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March 2020 Newsletter

Welcome to our March 2020 newsletter. This month the news of the spread of coronavirus (COVID-19) continues to dominate news headlines, and its impact is now being felt across the share markets. Make sure you read our latest update on the virus for more information.

Coronavirus Bulletin



As you are no doubt aware the Coronavirus or as it is now called Covid 19, has seen a significant rise in infection rates outside China. Over the weekend the sudden increase in infections reported in Northern Italy clearly highlighted that the virus has not been contained largely in Asia as hoped. Subsequently, an increase in infections in Spain, Austria, Croatia and southern Italy provide further evidence that the threat of Covid 19 remains very real.

The news of the recent outbreaks in Europe has dominated news media and appears to have dashed the hopes that we were beginning to get the infection rate under control. While the threat of infection posed by the virus is

very real, the World Health Organisation (WHO) has remained more objective in its reporting on the spread of the virus. Despite events of the weekend, while the WHO has declared Covid 19 a global health emergency, they are yet to formally classify Covid 19 as a pandemic (the virus spreading largely out of control across multiple countries and regions) notwithstanding they remain extremely concerned that this outcome may eventuate.

So far this week equity markets across the globe have sold off and for most, the magnitude of the declines over the past couple of weeks has been between 5% and 10%, most of the declines occurring this week. The recent activity quite possibly in response to the sudden rise in infections in Europe.

While still recent the increase in infections in Europe highlights the risk of the virus spreading further disrupting communities, economies and business supply chains leading to a not insignificant slowing in economic activity and growth. The magnitude of this impact at this point is unknown but growth forecasts are being adjusted down and corporate reporting globally is highlighting expectations of reduced earnings due to the social and economic disruption caused by Covid 19.

The sectors that we expect to experience the brunt of the

slowing are hospitality and leisure, education and related sectors and transportation particularly airlines. In addition, mining is also expected to see softening demand as global production slows. Australia remains somewhat vulnerable economically as circa 40% of our exports go to China, hence we think the negative impact in the short term at least is unavoidable. However, we do expect global governments and central banks to respond with expansionary and stimulatory policy to dampen economic effects of the virus though efforts now are more focused on containment. Ironically it is the containment which will result in the reduction in economic activity and the longer and more wide spread this is the greater the economic and social disruption will be.

We remain hopeful that Covid 19 is successfully contained in the foreseeable future but it is evident that this situation has quite a way to go before we are collectively confident in saying it is contained.

Lending update - March 2020



The RBA reduced its cash rate from 0.75% to 0.50% in a co-ordinated move with the Government to support and protect our economy from the impacts of both the recent bushfires and the yet unknown impact of the coronavirus.

In terms of lending, there has been an increase in applications for both clients refinancing their loans to improve their interest rates and clients seeking loans for the first time. February fixed rates have continued lower, with 2-year rates at extreme lows - for example, an ANZ 2-year fixed rate loan at 2.68% is one of the lowest in the market. The First Home Loan Deposit Scheme has been well received in the market, with almost all 10,000 borrower allocations now filled by accredited lenders.

The domestic business confidence and consumer confidence measures continue to be low and a notable savings mentality in place. From an economic perspective, there are still some tough times ahead for many and it is expected we will see further rate cuts and cash stimulus from our Government in the weeks ahead.

If you have any questions please don't hesitate to contact the office.



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Economic Update - March 2020



Within this month's update, we share with you a snapshot of economic occurrences both nationally and from around the globe.

Coronavirus and US elections disturb markets

- The coronavirus dominates news and economic outlook. Currently causing disruption to communities, economies and markets.
- The Democratic Party primaries have yet not yet identified a clear contender to run against President Trump in the US Presidential election in November.
- US economic data indicates the economy remains healthy, caveat being the coronavirus.

We hope you find this month's Economic Update as informative as always. If you have any feedback or would like to discuss any aspect of this report, please contact our office.

The Big Picture

Only a couple of weeks after the US-China trade tensions settled down, coronavirus (COVID-19) spread across the globe from the city of Wuhan, capital of Hubei province in China.

While we are not experts in medical matters, we must still try and navigate the impact of this virus on economies and markets.

Despite China having seemingly acted swiftly in containing the virus, it has spread to many countries around the world. It has not (yet) been classified as a pandemic (a global epidemic) and various heads of health organisations have said that it is flu-like and would only have a mild impact on most people. However, as with regular flu, the very young and old can have serious reactions and have experienced higher mortality rates.

To put coronavirus in perspective, about 12,000 people died in the US from 'regular' flu in 2018 – the latest complete year of data. No vaccine yet exists to combat coronavirus and educated opinion seems to suggest a solution is at least several months away, maybe longer.

Some of the production lost in China might never be recovered but most expect the March 2020 quarter to be impacted with a lesser impact on the June 2020 quarter. For example, the International Monetary Fund (IMF) shaved only 0.1% off its global growth forecast for 2020 but cut China growth from 6.0% to 5.6% for this period.

Besides China, Italy, South Korea, Japan and Iran have been particularly affected and even major sporting and cultural events have been cancelled or conducted without spectators.

So far, the direct impact on Australia has been limited but provisional

plans are in place to shut down schools and similar centres if necessary.

While it is always difficult to ascribe precise causes to changes in stock market indexes, it seems reasonable to assume much of the sell-off in late February was due to the spread of the virus. Indeed, the strong changes in the direction of markets within a trading session (so-called intra-daily volatility) seems to be associated with news or rumours occurring in our 24-hour news cycle world.

To continue reading please visit:
<https://www.infocus.com.au/news/economic-update-march-2020/>

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