STANFORD BROWN

Financial Advisers

Monthly Investment Markets Report

April 2020

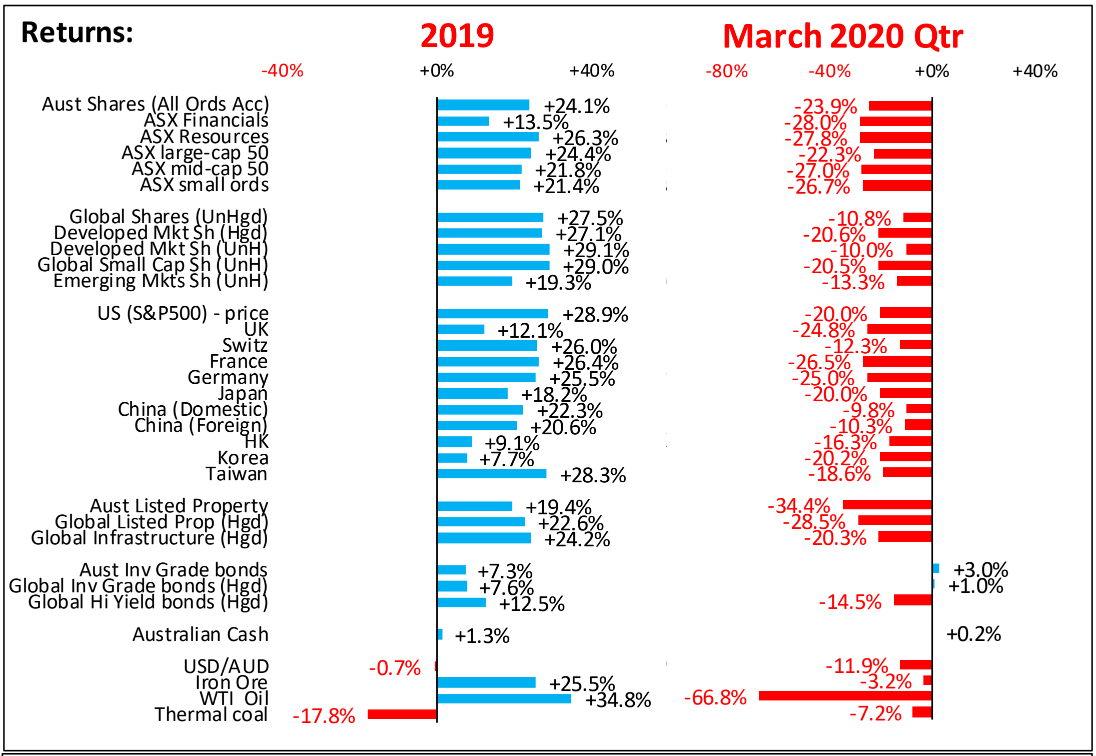
Investment markets and portfolio returns

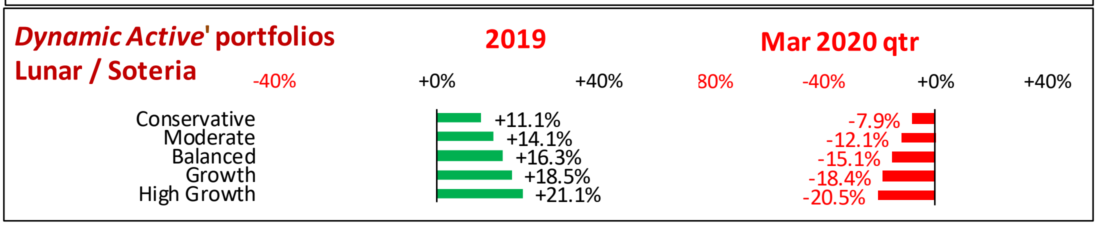
While much of the world has closed down over the past few weeks and most people are either working from home, unemployed or 'furloughed', we are still very much working full time to ensure our investors remain on track to reach their long term goals.

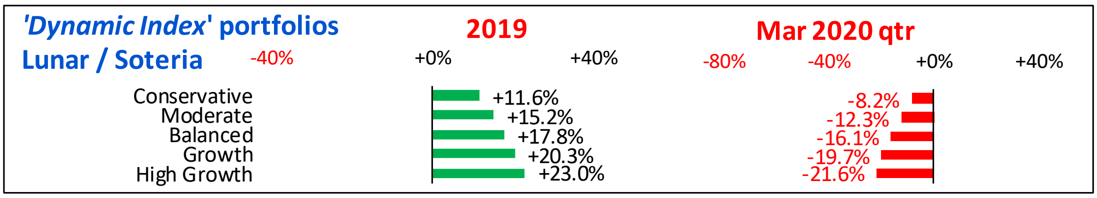
For investors it has been very much a case of 'what 2019 delivered, 2020 has *almost* taken away'. The left chart shows returns for the 2019 calendar year, and the right chart shows returns for 2020 to the end of March, largely as a result of the global sell-off in March.

The lower panels show returns from our diversified portfolios for the same periods. From these we can see that, while the sharp sell-off in the past few weeks was extremely sudden and severe, the declines in portfolio values this year are still less than the positive returns achieved last year.

While these net gains are very modest and far from ideal of course, it is useful to put the 2020 returns in context – because headlines like 'Investors are still ahead!' is not something you are going to see in the scare-mongering media headlines.







<u>Returns in March</u>

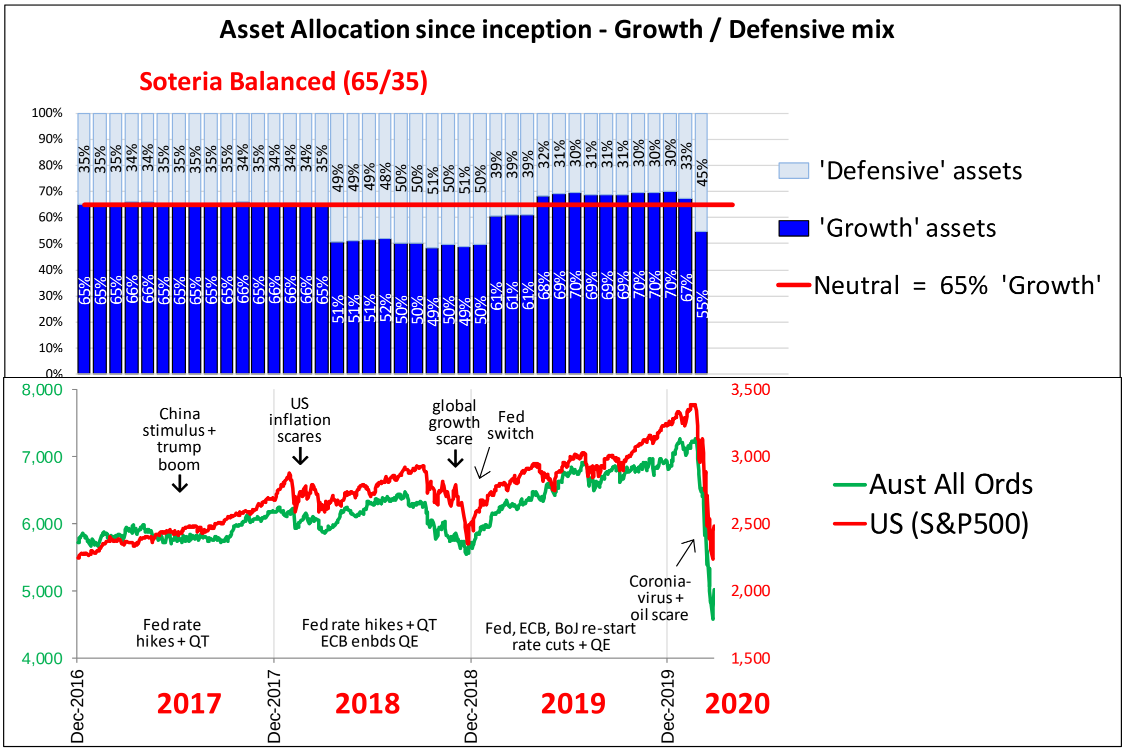
March was the worst month in recent history for investors – and even for 'diversified' investment portfolios, as just about every type of investment asset has been hit severely by the virus crisis. Most 'normal' economic contractions evolve over many months but this time the sudden government announcements of restrictions and shutdowns of everyday activities in Australia and around the world have created instant recessions, instant mass unemployment, and instant contractions in revenues for households, businesses and governments everywhere.

