



Please find below recent commentary from the Matrix Investment Research team, relating to the effect of Coronavirus (COVID-19) on our current economy that we trust you will find interesting:-

We are now in a lockdown phase, with most Australians practicing social distancing and home isolation.

While we can't avoid economic pain in the very near term, we have plenty of tools to fight the economic slowdown in the longer term. The government has a very healthy balance sheet and the capacity to spend very large sums of money to keep the economy going in this difficult year. Expect them to do so, we anticipate that before this is over the Australian government will have conducted multiple rounds of fiscal expenditure to support the economy. This will certainly end up being the largest stimulus effort the Australian government has ever done. And in time it will work.

The best outcome would be a pretty strict first phase of the lockdown, which can be gradually relaxed in a few months, while maintaining a very close monitoring and testing regime. The worst outcome is that people don't take the initial shutdown seriously, resulting in a far larger spread of the virus, requiring longer term and more draconian measures to get it under control.

There is some evidence that Australia may be better placed than most other countries.

COVID-19 testing (2020)

Country	Cases	Tests	Percent COVID-19 positive	Population	Test by 100,000 population	Date
Australia	1001	123,000	0.8%	25,033,000	480	As of 21 March
South Korea	3968	282,333	3.4%	51,470,000	549	As of 19 March
UK	3200	96,974	4.8%	68,440,000	141	As of 20 March
USA	4404	54,205	6.1%	327,200,000	17	As of 20 March
Austria	2013	18,545	10.9%	8,822,000	210	As of 21 March
France	6153	35,747	15.7%	68,580,000	55	As of 15 March

- Please note different countries have different testing regimes based on their case definition and testing capability.
- Australian testing rate equates approximately to testing of almost 5 people per 1000 population.

Source AHPPC:

<https://www.health.gov.au/committees-and-groups/australian-health-protection-principal-committee-ahppc>

The table above shows how Australia stacks up with respect to testing for Coronavirus (COVID-19);

*The good news is that we are doing well with a lot of tests done. Far better than most countries!
But also with respect to the percent of tests that show up as positive, which is very low at 0.9%.*

This suggests that we are looking fairly hard for evidence of community based spread of Coronavirus (COVID-19), and not finding too much evidence of it happening. Consequently we may be early enough to really limit the spread of the virus.

While it's way too early to become too complacent, it is nonetheless a better starting position than exists in Europe or America.

So staying safe, observing social distancing and playing our part to keep the broader community safe is very important. But at least the available evidence suggests that we are ahead of the game.

*What about financial markets - shares have fallen significantly, how should we think about this?
It's important to distinguish between short term volatility, which is frightening but fundamentally transitory. And long term, more permanent losses, which are much more serious.*

The vast majority of companies you own in your share portfolios will get through this difficult period and fully recover. So we would expect their share prices, in time, to retrace their falls. Of course there will be some companies for whom this period is more damaging and who will not recover as strongly, and there may be a few that will go out of business. However, overall we expect in the overwhelming number of cases the companies in your portfolio will fully recover. This means this is merely a transitory period of volatility and not the end of the world.

Believe it or not, big falls of 30-50% are actually not that uncommon in share markets. If you look at the table below you can see the history of the US share market, which is the world's largest share market.

US shares

Bear Market	% Fall
Dec-68	-36%
Jan-73	-48%
Nov-80	-27%
Aug-87	-34%
Jul-00	-49%
Oct-07	-56%
Mar-20	?????
Average	-42%

In the period since 1968 the US share market has had 7 periods (including this one) where there have been large falls. In 2000 and 2007 the share market lost almost half its value!

We note however that each time it has more than fully recovered, delivering excellent returns for investors. Long term returns to share markets have historically been in the 7-9% per annum range for most markets around the world.

That is better than any other type of investment. But these great returns come at the price of bouts of volatility every 10 or so years.

This type of crisis is always much harder on small businesses than on large businesses, and your share portfolio is almost all invested in very large strong businesses.

At the end of the day this virus will pass, and there will be a vaccine. It's a discrete event that at most will last a year. And after it's all over, the overwhelming majority companies in your share portfolio will still be there, growing strongly and paying dividends.

Disclaimer

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Regards
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