



# Market Wrap

## Market Update – 09/04/2020

Going into the Easter break we expected that the market to close down as investors sit on the sideline over the Easter break. Instead it continued to hold around current levels. The banks came under fire as New Zealand put in place measures to ensure better liquidity in their banking system. We expect to see dividends being cut by the major Blue Chips as they look to cash up during these volatile times.

We have been saying now for weeks that the markets are tightly linked to the economy and the economy is driven by the decisions governments make on isolation and economic stimulus. There are three main factors which will determine how the economy will recover and with it, the market.

### **Output Gap**

This is the loss of economic output which Australia will experience. The longer business is closed, the longer the output gap and the deeper the economic damage. It is a balancing act, if the government waits too long to lift restrictions we can expect more economic damage to the extent of a Recession. At present they are talking of more restrictions and a 6 month lock down. However, with numbers of infection dropping we expect that this time frame will be reduced which will be a positive for the economy.

### **Policy Response**

Policy response can cover everything from the government covering the cost of all lost revenue for companies right through to no assistance at all. If all loss of revenue was covered then the economy would be back to normal once restrictions were lifted, however, the cost to government would be more than most could afford. If they cover none of the losses in revenue, the economy would go into a deep recession. Australia seems to be taking the middle line at present, we can expect to see some sectors heavily affected by the economic damage from COVID 19.

### **Change in consumer behaviour**

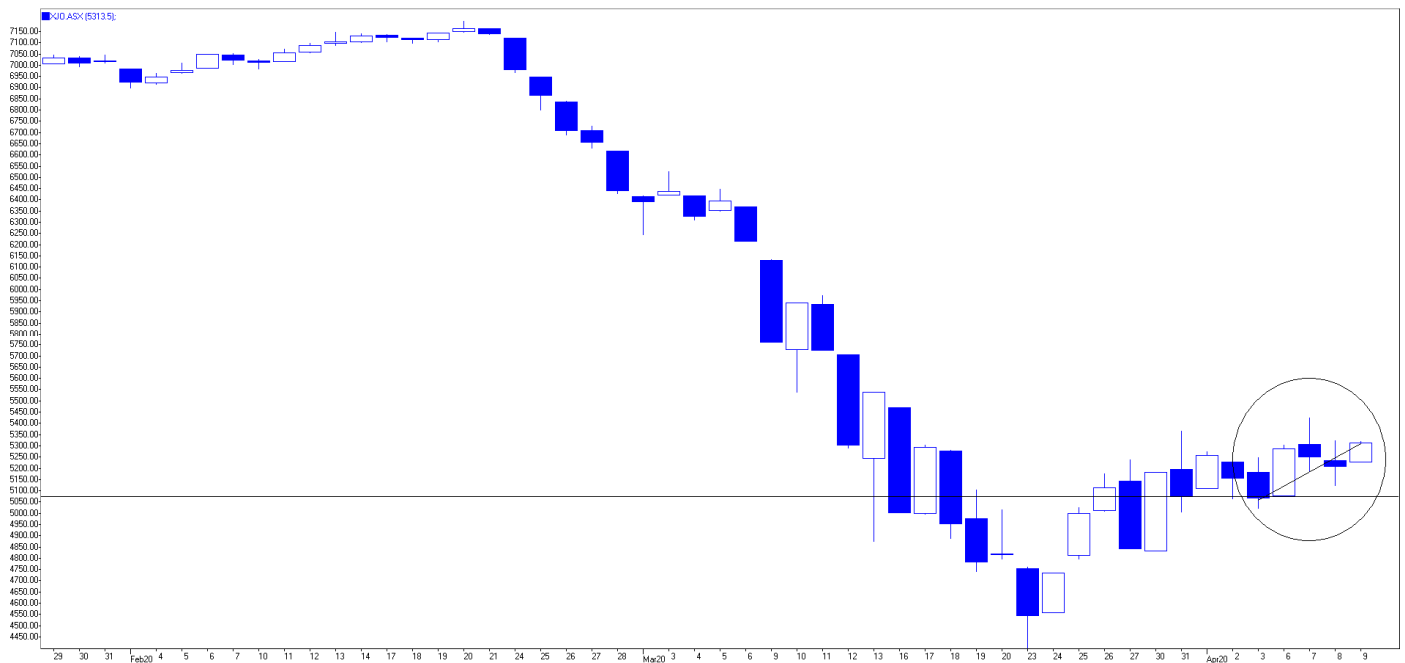
We have already seen this start to happen, toilet paper being the obvious one. We are also seeing the call for Australian made products and less reliance on cheap goods from China. With the number of jobs lost, I expect people will also start once again to put some money aside to ensure savings in case of a similar event. History has shown how events such as World Wars and 1930s Depression change people's behaviour. A reduction in spending rate could also see a slower recovery of the economy.

## Conclusion

As it stands the situation remains fluid, the decision governments make over the coming weeks will have a profound effect on how quickly the market bounces back. At this stage I am doubtful we will see a V shape recovery. I expect that we will have a U shape recovery, but this will depend on when the Australian Government lets up on the restrictions to allow business to open up and get the economy moving again.

The coming months will be critical in this respect. If restrictions on the economy are left in place too long, we can expect to see a prolonged recession or depression.

For now, the market seems to be holding steady. We are happy to sit on cash at this point with a wait and see what the government does in the coming weeks as school holidays end.



ASX 200 close up 4.56% for the week ending 09/04/2020.