Not only have the government actions taken to contain the virus been unprecedented outside of national war efforts, and are causing a host of unintended contractions in economic activity, jobs and incomes, but there have also been unprecedented stimulus programs - both fiscal (government spending to prop up jobs and companies and in some cases whole industries), and monetary (central bank rate cuts, asset buying and lending programs) – which will also have far-reaching unintended negative consequences lasting many years into the future.

Portfolio positioning.

The virus crisis is far from over, the government restrictions and shut-downs are still being ramped up, and the stimulus announcements are still increasing in scale, breadth and cost – so it is very unlikely that the worst is over for investment markets.

The following chart of 'growth/defensive' mix of the 'Dynamic Active Balanced' portfolio shows how were 'under-weight' growth assets during the 2018 global share sell-off, then over-weight for the 2019 rebound, but returned to under-weight from March this year.



The other portfolios – from 'Conservative' to 'High Growth' also follow similar patterns, proportional to their overall risk/return goals.

This edition covers the main investment markets in more detail, but here is a quick snapshot of some of the impacts.

Shares

Company share prices were sold off unusually sharply and quickly, because the extraordinary government restrictions and shutdowns to contain the spread of the virus caused sudden almost instantaneous contractions in revenues and profits of companies of all shapes and sizes in almost every industry. Since the various government actions have been so sudden, unpredictable and far-reaching, the actual impacts of the various government actions is impossible to properly assess. For global investors it has very much been a case of sell first and think later. It was panic selling in every country, even those that have had no deaths from the virus and no government shut-downs. This is covered in more detail later in this edition.

Last month we reduced our exposures to shares in all portfolios, as we outlined in our communications to clients at the time. We believe that the worst is not over yet, although share markets will inevitably experience temporary rallies from time to time until the crisis is finally over. With the virus still spreading and governments still increasing their restrictions and shut-downs, it is impossible to sensibly measure the likely impacts on company profitability this year, let alone in future years. In this environment it would seem the risks to the downside probably still outweigh the upside opportunities at this stage, and we are erring on the side of caution.

Commercial property

Within a few days of the governments restrictions, retail tenants (shops) started refusing to pay rent for which they were contractually liable, and even office tenants started to demand rent holidays or big reductions from their landlords. Ownership of diversified portfolios of commercial property comes in two flavours – listed and unlisted trusts. ***Listed*** property trusts were sold off even more sharply than shares, in anticipation of huge reductions in rents and property values. Property trust prices fell by more than 40% in just six days in the middle of March. We have small allocations to listed property trusts in portfolios and we are retaining these for now as they have probably been over-sold at current levels.

While prices of listed property trusts are set by buyers and sellers in the open market and are down heavily in March in anticipation of likely ***future*** hits to rents and valuations, unit prices for ***unlisted*** property trusts are set by the management of each trust based on valuations of each property they hold, and this is usually done progressively during each year on a rotating schedule, so valuations and unit prices reflect the ***past*** by the time they are published.

Because of this disconnect between the prices of listed trusts (based on potential future cuts in rents and values), and prices of unlisted property trusts (which are based on the past) we are *exiting* our holdings unlisted trusts that hold mainly retail and office properties. However we are *retaining* holdings of the healthcare property trust in portfolios because the hospitals and medical centres they own are likely to see rents and valuations supported during the current crisis and also continue to benefit from the long term trends like aging population and increases in health spending.

If retail and commercial rents do contract across the board – which we are seeing anecdotally in many industries around Australia - unlisted retail and commercial property trusts will need to start reducing the valuations of their underlying properties and this will reflect in lower unit prices in the coming months as valuation cycles are completed. Unlisted property trusts with declining valuations may have to be frozen for years, like they were after the GFC and after early 1990s recession, in order to prevent investor redemptions from forcing a flood of fire sales of properties that would depress prices and values even further. This time is different from the early 1990s recession and the GFC in that the rent collapse is going to be much quicker because it has been created by sudden government edicts, rather than a steady decline in retail sales and demand in a normal recession cycle.

Whether retail and office property prices recover quickly, or to the same levels as prior to the crash, will depend on whether there has been any long term structural changes to the way people shop and work. Retail shops were already being 'Amazoned' out of business anyway and the current crisis may be the last straw for many. Commercial tenants will also use the crisis to accelerate downsizing and remote working, requiring less space and lower overall rents. On the other hand industrial properties (warehouses and distribution centres) is benefiting from the trend to online retailing and will probably recover stronger than ever. Likewise with the healthcare property sector.

Infrastructure

We also have some holdings of 'infrastructure' funds. Some of the assets they hold in their funds are experiencing large reductions in volumes of traffic – notably toll roads and airports – and these will translate into lower revenues and asset valuations. We are retaining the infrastructure funds in portfolios at present as they are widely diversified across industries, they are very well managed and have a history of adding value in previous downturns, but we are assessing them closely.

On the 'defensive' side of portfolios, there are also some very unusual and expected impacts on returns. We were under-weight Australian and global bonds going into the crisis and we remain that way, which is unusual for an economic slowdown crisis.

Bonds

For government bonds - the story later in this edition covers the sudden complete seizure in all global bond markets (including normally 'ultra-safe' government bonds) in the middle of March, which was eased only after extraordinary central bank intervention. Government bonds have not provided the usual positive returns when shares collapse in anticipation of economic contractions. This is because yields are already at ultra-low levels and also fears the market will soon be flooded by trillions of dollars of more government debt to finance all the stimulus programs promised everywhere.

Australian and global government bond markets posted flat returns for March due to the bond crisis.

Corporate bonds were also hit by rising credit spreads (credit spreads are the additional yield paid by corporate bonds to compensate investors for the possibility of loss of interest and/or capital in the event of default. The more risky the bond, the higher the credit spread).

Australian investment grade corporate bonds returned –3% in March, and global investment grade corporate bonds -7% We are moving to shift a proportion of both the Australian and global corporate bond holdings back into cash, and we will do this as soon as the trading costs and margins recover from their very stressed market conditions that peaked in the middle of March.

US dollar cash

In March we added US dollar cash to all portfolios as we considered the Australia dollar would be likely to continue to weaken against the US dollar (ie US dollar cash would rise in value for Australian investors) if shares continue to fall as the crisis continues. Investors will recall that we did the same in 2018 and the USD exchange traded fund we use in portfolios jumped by 10% in value during the crisis as the AUD fell.

Gold

Investors will also recall that we used gold in all of our portfolios in late 2018 and it jumped 10% (in Australian dollars) during the late 2018 share sell-off. We did not use gold this time because gold already had a good run-up during the last crisis and last year. During the bond crisis in mid-March, the gold price actually fell 10% - so it did not provide the same 'safe haven' qualities it did last time.

Summary

All of our investment portfolios are defensively positioned as we believe the downside risks outweigh the upside potential in the current environment, especially as the virus continues to spread and governments' containment measures in Australia and elsewhere are being extended further and are likely to do even more damage to income levels or households, business and governments for some time yet.

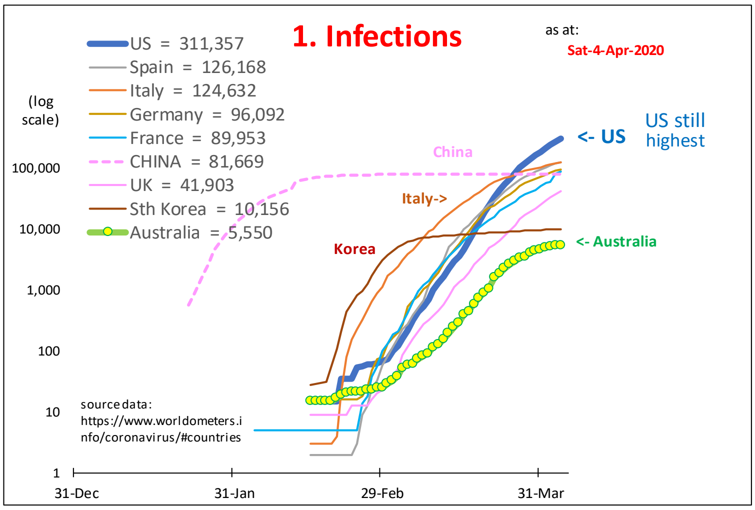
We are not short term traders and therefore we don't suddenly jump in to sell, or buy, every time the market has a sharp fall (or jump). We take time to carefully and calmly assess the likely returns and risks before taking action. We are constantly reviewing events as they unfold and assessing their potential impacts on financial markets and on our client portfolios, and we will continue to take additional actions where necessary to protect and further the interests of our long term investors.

