



## **Philequity Corner (March 23, 2020)**

**By Wilson Sy**

### **Virus fear and panic**

Fear grips the whole world as the virus spreads rapidly in countries such as Italy, Spain, Germany, UK, France, the US and Iran. In fact, the World Health Organization (WHO) recently announced that Europe is the new epicenter of the disease. This climate of fear has manifested in forced liquidations and panic selling, resulting in a historic and violent drop in the stock market. Meanwhile, governments have put forth draconian measures in order to contain a highly contagious virus.

### **The blackest swan**

The world has experienced black swan events in the past but the crisis caused by COVID-19 is the blackest swan of all. People will remember this horrific event as the 2020 coronavirus stock market crash. The swiftness, ferocity, and widespread damage of COVID-19 is unprecedented. Very few expected that an esoteric virus from wild animals would turn into a deadly pandemic and the blackest swan in history.

### **Panic selling in the stock market**

The creeping pandemic has triggered jaw-dropping losses and extreme volatility in the stock market. On Tuesday (March 16), the Dow fell 12.9%, its steepest drop since the Black Monday market crash in 1987. The US market has plunged 32% from its all-time high on February 19 and 22% for the month of March alone. Widespread fear of COVID-19 has sparked massive redemptions in equity funds. This called for the forced liquidation of index-based funds such as trackers, risk-parity and beta funds. Fundamentals and technicals have been disregarded for now. Fear grips the market and panic drives the exodus of funds.

### **Extreme volatility spills over to other asset classes**

Heightened volatility in the stock market has incited wild moves in other asset classes. Oil has crashed more than 60% year-to-date on weaker global demand and disagreements within OPEC+. The US dollar index (DXY) has surged 6.1% in the past two weeks. Meanwhile, the US commercial paper market seized-up as borrowing costs soared due to the coronavirus panic.

### **Panic hoarding of supplies and cash**

The scare in the stock market is merely a reflection of the prevailing fear caused by COVID-19. In times of danger or scarcity, survival instinct kicks in and the basic tendency is to hoard. This seems to cut across cultures as we have recently seen hoarding of food, face masks, alcohol, and tissue paper in various countries which implemented lockdowns. People are acting out of self-preservation as well as fear for one's family and friends. In the same vein, people are selling financial assets like stocks and are hoarding cash in preparation for a looming crisis.

### **Lockdowns and quarantines**

In confronting a contagious pandemic which has no vaccine or cure, many countries and major cities have enforced some form of lockdown as an extreme form of social distancing. Large social events, concerts, conferences, and religious gatherings have been suspended. Major sport sporting events such as the NBA

and the UAAP have also been canceled. Most companies and government institutions have implemented business continuity planning (BCP) with many employees now working from home.

### **Drastic lifestyle change amid community quarantine**

On March 15, Metro Manila went into a community quarantine. The next day, it was expanded into an enhanced community quarantine which covered the whole island of Luzon. Checkpoints were installed in the capital's borders to limit travel to and from Metro Manila. Mass transport systems were closed and classes were suspended. Shopping malls, bars, and restaurants were all closed. Casino and POGO operations were temporarily shut down, and the stock market was also closed for two days. Companies are operating on a skeletal force and most employees are working from home. It is a sweeping lifestyle change but everyone is quarantined in their own homes out of fear of contracting the coronavirus.

### **Phil stock market opens amid lockdown**

The stock market was closed on Tuesday and Wednesday last week in compliance with the government's implementation of the Luzon lockdown and the suspension of public transportation. Thanks to the brave and herculean efforts of the PSE management led by PSE President Ramon Monzon, the Philippine stock market was able to reopen on Thursday. The index fell by as much as 24.3% intraday and 13.3% at the close, the biggest single-day crash for the PSEi. Yet, the reopening of the equities, fixed income, and forex markets showed to the whole world that the Philippine economy is still functioning despite the panic caused by the coronavirus. For the first time in history, the physical trading floor of the PSE was closed but the stock market continued to operate.

### **Abatement of COVID-19 is the key**

I have never seen anything like this in my 45 years in the stock market. The fear of losing money and fear for one's life have combined in driving the direction of financial markets. Unlike economic crises in the past which have resulted in unemployment and wealth destruction, the ongoing coronavirus crisis adds a health dimension to the equation. This time, people are not only afraid of losing money; they are also fearful of contracting the disease and possibly dying. The fear of unknown and the lack of a clear solution to this crisis have caused unprecedented volatility across various asset classes. Forced liquidation among funds is taking place globally and is not limited to the Philippines or the emerging markets. The PSEi's volatility may subside if the community quarantine is successful in slowing COVID-19's spread. However, since the US is the bellwether of global markets, the direction will still depend on how US stocks perform. At this point, fundamentals and technicals are set aside. The fate of the stock market depends on the abatement of COVID-19.

*Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit [www.philequity.net](http://www.philequity.net) to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 8250-8700 or email [ask@philequity.net](mailto:ask@philequity.net).*