



Philequity Corner (March 30, 2020)
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Unprecedented

Day after day, we are bombarded with headlines about the COVID-19 pandemic. What is striking is how many of the events happening now are unprecedented. From the drop in stock prices to the human toll, there is just no closely comparable event in recent history. Unfortunately, recent news indicates that we are not yet out of the woods. Just 2 weeks ago, the World Health Organization (WHO) announced that the COVID-19 pandemic is accelerating. Since then, the epicenter of the virus has moved from China to Europe and then to the US. The number of deaths in Italy and Spain have now exceeded those in China, while the US is now the leader in number of COVID-19 cases with more than 100,000. As of last Friday, more than 600,000 people around the world have been infected, with at least 27,000 resulting in death.

First time to work from home for an extended period

Finally, governments around the world have finally realized the urgency of this disease. Faced with the worst pandemic since the 1918 Spanish flu, countries have essentially shut down their economies in order to prevent the virus from spreading. I have been in the stock market for 45 years and this is my first time to work from home for an extended period. Our diligent staff are working from home as well. However, the workload did not get lighter. In fact, I am working even harder, and with much apprehension not only for the economy and market, but for people's lives and welfare as well.

Sudden stop to the global economy has no precedent

No event in recent history has caused the global economy to suddenly stop as quickly as it did this year. Even in times of war or financial crises, parts of the economy continued to chug along. This time though, as a result of quarantine measures including strict lockdowns, global economic activity is essentially at a standstill. Even if people want to spend, they are unable to do so as they have been ordered to stay home. As for sellers, most stores simply cannot reach their customers as they have been cut off from the supply chain. As a result, analysts are expecting a sharp plunge in economic growth. In fact, some estimate the US economy to contract by as much as 30% in 2Q20.

PSE and NYSE close their trading floors

Following the government's guidelines on social distancing and as a precautionary measure, the Philippine Stock Exchange (PSE) decided to close the trading floor and move all trading operations offsite. Having the stock market open while the trading floor is closed has no precedent in Philippine stock market history. In fact, the PSE acted faster than the New York Stock Exchange (NYSE) which only closed its floor last week.

Unprecedented monetary and fiscal stimulus

In order to cushion a potential recession, Fed Chairman Jerome Powell cut interest rates by a full percentage point to practically zero and announced a \$700 billion bond-buying program. By bringing interest rates back to 2008 crisis levels, Powell showed how serious the Fed is in combatting COVID-19. However, there were concerns that with this bazooka, the Fed has finally run out of ammunition. To allay these fears, Powell pledged that the central bank will continue to provide capital to businesses to help combat the economic damage from the virus. “When it comes to this lending, we’re not going to run out of ammunition, that doesn’t happen,” Powell said in an interview last week. “We still have policy room in other dimensions to support the economy.”

However, monetary stimulus alone is not enough to keep the US afloat in this situation. Last week, US jobless claims reached 3.3M – an unprecedented figure. Matching this record number is legislation on a massive \$2 trillion stimulus package – the largest rescue package ever. Amounting to 10% of US GDP, it encompasses unemployment insurance, emergency loans to key sectors and SMEs, direct checks to households, and more resources for hospitals. Faced with an unprecedented problem, the US has responded with unprecedented solutions. This is the largest monetary and fiscal stimulus program in history.

Unprecedented fall, unprecedented rise

Stock market moves have also been unprecedented. Major US equity averages experienced their fastest move from record high to bear market in history. The Dow Jones index recorded its largest point losses on record, dropping more than 2000 points on 2 occasions (see *The Vicious Bear Arrives*, 24 February 2020). Wild swings in the market also whipsawed traders, with volatility reaching an all-time high as quantified by the VIX index, which surpassed its previous record set in 2008.

These unprecedented plunges were followed by an unprecedented recovery. After falling as much as 38% from its all-time high, the Dow Jones index gained 11.3% last Tuesday – its best one-day move in nearly 90 years. All told, the index staged a 24% recovery from its bottom – the Dow Jones index’s best 3-day gain since 1931. However, with US cases surpassing those in China, volatility returned last Friday, with the Dow Jones index dropping 4.1%.

Unprecedented plunge for the PSEi before recovering

The PSEi was not spared from the selloff. The day it reopened for trading, the PSEi fell as much as 24% – the worst intraday drop since data for the index was recorded. To stabilize financial markets, Finance Secretary Sonny Dominguez instructed GSIS and SSS to double their daily purchases of equities. Combined with the recovery in US equities, this sparked a one-week, 35% recovery from its intraday low. Just like the US, the PSEi’s rally succumbed to selling pressure, swinging from a 4.4% gain to a 2.5% loss last Friday.

Unprecedented times call for unprecedented sacrifices

In this war against COVID-19, everyone must do their part in combatting this unprecedented pandemic. Let us strictly follow the guidelines of the enhanced community quarantine. We should also maintain proper hygiene and practice social distancing in order to reduce the rate of infection.

The sooner we flatten the curve of this pandemic, the sooner our stock market can recover. In these unprecedented times, we must all make unprecedented sacrifices for the good of all.

Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit 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.