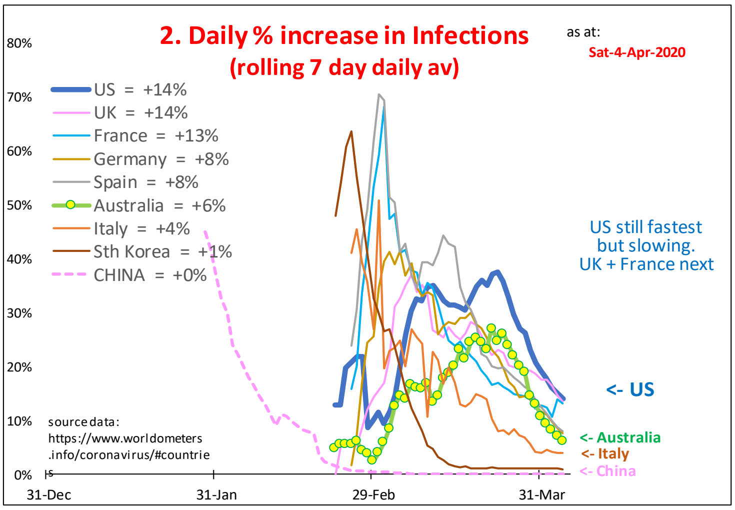
Coronavirus (COVID-19) update

The spread of the virus, and the sudden government restrictions and shut-downs to try to contain it, have caused almost instant economic recessions around the world, throwing millions of people out of work and everyday life into chaos. Share markets have had their steepest declines in history, due to extreme uncertainty about the impacts of the government restrictions and shut-downs on corporate profitability and viability across almost all industries. Bond markets have also experienced unprecedented levels of volatility as investors everywhere try to assess the impact of trillions of dollars of additional debt that will be borrowed by governments to pay for all the stimulus programs to try to counter the effects of the restrictions and shut-downs.

The cause of it all is the virus, so that's where we start. Global infections exceed 1.2 million and the death toll exceeds 65,000.

Here are updates on four key charts that we use to track progress. (These are current as at Saturday 4th April night and we track them daily). Chart 1 shows the numbers of infections in several key countries over time; chart 2 shows the daily growth rates of infections. China was the first to experience mass infections (January), the first to undertake radical and comprehensive shut-downs (February), the first to see the infection curve flatten (left chart) and the growth rate to near zero (right). It has also been the first to start easing the restrictions.

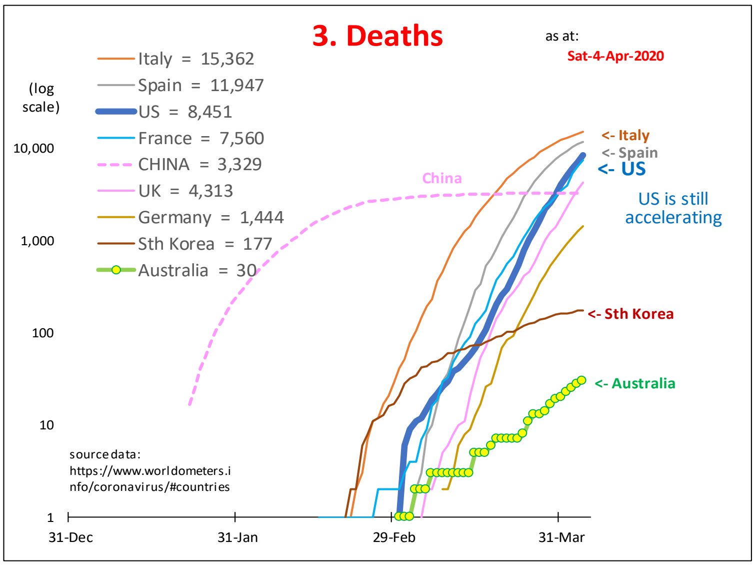


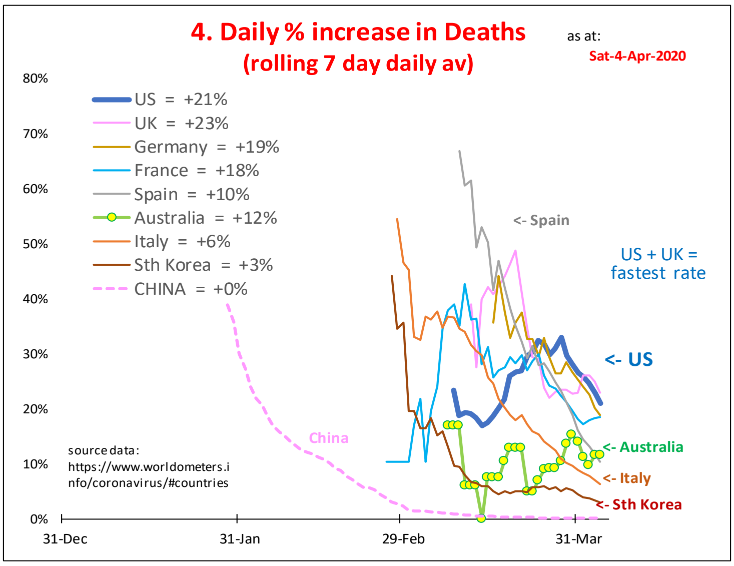


Despite doubts as to the veracity of Chinese official numbers, the flattening curves for China are being echoed in the data from South Korea, Hong Kong, Taiwan and Singapore – all of which took early hard-line containment action.

The above charts show how the US has been the late mover in recognizing the problem and then taking radical shut-down action. As a result it has rapidly shot to the highest numbers of infections (left chart) and still has the highest growth rate in infections (right). The US market is the key for investors because it is the largest single economy and it dominates global investment markets. What happens in US investment markets sets the trend in other global markets including Australia.

Charts 3 and 4 show the same for deaths. The US will probably overtake Spain and Italy in the next week or so.





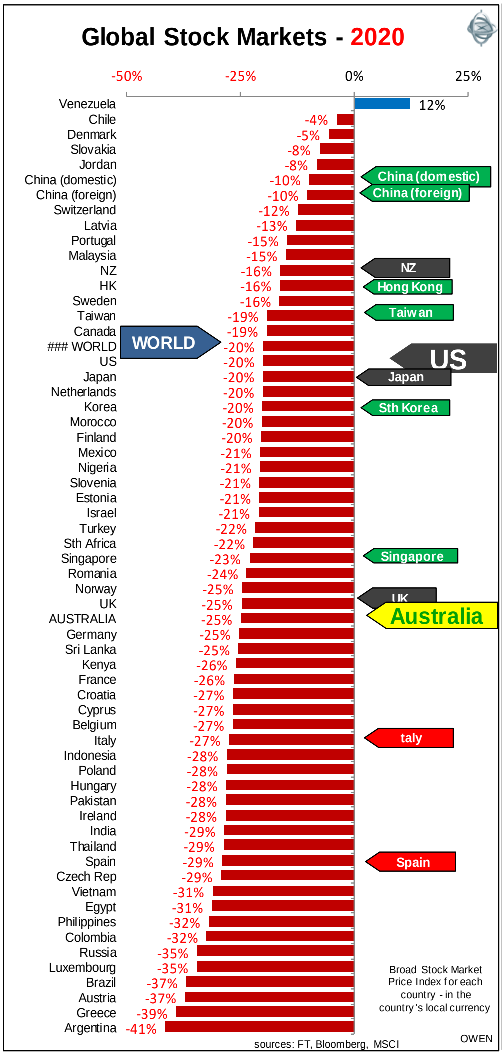
Australia is in the middle of the pack on these measures – with daily increases in infections running at less than 10%, and daily increases in deaths running at below 15%. Although local containment action and stimulus actions are important for local jobs and companies, Australian share prices will not rebound until the US market rebounds, and conversely our local share market will fall heavily when the US market falls.

