

The month ahead – April 2020

The first quarter of 2020 was an unprecedented one for global markets as the COVID-19 (coronavirus) outbreak weighed heavily on sentiment as the outlook for global growth and trade worsened. By the end of March, the coronavirus had infected more than 700,000 people with more than 35,000 deaths.

On the back of the crisis, several equity benchmarks fell as much as 30% from their record highs. However, as of 30 March, we had seen a decent rebound in stocks with some indices regaining as much as 10%. As of 30 March, the MSCI World Index was down about 14% (local currency), since the beginning of March.

As we head into April we are expecting further periods of volatility with most eyes on the continuing fallout of coronavirus as well as economic data that will begin to shed light on the hit the economy has taken. Here are some key themes ANZ is following this April.

CORONAVIRUS

The developments surrounding coronavirus and its impact will again be front and centre heading into April. Markets have moved quickly to price in the recession that is already underway from the impact of coronavirus induced lockdowns on entire cities and countries. Markets will now focus on the pathway out of the recession and how the very large fiscal and monetary policy supports will help economies 'bridge' the lockdown periods. In assessing the extent of the contraction, we are closely monitoring the following key areas:

- **Health – looking for signs that cases are peaking:** The speed of the coronavirus spread will be important in determining when the peak in cases is reached. This will determine when we begin to see border restrictions loosen, freeing up trade. Additionally, we are closely monitoring the progress being made for any potential vaccine or anti-viral medication.
- **Fiscal and monetary policy:** We have seen unprecedented fiscal policy responses from governments that are injecting billions of dollars into local economies to try and soften the blow. However, as the economic and social fallout becomes clearer, we will be eyeing the potential for continued stimulus, which some are projecting to reach 10% of GDP. Likewise, global central banks have acted swiftly to deliver accommodative monetary policy and we expect them to continue to use a wide range of tools at their disposal.
- **Market conditions and pricing:** As governments and central banks roll out policy measures, we are closely watching market conditions such as liquidity and cross-asset pricing, from both a short and long-term perspective. As the market conditions change we are looking for signs of attractive long-term asset prices.

ECONOMIC DATA

In April, a raft of economic data will be released, shedding light on the economic impact of the coronavirus. In the US, we will be closely watching the employment report for March, which is scheduled for release on Friday 3 April. The jobs market has been a pillar of the US economy; however, the sharp decline in business activity over the past few months is likely to see a decline in monthly jobs, which would be the first decline in more than 100 months.

Other employment-related data we will be eyeing is weekly jobless claims – the number of people filing for employment benefits. The first significant jump came on 26 March where the number topped 3 million. For context, during the financial crisis during 2008 and 2009, it never reached 700,000.

In New Zealand, a good gauge of the economy will come towards the end of the month with the release of the ANZ Business Confidence report for April. And across the Tasman, the Australian employment report for March will be released on 16 April.

CENTRAL BANK MEETINGS

April will also see a number of major central banks meet. While most have already slashed interest rates and enacted various monetary policy measures to ease the financial downturn, April will be a good chance for policymakers to provide further communication and any forward guidance.

Central banks of note which are meeting in April include; the Reserve Bank of Australia (7 April), the US Federal Reserve (29 April) and the European Central Bank (30 April).

DEMOCRATIC NOMINEE RACE

While the focus for investors will be the ongoing coronavirus fallout, the race for the Democratic nomination continues. Former Vice President Joe Biden holds a comfortable lead over Senator Bernie Sanders, but the coronavirus outbreak has seen a number of primaries postponed, dragging out the race. April may be Sanders' last chance to get back in the race with New York State set to vote on the 28th, where 274 delegates are up for grabs.

DEFENSIVE PORTFOLIO

We continue to remain relatively defensive, holding an overweight position to cash. In fixed interest, our philosophy of holding high-quality bonds in portfolios is being rewarded.

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