RESEARCH UPDATE

Market Update

Apt. WEALTH PARTNERS

31 March 2020

This market update contains:

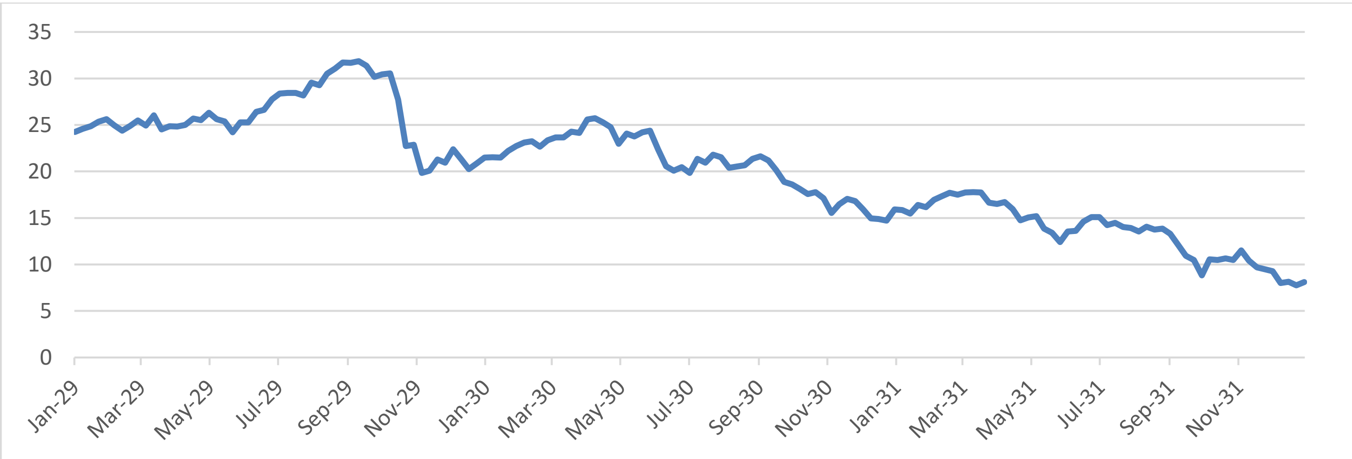
- An explanation of the impact of fiscal and monetary policy on markets.
- A summary of recently announced Government and Central Bank stimulus packages.
- How investors should respond.
- Conclusion.

Fiscal and Monetary Policy

There has been a number of expansionary measures announced by both Governments (fiscal policy) and Central Banks (monetary policy) to soften the impact of the crisis on the economy and on markets. Policies are referred to as being 'expansionary' or 'stimulative' when they support the economy and 'contractionary' when they have the opposite effect. The fiscal policy measures announced, such as cash grants and tax breaks, are intended to support consumer and business confidence so that they continue to spend and invest, assisting a faster economic recovery. Monetary policy measures, such as interest rate cuts and quantitative easing, lower the cost of credit in the economy and support financial institutions so that they can continue to lend.

The importance of these policies in minimising the impact on the economy and on markets can be seen by examining prior crises. Graph 1 shows the performance of the US S&P 500 Index before and after the market crash of 1929, more commonly referred to as 'The Great Depression.'

