



Philequity Corner (March 2, 2020)
By Wilson Sy

Will Covid-19 Kill the Bull Market?

This Friday, March 6, we are marking the 11th anniversary of the global bull market. However, fears of a COVID-19 pandemic have caused a global meltdown in the stock market. Will COVID-19 kill this aging bull market? Is this the start of the bear market?

COVID-19 in every continent except Antarctica

Since the outbreak started, COVID-19 has since spread far and wide, creating new epidemic clusters in Iran, Italy, Japan and Korea. Last week, Brazil reported its first infection after one of its citizens returned from Italy. With this, COVID-19 is now present in every continent except Antarctica. With COVID-19 now present in 49 countries, a global pandemic may be upon us. This scared the wits out of investors, which caused markets to plunge violently.

Fear of global pandemic

The World Health Organization (WHO) said that COVID-19 merits “the highest level of alert or highest level of risk assessment in terms of spread and impact. With thousands of cases appearing outside of China, this brought back sordid memories of the 1918 Spanish flu and 1957 Asian flu. In fact, Bill gates stated that the coronavirus is “behaving a lot like a once-in-a-century pathogen”. When new infections outside of China started accelerating, the fear of a global pandemic set in. It is this fear that broke the camel’s back and triggered the savage selloff.

Global meltdown - Worst week since the financial crisis

In a previous article, we noted how COVID-19 is a black swan event similar to the subprime mortgage crisis in 2008 (see *Three Black Swans*, 3 February 2020). With citizens all over the world now panicking as numbers outside of China keep growing at an alarming pace, it caused one of the bloodiest meltdowns in recent memory. The Dow Jones index lost 3580 points last week and was down as much as 4000 points. The Dow Jones index is now 14% below the high, with 12% of this happening just last week. Losing a combined \$3.18 trillion in market value, major US averages capped their worst week since the 2008 Financial Crisis.

Record high to correction territory in 6 sessions

Given how sharp and violent the plunge was, it is very hard to imagine that just 2 weeks ago, major US averages were at all-time highs. Unfortunately, we saw the S&P 500 plummeting 10% in just 6 sessions – the fastest move from record high to correction territory in history. A correction is defined as a drop greater than 10% from a recent high.

PSEi has worst single day drop in 4 years, enters bear market territory

Last Wednesday, the PSEi fell 3.9% on PhP 3 billion of net foreign selling – its worst single day drop in 4 years. For the week, our benchmark index plunged 7.9%, bringing YTD losses to 13.2%. With this drop, the Philippines fell firmly into bear market territory.

Bears knocking on your doors

A market is considered to be in bear market territory if it falls more than 20% from its all-time high. Following this definition, other markets that also entered bear market territory are Spain, China, Malaysia, South Korea, Thailand and Vietnam. Recent data also shows that one of the biggest stock market victims of COVID-19 are ASEAN markets. In fact, Thailand, Indonesia and the Philippines are among the 10 worst performing stock markets globally in terms of YTD return.

Uncertainty and supply chain disruptions

The reason behind the harrowing plunge of stock markets is the tremendous level of uncertainty surrounding COVID-19. Will mortality continue to increase? Will new epidemic clusters continue to grow? Will there be more clusters in other countries? In terms of fundamentals, another unknown is the level of supply disruption. Large cap stocks that announced that they will miss forecasts because of supply chain disruptions were severely punished by investors. But with investors fearing uncertainty more than anything, the savage selloff continued through the week.

Flight to safety sends government bond yields to record lows

One beneficiary of this selloff is the US Treasury. Bond yields dropped sharply as a flight to safety ensued. The US 10-year and 30-year US Treasury yields hit record lows at 1.12% and 1.70%, respectively. With ex-Fed Chairman Janet Yellen saying that COVID-19 may cause the US to slip into a recession, Fed fund futures indicated that markets are assigning a 90% chance for 3 rate cuts in 2020.

Doctors and scientists, not just bankers and economists

Unfortunately, what the world may need now are doctors and scientists, not just bankers and economists. Unless the COVID-19 epidemic is put under control, the disruption to economic activity will remain, uncertainty will remain high and markets will have a difficult time moving out of its tailspin. We hope that the scientific and medical community will succeed in developing a cure or vaccine to combat COVID-19. We also wish that governments around the world remain resolute in implementing actions that prevent any further spread of COVID-19, as well as limiting its economic impact. In these trying times, a coordinated effort from all countries and all sectors is needed to combat COVID-19 and prevent it from becoming a full-blown pandemic.

Is the 11-year old bull market over?

To be considered a bear market, stocks have to remain 20% below all-time highs for at least 2 months. This is not the case yet in the US and most markets, including the Philippines. However, significant damage has been done to technicals and sentiment. Global economic growth is fragile

and significantly slowing. While bull markets do not die of old age, a credit crisis or recession can kill it (see *Bull markets don't die of old age*, 29 April 2019).

Will COVID-19 and its effects on the economy cause a recession? Or will the central banks be able to stave this off? Will governments provide enough fiscal stimulus to reignite the slowing economy? Will this epidemic be temporary like SARS? If COVID-19's impact is temporary, then this massive selloff presents an opportunity to buy for investors with a long term time horizon.

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.