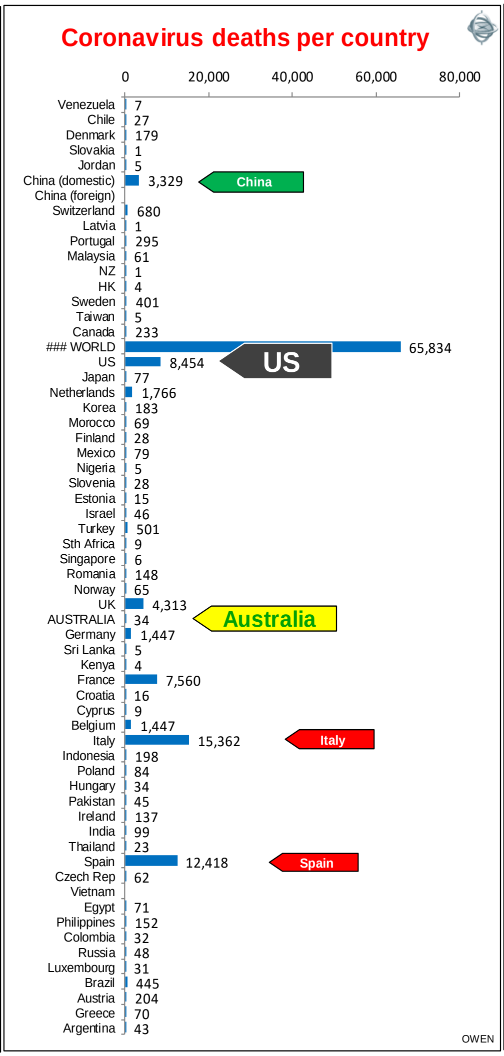
Our base case is that, given the highly indebted state of household, corporate and government balance sheets that the crisis will expose, share markets will not see sustained rebounds until there is at least some visibility of an end to the economic and corporate collapses. Currently all we have is endless streams of sudden, bewildering government announcements on both the containment and stimulus fronts.

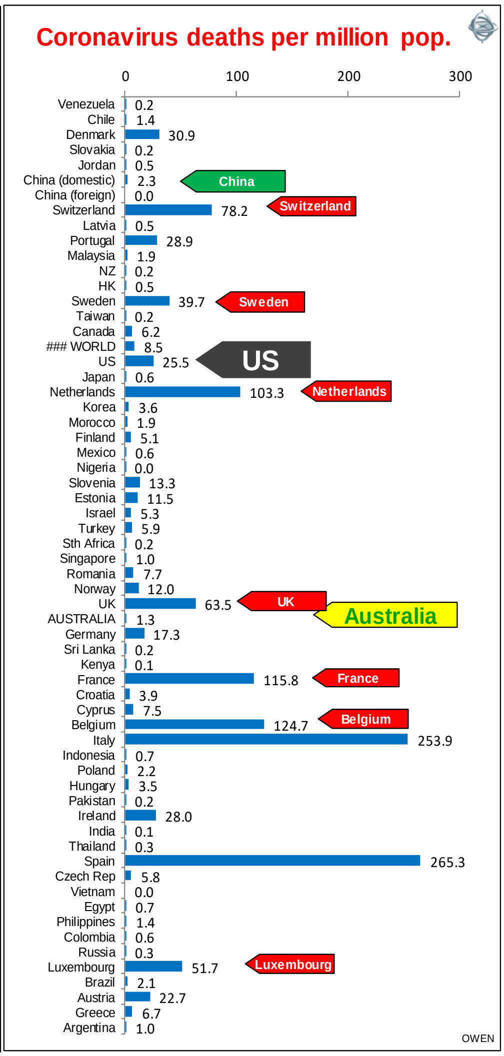
Share markets and the virus

Share markets have fallen just about everywhere as the pandemic has spread around the world. It has not been the infections or deaths that have caused the global sell-offs, it has been fears of unknown and likely devastating negative effects on corporate profitability of the drastic government actions to contain the spread. The suddenness and sharpness of the share prices falls since late February, and the volatility we haven't seen since the 2008-9 global financial crisis, have been due to the unprecedented suddenness and scope of the government restrictions and shut-downs.

The left chart below shows the share market falls per country to the end of March), sorted from best at the top (only Venezuela is up, due to local hyperinflation) to worst (Argentina) at the bottom. The ASX is down -25%, which is below the world average (-20%).







The early movers on shut-downs – China, Hong Kong, South Korea, Taiwan and Singapore (marked with green arrows on the left chart) – took dramatic containment action very early on and their stock markets have held up better than most. Chinese shares are near the top of the table. This is the case for 'domestic' Chinese shares (which are mainly the big state-controlled banks, insurers, telco's and manufacturers), and also 'foreign' Chinese shares listed mainly in Hong Kong (the largest being Tencent, the leading online social media service in China) and in New York (the largest being Alibaba, the dominant online retailer in China).

The middle chart shows the numbers of coronavirus deaths per country (up to 5 April) - in the same order. Italy and Spain are the worst affected so far, and their stock markets are near the bottom of the table. The US is 3rd for deaths, with France and UK not far behind,

Italy instituted a broad shutdown in mid-March and the growth rates of infections and deaths are slowing. Spain and the UK have been slower with their containment actions and their numbers are still climbing rapidly so more shutdowns are probably going to be required. The US is the slowest of the big markets on containment actions, and is reluctant to impose more wide-ranging restrictions.

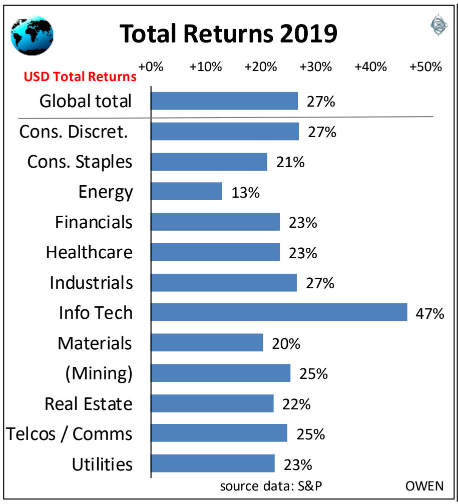
The right chart shows the number of deaths per million population for each country. Italy and Spain are by far the worst by this measure, but this chart also shows up some additional trouble areas (red arrows) – Netherlands, Switzerland, Sweden, UK, Belgium, Luxembourg and France. Australia is very low at 1.3 death per million people so far, well below most other developed countries with mobile populations.

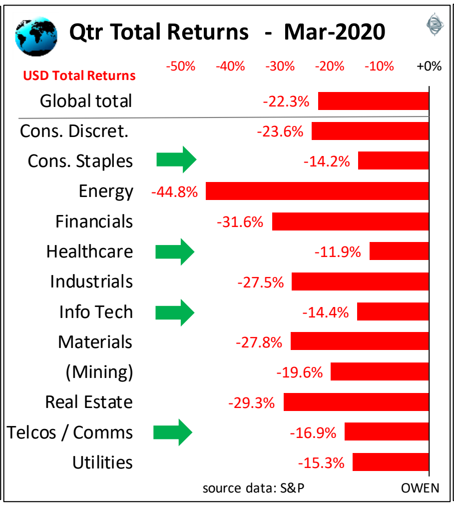
The implications for company profitability and share prices are that the slower the containment measures are, the more the virus spreads, and that would probably mean eventual shut-downs, once they are reluctantly implemented, would need to be longer and more damaging.

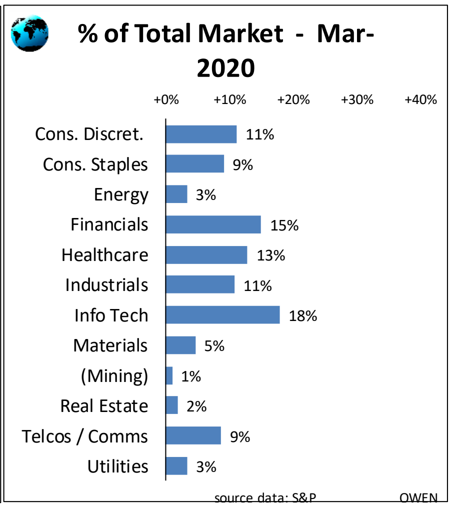
The US is the slowest mover with the largest potential impact on overall global economic growth and corporate profitability.

