reflects the increased concerns around global growth. Lower yields however support equity markets from a relative valuation perspective and also provide support to the global economy which should also ultimately be positive for equities once confidence recovers. For lower bond yields to act as a positive catalyst however, there has to be a belief that the spread of the virus has been contained and economic growth is set to improve, for a sustained recovery in equities to take hold.

Potential supports for markets
China daily case numbers down - Recovery rates increasing - Fiscal stimulus measures - Central bank policy loosening China returning towards normal activity levels - Technical nature of some of the recent selling in equities (hedge funds were 'forced' sellers of the market once it began to fall and break technical or chart levels).