Graph 1: S&P500 Index – January 1929 to December 1931

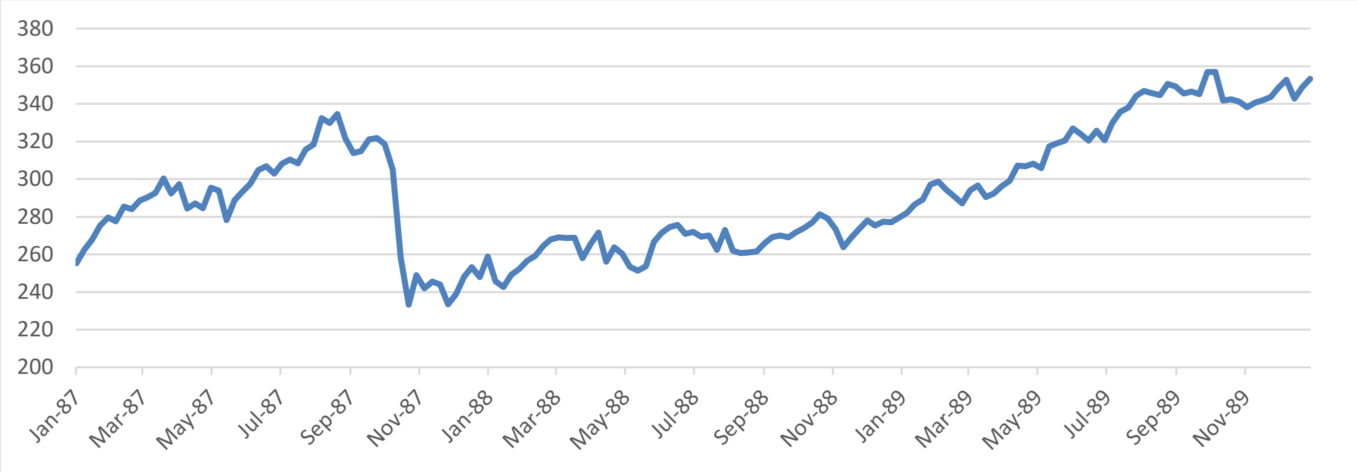


Data Source: Yahoo! Finance, 25 March 2020.

A key factor that extended the economic and market malaise during the Great Depression was the contractionary monetary or fiscal response. The US Government increased taxes and cut spending while the Federal Reserve implemented measures that constrained the ability of financial institutions to lend.

In contrast, Graph 2 shows the performance of the S&P 500 Index before and after the crash of 1987, more commonly referred to as 'Black Monday'. The Federal Reserve was quick to utilise expansionary monetary policies which enabled the financial system to continue to function and ensured the continued flow of credit to the economy. This was enough to prevent the crisis from escalating and requiring a large-scale fiscal response.

Graph 2: S&P500 Index – January 1987 to December 1989



Data Source: Yahoo! Finance, 25 March 2020.

No crisis is the same, they have differing contributing factors and occur in differing economic environments. The current crisis began as a health crisis. The underling health crisis needs to be addressed to enable a sustainable market recovery, however, the expansionary monetary and fiscal policies should enable a faster market and economic recovery more like Black Monday than the Great Depression.

Governments and Central Banks

Governments and Central banks have continued to announce further stimulus measures. These are in addition to the previously announced stimulus measures.

Monetary Stimulus

United States: The Federal Reserve announced it would purchase unlimited quantities of Government bonds and mortgage-backed securities. The existing program would also be expanded and include corporate bonds of a certain credit quality, including new issuances, as well as packages of car and student loans.

Fiscal Stimulus

Australia

The Australian Federal Government announced a further $130 billion stimulus package, bringing the total fiscal stimulus to $320 billion which represents 16.4% of Australia's GDP.

1. **Assistance to business to keep people in a job and support for workers**
   - *JobKeeper payment*: full time and part time workers, sole traders, and casuals who have been employed by an eligible employer for longer than 12 months as at 1 March 2020 will be eligible to receive a payment of $1,500 per fortnight for a maximum of six months. This represents 70% of the median wage and 100% of the median wage in the retail, hospitality and tourism sectors.

     Eligible employers are business, not-for-profits and charities who:
     - Small business (turnover less than $1 billion): have lost 30% or more of their revenue compared to the previous corresponding year.
     - Large business (turnover of $1 billion or more): have lost 50% or more of their revenue compared to the previous corresponding year.