Shares – winners & losers – so far

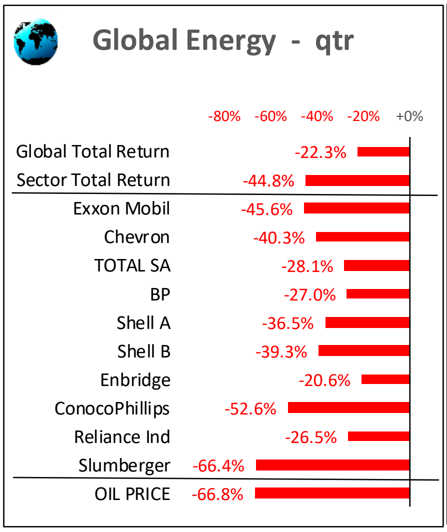
Although all share markets are down heavily, there have been winners and losers. The left chart shows total returns (in US dollars, including dividends) from the global share sectors last year (left chart), in 2020 to date (middle), and each sector's share of total market value (right).

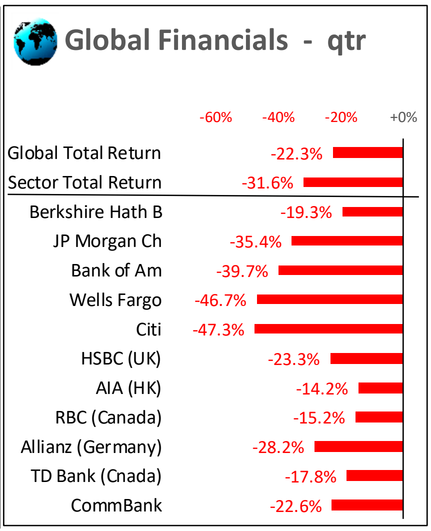


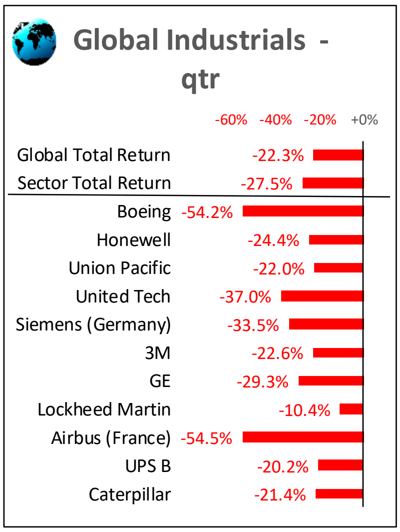




The biggest losers have been energy (oil/gas) stocks (left below). They would have been down heavily anyway because of the quite separate collapse in oil prices due to a combination of pre-existing weakness in global demand, over-supply, and the Saudi-Russian price war.

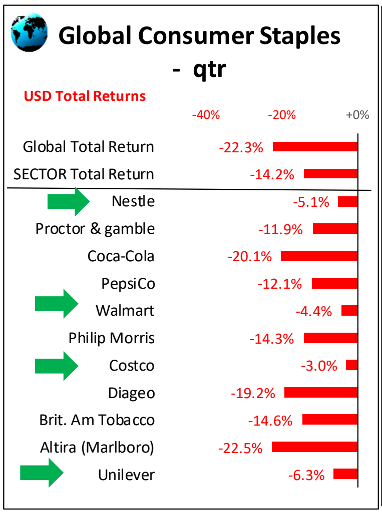


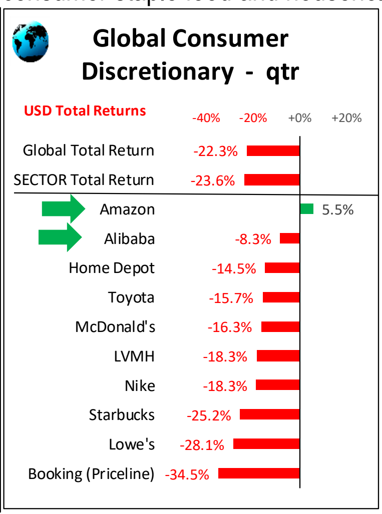


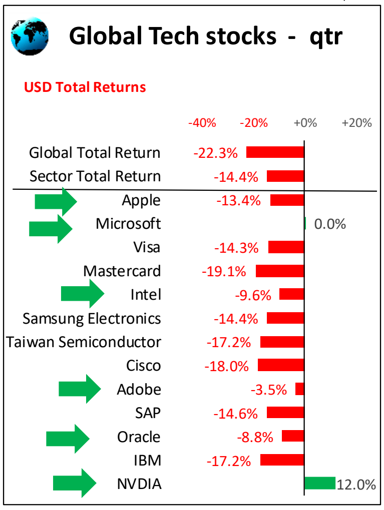


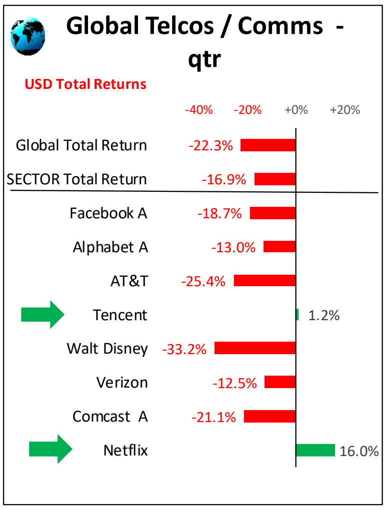
Aside from the unrelated oil problem, banks (above middle) and industrials (above right) show the more usual pattern in economic slowdowns because both sectors are highly leveraged to economic activity. Boeing and Airbus have taken the biggest hits due to the travel bans.

The winners have been makers of consumer staple food and household items like Nestle and Unilever, and retailers Costco and Walmart.





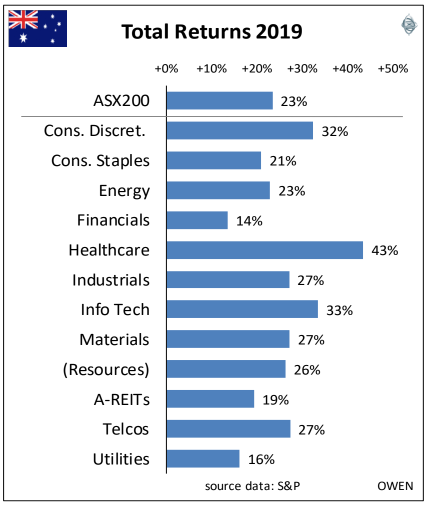


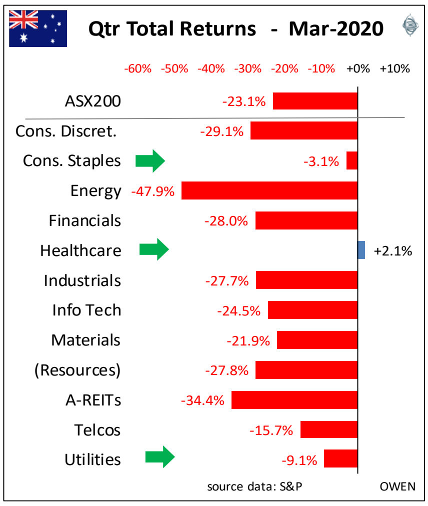


The big (mainly US) tech/online giants have been the main beneficiaries of the global shift to tele-working and online activity – including Amazon, Alibaba, Microsoft, Adobe, Intel, Oracle, Tencent.

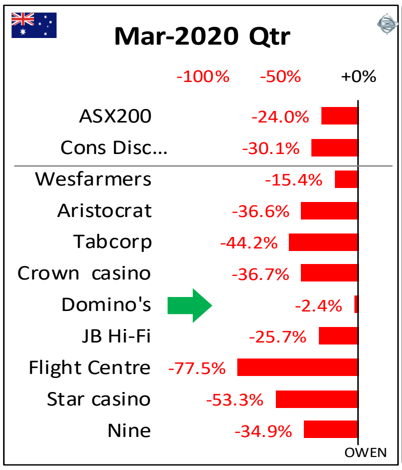
The biggest winners have been Netflix and Nvidia (gaming graphics tech) – as people everywere resort to sitting out the crisis on the couch!

