Market falls on coronavirus fears

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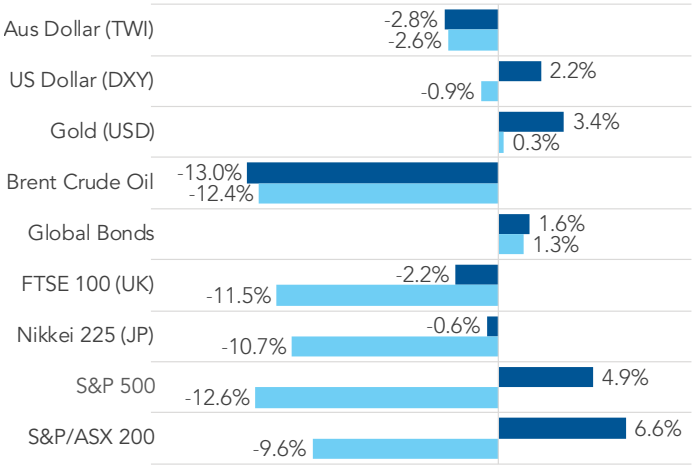
Recent market falls

Share markets fell last week with the Australian market experiencing one of its worst weeks since August 2011 (when people thought the EU would break up).

Negative returns in any given period can happen in the share market with this week standing out for its severity. However, we also see historically shares have lost value in approximately 22 weeks out every 52 weeks since 1980. It is not a rare thing to see in the share market.

Shares lost money because a rise in Covid-19 (a.k.a. coronavirus) cases outside of China saw investors sell out of shares and look to safer assets such as bonds or gold. This is because efforts to combat the virus will likely see travel, trade and business activity either slow or shut down temporarily. That would see weaker demand for goods and services, so business profits and wages are likelier to struggle in the short term.

Major movers in Global Markets (1 Jan – 28 Feb 2020)



Source: Bloomberg, IOOF, Ducker Frontier ■ 1 Jan-17 Feb ■ 17-28 Feb 2020

Shares were not the only victims. The Australian dollar also continued to fall, down ~5.3% for the year against our major trading partners. Oil was another victim with an expected weaker economy meaning oil for planes and other transport e.g. trucks will attract less demand. As a result, we have seen oil prices fall substantially, year to date.

Implications for your investments?

- You will be invested according to your risk profile and strategic asset allocation (SAA).
- That means you and your adviser will have worked together to see how you should be invested to meet your goals while also allowing for your ability to handle risk.
- Your portfolio has exposure to unhedged global shares. This means you are protected more when the Australian dollar falls as it has done this year.
- Your portfolio will also have exposure to property and bonds. These are more defensive assets and as the below table shows they have offered relative protection so far this month.

Asset class	1 month	1 year
Australian shares	-7.7%	8.6%
Global shares	-4.9%	15.6%
Global shares (Hedged)	-8.5%	4.4%
Australian Listed Property	-4.9%	11.8%
Australian bonds	2.3%	9.1%
International bonds	1.2%	9.3%
Cash	0.1%	1.4%

Source: Bloomberg, IOOF as at 29 February 2020

Speaking with your adviser

Periods of market volatility are normal and as the table of returns illustrates, you should still be in positive territory over the last year, even after including this month's negative returns. If these periods cause undue stress and you have specific questions, we encourage you to reach out to your adviser. Longer-term we expect that your investments invested along the lines of the SAA should work to achieve your financial goals.

Ongoing monitoring and action

The IOOF Research Team continues to monitor global and domestic markets. Key risk indicators such as volatility and credit spreads have shown mixed results. They are suggestive of business weakness in areas dependent on energy prices for example where some businesses will be facing difficult times.

One measure of risk for Australian equities is volatility. This tracks how much shares move around their average return. It tends to spike higher in periods of market stress such as this past month. Currently it is tracking at around 14.9%. For context we expect Australian shares to track at a higher level of 18.9% per our latest SAA review. This level is also below historic averages of around 16% i.e. you should not be surprised to experience periods like this from time to time.

However, if volatility continues to spike, the Research Team will be proactive in managing portfolio risk for both the model equity and model managed fund portfolios. We will also inform advisers if we consider it prudent to lower risk exposure to support a smoother ride in investment returns going forward.

If you have any questions or concerns about any of the content in this article please contact your Financial Adviser to discuss.

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