Philequity Corner (March 9, 2020)
By Wilson Sy

Black swan threatens the longest bull

Today is the anniversary of the bull market. At 11 years old, this bull market is the longest on record. Throughout its life, this bull has withstood major corrections and scary events. However, the new coronavirus or COVID-19 has evolved into a full-fledged black swan. Fear of a global pandemic has caused prolonged disruptions in many major economies and a bloodbath in the stock market. Investors are now concerned that the rapid global spread of COVID-19 may actually kill the aging bull.

Bull market turns 11

On March 9, 2009, major markets notched their closing lows. This ended the 2008-2009 bear market and gave birth to this 11-year old bull run. In the table below, we show the return of selected stock indices and their compounded annual growth rates (CAGR) since the start of this bull market.

Performance of selected stock markets since March 9, 2009

Country	Index	03/09/2009	03/06/2020	Return	CAGR
US	S&P 500	677	2,972	339.3%	14.4%
Indonesia	Jakarta Composite	1,287	5,499	327.3%	14.1%
Philippines	PSE Index	1,891	6,770	258.1%	12.3%
Thailand	SET Index	411	1,365	231.8%	11.5%
Japan	Nikkei 225	7,086	20,750	192.8%	10.3%
Singapore	Strat Times Index	1,457	2,961	103.2%	6.7%
Europe	Stoxx 50	1,810	3,232	78.6%	5.4%
Malaysia	FBM KLCI	858	1,483	72.8%	5.1%
China	Shanghai Composite	2,119	3,035	43.2%	3.3%

Sources: Wealth Research, Bloomberg

In its 11-year life, the bull market has endured many challenges and setbacks which threatened its survival. These include the European sovereign debt crisis, the Arab spring, QE tapering, the US-China trade war, and the ongoing global economic slowdown. Will the bull survive its next big test, or will COVID-19 be the black swan that finally kills the ailing bull?

COVID-19 turns into a major black swan

The resilience of this bull market is currently being tested by a daunting black swan. COVID-19 has now spread to more than 80 countries, with over 100,000 confirmed cases and 3,500 deaths globally. Though infections appear to have peaked in China, the virus is still spreading rapidly in countries such as Korea, Italy, and Iran. Recent reports of community spreads in the US and the Philippines have raised concerns on the undetected yet rampant proliferation of the virus. Several new cases reported by the Department of Health last week have added to mounting fears regarding the spread of COVID-19.

Fear factor

The fear of infection is prevalent in most countries because of the contagious nature of COVID-19. This has dampened consumption spending in various places as many have opted to stay home instead of going out to eat, watch movies and concerts, or attend social gatherings. COVID-19 has afflicted different types of people including rich tourists, office employees, company executives, and government officials. It is clear that COVID-19 does not spare anyone, and nobody feels safe because of the prevailing fear. Meanwhile, governments have imposed lockdowns, travel bans, and strict quarantines to safeguard their citizens. While these measures may control the proliferation of the virus, these have also resulted in disruptions which hamper economic activity and exacerbate the ongoing slowdown of many major economies. Investors fear that the global economy may slip into a recession because of the disruptions caused by COVID-19.

Fear dominates the market

Heightened investor anxiety was manifested in the turbulent move of stocks in recent weeks. Two weeks ago, the US market fell more than 11% and posted its worst weekly return since 2009. This was followed by extremely volatile trading last week as the Dow swooned to the biggest 1,000-point swings on record. A stampede of funds exited equities and rushed into government bonds, thereby pushing the yield on the 10-year US Treasury to an all-time low of 0.66%. A vicious cycle was sparked when investors sold more stocks upon seeing Treasury yields drop to historic lows.

All hands on deck

Cognizant of the risks posed by COVID-19, Finance ministers and central bankers of G-7 countries issued a communique regarding their coordinated policy response to the coronavirus. This was followed by emergency rate cuts implemented last week by the US, Canada, Australia, Malaysia, and Hong Kong to prop up their respective economies. In our book *Opportunity of a Lifetime*, we devoted a whole chapter to discuss the importance of central banks and their role in supporting the bull market (see Chapter 4 – Don't Fight the Fed).

Aside from monetary stimulus, various countries such as the US, China, Korea, and Indonesia have implemented fiscal stimulus to counter the spread of COVID-19. The International Monetary Fund has put up a $50b aid program which is available to low-income and emerging countries while the World Bank has also set up a $12b aid. Given recent developments, it is apparent that governments, multilateral organizations, and health authorities will do whatever it takes to stem the tide and slow down the creeping global pandemic.

Fear of the unknown

The market has dealt with epidemics in the past, but COVID-19 is an unprecedented black swan. It is much more contagious and has surpassed SARS and MERS in terms of number of cases and deaths. The speed of its global spread and the magnitude of its economic impact have raised fears that COVID-19 may actually kill this bull market. Countries all over the world are fully committed in containing the disease, but it is still unknown when the disease will peak, or how many more patients and deaths it will cause. It is also unclear how much disruption and damage COVID-19 will deal to the global economy. Fear of the unknown, and rising uncertainty amid an ongoing global slowdown, have resulted in a stock market carnage. It is nonetheless reassuring to note that various institutions are all doing their part to fight the coronavirus. The containment of the disease is crucial to the continuation of the 11-year old bull market.

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.