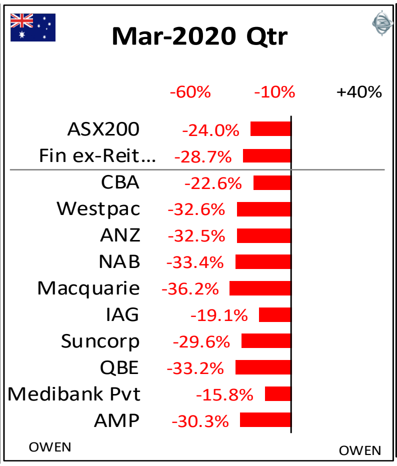
In Australia – the share market gains in 2019 were given back in 2020. All sectors were down in the March quarter except for Healthcare -

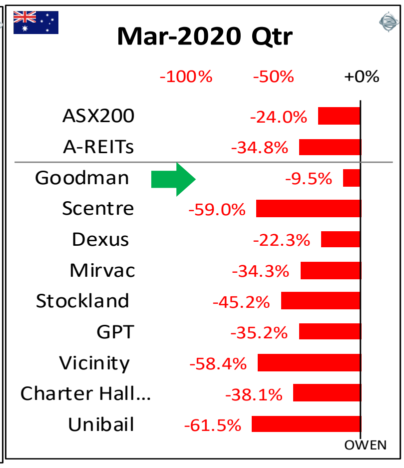




The worst hit sectors have been consumer discretionary, financials and property trusts. Here are the main companies in each sector -



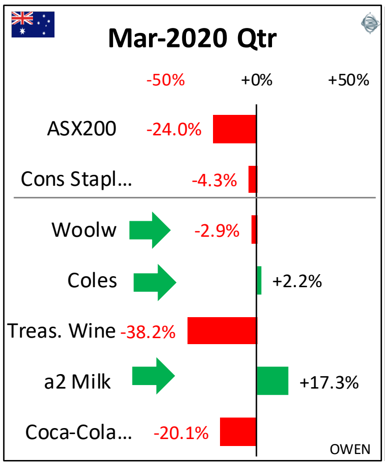


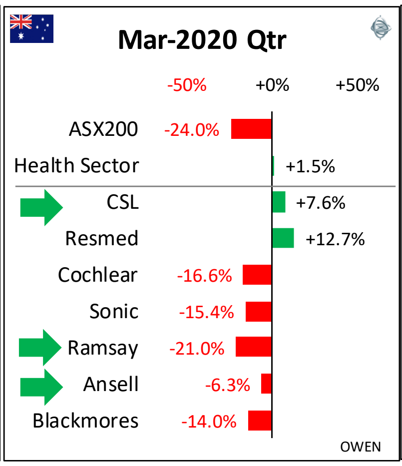


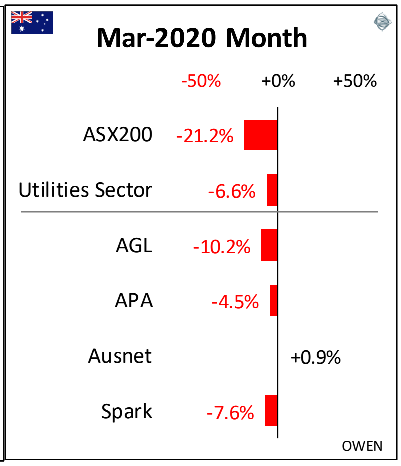
In the consumer discretionary sector, hardest hit have been Flight Centre and the gambling dens (Crown, Star, Tabcorp, Aristocrat) but Domino's Pizza parlours are doing a roaring trade in takeaway. In Financials – banks have all been bit hard by fears of looming mountains of bad debts, on top of the already crippling remediation programs, regulatory costs and severe margin squeeze from ultra-low interest rates. There is a real risk the government here will follow the UK/Europe/NZ lead and ban dividends from banks that accept support during the crisis.

Property trusts would ordinarily be safe havens in a crisis but all are down heavily so far – especially retail shopping centre operators Scentre (ex-Westfields) and Vicinity. Unibail owns the remants of Westfield's offshore shopping centres and was first hit by the forced closure of shopping centres in Europe. There is a battle going on between retail tenants who are refusing to pay rent and landlords who need to pay interest on debts. Most property trusts are probably over-sold at current levels, reflecting the uncertainty of future capricious government actions (eg whether to order rent holidays for tenants and/or interest holidays for landlords, which operators to save or let fail, etc).

The best sectors have been consumer staples, healthcare and utilities -







Woolworths and Coles are profiting from the stockpiling rush, especially on milk products (A2 Milk). In Healthcare, CSL catapulted over CBA to be the largest listed company on the local market, and Ansell's medical protection products are booming. The big utilities are providing their usual buffer thanks to their steady regulated cash flows.

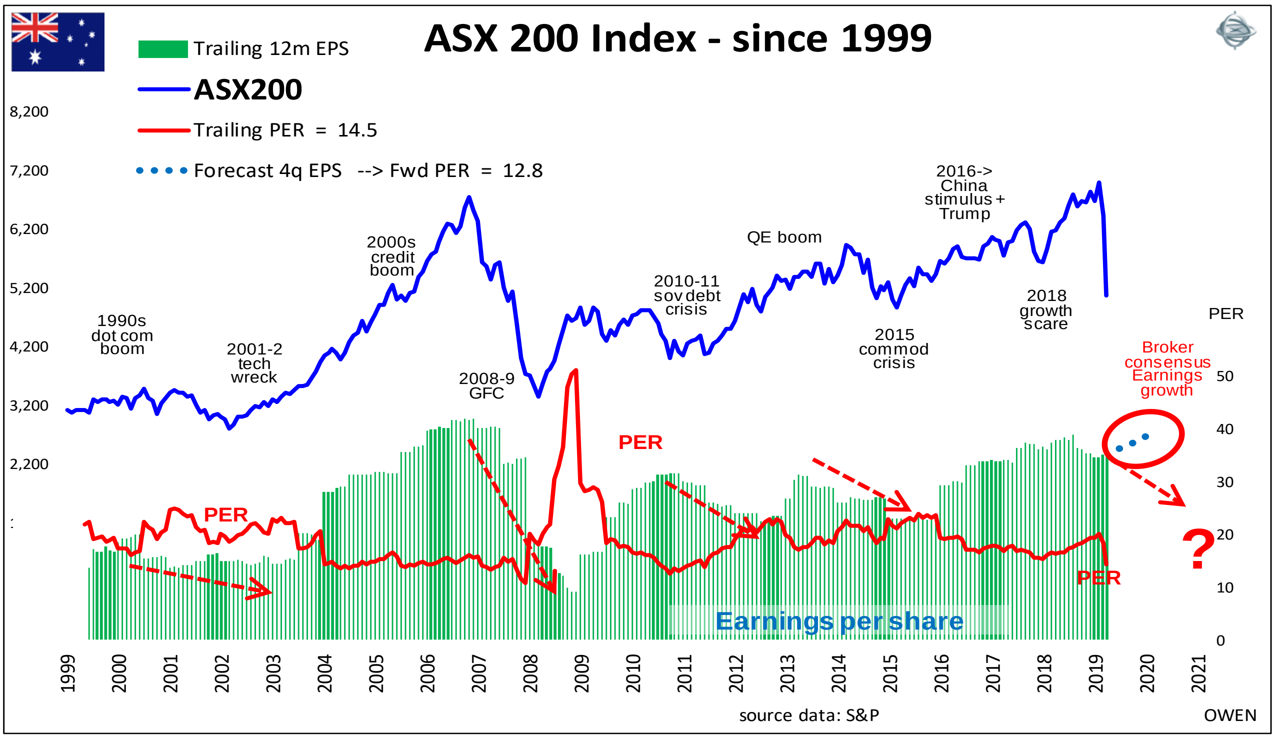
Are shares cheap yet? The problem with profits

If share markets are suddenly down 30% over the past few weeks, does that suddenly make them 30% 'cheaper' and now good value?

Australia

At the moment, the ASX200 market is trading at 14.5 times last year's aggregate profits and just 12.8 times the most recent forecasts for 2020 profits. The 'price/earnings' ratios are finally down below the long term average of 15 for Australia, so does that make the makret 'cheap'? No.