United States

The US Government have announced a US$2.2 trillion-dollar relief package to ease the impact of the coronavirus on the US economy. It includes:

- A US$1,200 payment for individuals earning less than US$75,000, $2,400 for married couples earning less than US$150,000 and an additional US$500 per child. They payment would scale down above this threshold before phasing out at US$99,000 for singles and US$198,000 for couples.
- An expansion of the unemployment insurance program which will allow individuals recently unemployed to access payments up to US$600 per week and receive payments for an additional four months. This is expected to cost US$250 billion and would be in addition to state unemployment programs.
- A US$367 million federal-guaranteed loan program for small businesses, as well as cash grants for directly impacted sectors.
- An additional US$30 billion in emergency education funding and US$25 billion in emergency transit funding. This includes setting the interest rate for student loans at 0% and providing the ability to suspend payments for 60 days.
- A US$425 billion funding facility to enable loans to larger companies and an additional $75 billion for industry-specific loans, such as airlines and hotels.
- Funding of $130 billion for hospital and health systems to provide protective equipment, testing supplies and increased workforce training.

Germany

The German Government has agreed to a €750 billion stimulus package and will be the first time the German Government has utilised debt since 2013 to fund spending. The package includes:

- €50 billion to assist small and self-employed businesses facing bankruptcy with direct payments of up to €15,000.
- €7.7 billion for social security protection for the self-employed.
- €3.5 billion for medical protection equipment and the development of a coronavirus vaccine.
- €400 billion for corporate loan guarantees.
- A €100 billion funding facility for banks to support lending to smaller businesses.
- €100 billion for direct equity stakes in companies to prevent bankruptcies and foreign takeovers.

India

India announced a 1.7 trillion-rupee stimulus package to assist the nation’s poor. The package includes free staples and cooking gas for a period of three months for families, expanded insurance for health care workers, a one-time cash payment for 30 million senior citizens and farmers, as well as funding to assist construction workers in quarantine.

How investors should respond

While markets are volatile, it is easy to feel worried. The hardest part is remaining disciplined and patient. Outlined below is our action plan for clients to navigate through periods of extreme market volatility.

Actions that have already been taken

1. *Regularly rebalance the portfolio back to your risk profile:* to ensure that the portfolio is not exposed to unwanted risks and to also lock in profits.
2. *Maintain a buffer of safety:* despite the low interest rate environment, holding a buffer of cash and term deposits has been a key strategy for client portfolios to provide a cushion against market downturns and to protect capital.
3. *Focus on quality investments:* that generate stable cash flows to support distributions, which are not connected to the movements in asset prices.
4. *Diversification:* across assets classes, industries, sectors and geographies.

Actions to take

1. *Remain calm, speak to your Apt adviser*: it's important you speak to us before making any financial moves. Your adviser understands your long and short-term goals and will have been planning for these types of scenarios already, so they are best placed to explain any impact and discuss the best options and opportunities for you personally.
2. *Don't try and time the market. Stay invested:* the equity market bull run has been running for over 10 years. Markets do not always go up. It will be volatile and even a well-constructed portfolio will not be immune to a market downturn. However, history shows that equity markets will recover strongly from sudden drawdown events. The low interest rate environment driven by Central Bank monetary stimulus and Government fiscal stimulus provides support for a market recovery.
3. *Stick to the plan:* focus on your long-term goals. Our investment approach is focused on the long term and designed so that your portfolio can ride out any downturns – including this one. Stay the course, despite how uncomfortable it may feel right now, it will prove to be the better option when looking back five years from now.
4. *Take advantage of the weakness:* market downturns provide buying opportunities to invest in long term, quality investments.

Conclusion

Uncertainty and market volatility will continue until the coronavirus is no longer classified as a pandemic by the World Health Organisation. Both global Governments and Central Banks are committed to taking the necessary actions to ensure that the financial system continues to operate and to cushion a slow-down in global economic growth. The Apt Wealth investment team, along with your adviser, have an action plan to navigate through the current investment environment to ensure we continue to meet your long-term objectives.