17 March 2020

With the effect the Coronavirus has had on markets around the world, it's good to step back and see the situation for what it actually represents. I have 6 points to make -

Firstly, as Goldman Sachs recently remarked, this is a health and confidence crisis, not a financial crisis. Unlike in 2008, the Banks now are in very good shape, with healthy balance sheets and are lending widely to consumers, so credit is flowing.

Secondly, there is no systemic risk to the system. Government Financial Bodies across the world, like the US Federal Reserve, have acted aggressively and decisively to ensure that the fundamentals of their economies remain sound. For example reducing Fed rates and injecting cash into the system. Where businesses are being affected, large Government subsidies are being put together – for example in the US and France and shortly the UK.

Thirdly, China & South Korea have shown that the Pandemic (like all Pandemics before it) has a timeframe – whose length depends on actions taken. The Peak has now passed in those countries and western countries will also eventually meet and move beyond their own peaks.

Fourthly, we are already seeing firms in China, like Foxconn, start to tentatively head back online and get supply chains back in order. It won't happen overnight, but it's the system starting to fix itself again and head back to normality in due course. See article here - https://www.techradar.com/news/resumption-of-work-at-foxconns-chinese-factories-beats-expectations

Fifthly, both Morgan Stanley & Goldman Sachs can see an upcoming eventual rebound in the markets, now that we are seeing the end of the emotional sell off, triggered by health concerns over the Coronavirus. Please see the attached graph showing the way the MSCI reacted to past Pandemics and the positive movements in the markets after Pandemics had occurred.

Finally, this is a better investing opportunity than 2009, because not only are market fundamentals more sound, but investors cannot get yield from elsewhere, for example Bonds, so we will see a large bounce back in equity valuations. With equity valuations at current levels, give or take a little bit more volatility, there are some great opportunities for buyers who are willing to look at the bigger long term picture.

Credit: Castlestone Management Inc.