The problem is that this cheap-looking 12.8 ratio is based on the assumption (which was current at the end of February) that profits will grow by a healthy +11% over the coming year (highlighted in the red circle at the right of the chart). This was the 'consensus' earnings outlook by the broker communitiy in Australia just one month ago. It was crazy at the time (as we reported) and it is even more crazy now. Profits were already falling in Australia over the past year (shown by the declining green bars at the right of the chart) - thanks mainly to falling profits in the banks, AMP and a handful of other disasters.



Even without the coronavirus crisis, overall profits for the ASX markets were going to be lower again this year. Bank profits were going to be lower due to declining margins, rising bad debts from property develpers, rising customer remediation costs and compliance costs, etc. Profits from the resource sector were also likely to be lower because the windfall profits from the 2016-8 rebound in commodities prices were always going to be one-offs that were not repeatable since commodities prices were falling anyway.

The green bars in the above chart show aggregate earnings per share since 1995 for the ASX200 market. The dotted red arrows show how profits fell during the last few economic slowdowns. Overall profits fell by 30% in the 2001-2 tech wreck (which included Ansett and HIH collapses), fell by -75% in the GFC, then -28% in the 2012 commodities collapse, and then -20% in the 2015-6 oil/gas/steel crisis. The combination of another oil price collapse on top of the current contractions in virtually all other industries thanks to the coronavirus shutdowns could easily see market-wide profits fall by another 30% or so over the coming year.

It could be a lot worse than this – the Bank of England has flagged that it will order British banks to suspend all dividends until the crisis is over. The RBA could well do the same here if the wave of bankruptcies force the banks to eat into their capital buffers and force them to seek additional support from the RBA. That type of announcement would see bank shares sold off even more than they have been to date.

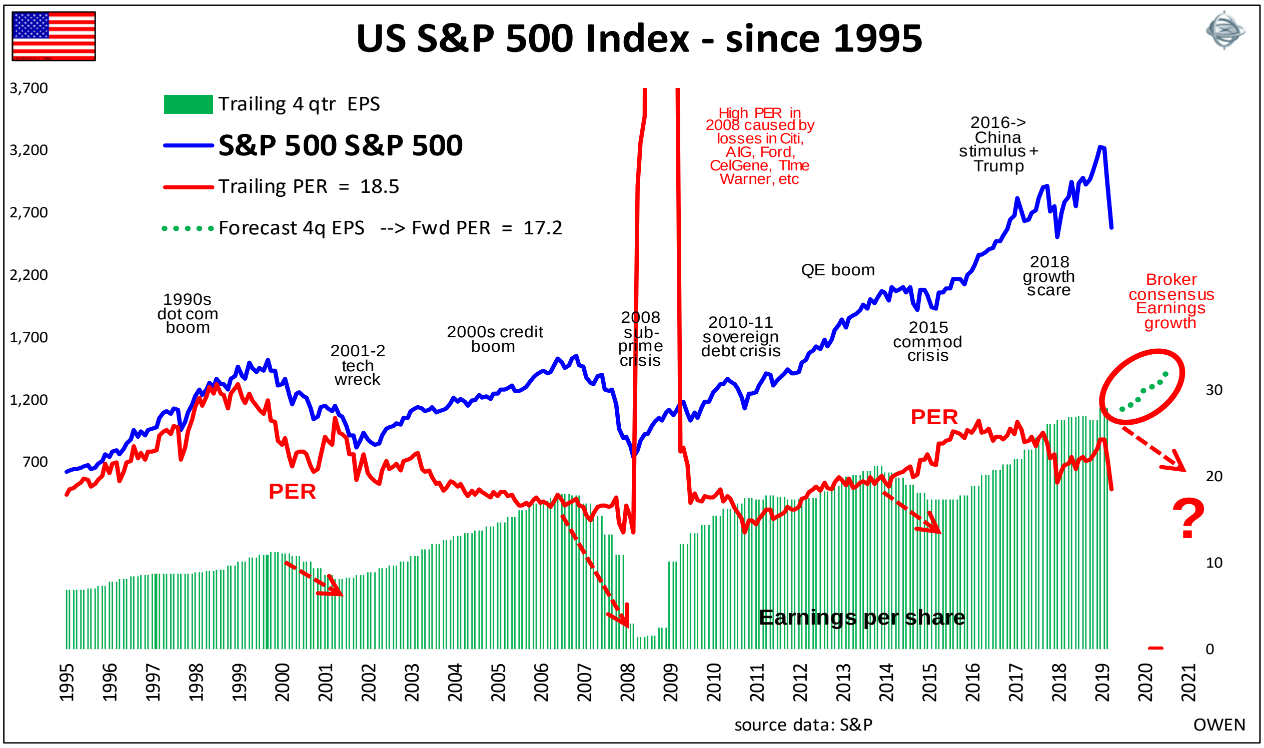
Even though the market looks 'cheap' at 14.5 times last year's earnings and 12.8 times the most recent forecasts for 2020 earnings, the current price level is still expensive relative to likely 2020 profits.

The problem is that nobody knows which companies the government will save and which they will allow to fail. The government here has extended the period that unpaid creditors can apply for a winding up order from the usual 15 days to six months, which clearly swings the balance in favour of companies at the expense of creditors and lenders. Liquidators in Australia have geared up their staffing levels to handle the expected flood of bankruptcies (like in the US), but will now have to wait six months for the action to really start.

Losses and bankruptcies are likely to be greater than most people expect. Crises like these have a habit of exposing highly indebted and fragile business in all sorts of unexpected places.

The US

It is the same with the US market. The S&P500 market is trading on 18.5 times last year's profits and just 17.2 times expected 2020 profits. This sounds a lot cheaper than the price/earnings ratios well above 20 over the past year. The problem is that this 17.2 ratio is based on the assumption that US corporate profits will grow by 7% over the coming year (highlighted in the red circle at right).



The green bars show aggregate earnings per share since 1995. The dotted red arrows show what profits did in the last few economic slowdowns – they fell by 30% in the 2001-2 tech wreck, by -94% in the GFC, and then by -20% in the 2015-6 oil/gas crisis. The combination of another oil price collapse on top of the contractions in virtually all other industries could easily see market-wide profits fall by another 30% or so over the next year. So the current price level is probably still around 20 to 25 times the likely level of 2020 profits, making the US market still expensive even after the correction.

Rest of the world

It is the same for every country around the world. Most countries are probably going to record their deepest and steepest economic contractions in total output since the 1930s depression, and this is likely to result in countless losses and bankruptcies across a wide range of industries. But since all countries are still increasing their shut-down measures in haphazard, piecemeal fashion, constantly changing the rules as they go, it is impossible to make sensible assessments of likely corporate losses and bankruptcies.

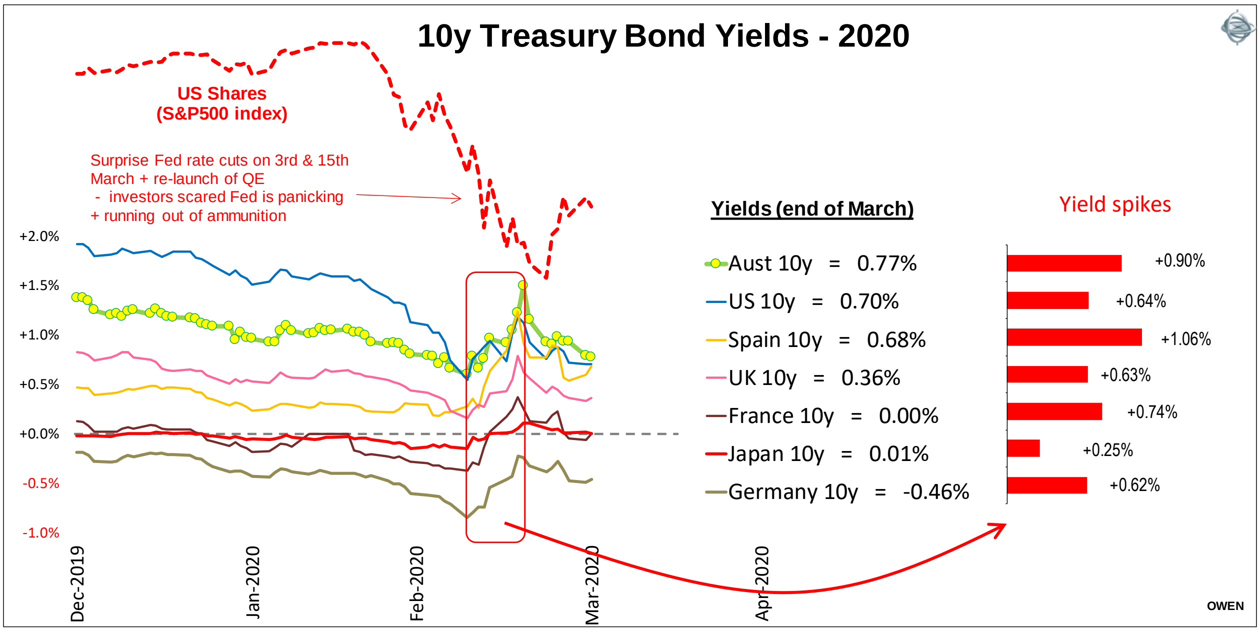
Bond markets – this time *is* different!

When share prices fall in anticipation of hits to corporate profitability in an impending economic slowdown, government bonds have usually provided a useful buffer. Boring old government bonds usually post handy positive returns in the face of declining outlooks for economic growth, inflation and interest rates, as people rush out of shares and into bonds, forcing up bond prices by forcing down yields. They are happy to accept lower yields from bonds because they believe inflation and interest rates are likely to fall in the impending slowdown. This phenomenon produced good positive returns from government bonds in slowdown crises like the GFC, the early-1990s recession, the 2001-2 tech wreck and the 2011 sovereign debt crisis, and numerous others.

However it did not work in the 2018 'global growth scare' and it did not work this time either. (We were under-weight bonds going into the late 2018 'global growth scare' when shares fell by 20%, and we have also been under-weight bonds in the current crisis). Why?

In the latest crisis, despite the almost universal belief that inflation and interest rates are going to be very low for some time yet – especially now with a deep global recession almost guaranteed, there was no rush into bonds to force prices up and yields down. During the worst of the crisis in the middle weeks of March, bond yields suddenly rose as investors dumped bonds (as well as shares) and headed for the exits. There were literally no buyers at all in the largest and most liquid market of all – the US treasury market – except the Federal Reserve.

This chart shows yields on 10 year government bonds in key markets including Australia, highlighting the yield spikes in mid-March.



What is extraordinary is the speed of the yield spike this time. When they do occur occasionally, yield spikes of this magnitude (up to 1% rises in yields) usually occur over several months, and they are usually triggered by inflationary fears – like the post-Brexit 'global re-flation scare' in late 2016. This time the sudden spikes in yields caused bond prices to fall by 2% to 10% in just a few days – while shares were also falling heavily. These were relatively 'safe' government bonds which suffered losses - corporate bond prices fell even further as fears of credit defaults in the global recessions suddenly spiked as well.

What caused this bond market collapse? It had nothing to do with inflation fears. Government bond yields had been heading lower from the start of the year until early March as outlooks for economic growth and inflation were deteriorating. At the same time, curiosity about the possible implications of the coronavirus outbreak were gathering momentum, sparked by alarming numbers out of Italy and Iran.

The US Federal Reserve suddenly made two surprise rate cuts on 3rd and 15th of March and re-started its 'QE' bond buying program. The bond market felt the Fed was panicking and running out of ammunition it might need if the US economy really did have a recession. It didn't help that the collapsing oil price was suddenly accelerated by the Saudi-Russian oil price war erupting on the weekend of the 7-8th March. Trump was also talking up the prospect of $1 trillion in stimulus – half for cash payments to workers and half in loans to businesses – on top of the already ballooning trillion dollar government deficit, and Treasury secretary Mnuchin warned of unemployment above 20% in the US.

Bond investors were spooked by the prospect of trillions of dollars of additional government debt, not only in the US but around the world, that would be needed to pay for all the stimulus packages that governments were talking about to try to limit damage from the restrictions and shut-downs. In Germany and Japan, negative yields suddenly jumped back up to zero despite heavy central bank buying. In Italy, Spain and France, yields jumped as investors priced in possible defaults in the future.

The bond crisis unleashed a frenzy of new bond buying programs by central banks around the world to try to bring yields down and soak up the flood of new bonds to pay for the stimulus programs. The US Fed announced 'QE infinity' and others quickly followed suit. Even in Australia the sudden dumping of Commonwealth government bonds in the mid-March bond crisis prompted the RBA to finally jump on the QE bandwagon and start buying up bonds. On 19th March it announced its 17th rate cut and unlimited QE to try to prop up bond prices.

Frenzied central bank QE buying brought down yields by the end of the month. Even with deep recessions on the way, government bonds no longer provide their safe haven role in portfolios, with bond yields so low and relying almost entirely on artificial central bank buying.

What lies ahead?

It is almost impossible to describe how much the world has changed in just a few short weeks. Government edicts have created police states and instant economic recessions around the world. Although the containment restrictions may start to be eased this year, the economic damage will be much more long-lasting. Damage from the containment measures and shut-downs, and also damage from the stimulus measures to limit the damage from the shut-downs. Some companies and even whole industries will never recover, while others will thrive.

The government spending sprees are mind-boggling in their scale and scope, and are still expanding every day via a cascade of confusing media statements. Hand-outs will be impossible to cap at current levels as there are bound to long lines of companies begging for tax-payer funded bailouts in the coming months – and they will be even more difficult to remove once the medical crisis is over. The spending sprees and bailouts will saddle future tax-payers with several trillions of dollars of new debts on top of the already high debt levels before the crisis.

Economists everywhere are debating whether the recovery will be 'V-shaped' or 'U-shaped'. They are deluding themselves. It is much more likely to be 'L-shaped' – ie sudden contraction and then flat-lined for many years. Japan has been stuck in an L-shaped recovery (ie near nil real economic growth) for 30 years since its economic crash in 1990. Europe has also flat-lined with near zero growth, interest rates and inflation since the GFC. Even the mighty U S of A has been on life support for ten years since the GFC, being propped up only by ultra-low interest rates, artificial interventions by the Fed, and trillion dollar government deficit spending.

While economies flat-line and unemployment rates take many years to recede, company profitability and share price will rebound from time to time, and often for long periods – just has they have done in the ten years after the GFC.

When the virus containment restrictions are eventually lifted the world will be a different place. It is unlikely that Australia and the world will suddenly 'snap back' to the way they were at the start of 2020.

Globalism (in trade, manufacturing, out-sourcing, travel, data-sharing, supported by moderate centre right/left governments) was the great driver of economic growth and prosperity (for the rich anyway) for thirty years from the early 1980s recessions to the GFC. Following the GFC globalism has come under increasing populist pressure, and has been given another blow by what will become known as the global 'coronavirus depression'. Countries everywhere are retreating to local manufacturing, Initially it will be 'strategic' items like medical supplies, but as unemployment rates soar, countries everywhere will start ramping up barriers to protect or create local jobs in a host of industries.

The thirty year era of lower protection barriers, de-regulation, small government, independent central banks, productivity growth and lower taxes – is over. Big government is back everywhere – in re-regulation, control and even ownership of companies and even whole industries. Taxes will be higher, and spending (including welfare, especially middle class welfare tax-breaks) will need to be restricted – just to pay the interest on the trillions of new debt that current government are spending.

This is not a question of changing from a 'good' era to a 'bad' one – just different. Companies and investors will need to adapt to thrive.

Australia is very well paced because our major exports will be even more sought after than ever before. Aside from protection barriers to re-build local industries and jobs, the number one stimulus measure that will be adopted by governments everywhere will be to ramp up infrastructure spending to create jobs and boost productivity. To do that they will need rocks – and guess what Australia has? Rocks!

Our number 1 export – iron ore – has been enjoying a boom thanks to the cuts to Brazilian exports from the start of 2019 due to the Vale mine disaster. Our number 2 export – coal – has also received a tremendous boost since coronavirus-related restrictions have cut exports from the largest coal export competitor, South Africa. Revenue growth from these rocks will more than offset lower export revenues from tourism and education. In addition, Australian farmers are benefiting from the hoarding of packaged food in the short term, but food exports should also do well in the longer term as countries increase their focus on quality – where Australia and New Zealand lead the world.

We are defensively positioned in portfolios while government restrictions and shut-downs are still being ramped up, and the stimulus announcements are still increasing in scale, breadth and cost – so it is very unlikely that the worst is over for investment markets. We remain vigilant and ready to make further changes as conditions evolve.

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