

Lyford Investment Management Autumn Update

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On 11 February 2020, the world was introduced to a new name which, over the following weeks, came to dominate global news cycles. That name was COVID-19.

Such has been the significance of COVID-19, there is unlikely to be a single reader of this newsletter that isn't aware of what it is, where it came from, and at least have a broad understanding of the kind of impact it has had on investment markets.

COVID-19 has been an event that no-one could, or did, see coming. As a result, the market impact has been swift and severe. For a detailed review of the asset class by asset class performances for the first three months of the year, go to the 'Key market movements for the quarter' covered in the next section.

But before you jump ahead, we'd like to give you some context. Not just in relation to the asset class returns information you will see there, but also in relation to what this might mean as we sit here today and ponder the weeks and months ahead.

As we attempt to shed some light on this extraordinary period, we've framed this by addressing a few of the common questions we have been asked:

Is this a 'typical' correction or something different?

Well, it is a correction and currently a large one, but it's not a "typical" correction, and certainly not the one most people would have anticipated.

Commonly, significant market corrections follow sharp economic slowdowns that have their origins within the financial markets.

Some examples include –

- A banking or financial crisis, where lending and investment is typically reduced.
- Rising interest rates, when borrowing costs rise and demand is stifled.
- Plummeting consumer and business confidence, where spending and investment decisions are constrained.

But, very occasionally, market corrections can also be triggered by unforeseen external events. The oil shock in 1970's would be an example. In the rarest category

of unforeseen events are what economists call 'black swan' events.

Statisticians have another name for them. They call them outliers. They sit a long way outside the realm of our everyday expectations, because nothing in the past persuasively indicates them as a realistic threat today.

Under that definition, the pandemic we now know as COVID-19 is a black swan event. It was so far outside our everyday expectations that the world couldn't, and didn't, see it coming.

Why did investment markets react so severely in February and March?

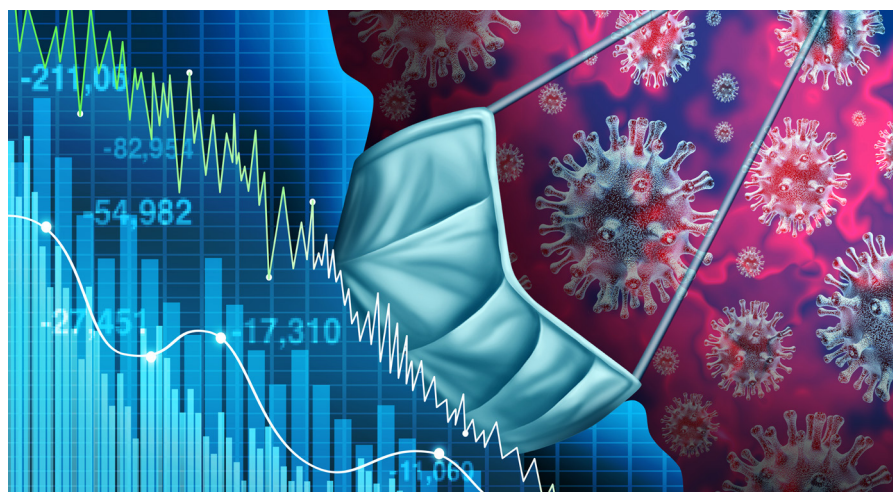
When highly unforeseeable events do happen, global markets are usually unprepared. That's part of the reason that COVID-19 had such a fast market impact, but it was also due to the nature of the event itself. This is the first time we have ever witnessed a global humanitarian event triggering a global market event.

Although the virus had its origins in the Chinese provincial city of Wuhan in late December, it wasn't until mid-February that it began to gain more attention internationally as infections began to be reported in other countries. Once that occurred, the situation deteriorated quickly.

From 11 February, when the virus was officially named COVID-19, to mid-March when the World Health Authority (WHO) officially declared it a pandemic, people everywhere became increasingly panicked.

The cause of the panic was two-fold. What began as concerns about a deadly health risk posed by a novel respiratory disease, were quickly matched by growing economic and market fears as the ramifications of the likely containment measures began to sink in. Before we knew it, COVID-19 had, with unprecedented speed and virulence, spread around our hyper-mobile world in which more than 12 million people were taking commercial flights every day.

Many countries, including New Zealand, recognised the pandemic threat too late to prevent it breaching international borders and – absent a vaccine – began to initiate the few physical containment measures at their disposal. Responses and implementation differed from country to country, but actions



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included some combination of travel bans, border controls, crowd bans, the closure of all but essential businesses, quarantining, self-isolation and social distancing. In New Zealand's case, we chose to implement them all.

While these measures were directed at tackling, containing and, hopefully, eradicating the virus, the markets were frantically trying to assess their likely economic impact. The world economy, which had formerly been travelling along quite nicely at just below open road speeds, had unceremoniously had the handbrake applied. Now, with global recession risk moving from 'negligible' to 'certain' almost overnight, market participants suddenly wanted to know 'what will the recovery look like?' and 'when will that happen?' Some wondered, 'will there even be a recovery?'

In the midst of this extreme uncertainty and fear, markets still operated. But markets despise uncertainty and fear. Price volatility increased sharply as global share markets went up and down wildly.

But from 19 February, the world share market peak for the year, the initial ride was much more down than up. Some investors couldn't handle the extreme uncertainty and just wanted out. Some wanted to get out with the intention of getting back in once the coast was clearer (although such strategies are very difficult to implement successfully). And some had no option but to get out, as jobs and income earning ability were suddenly imperiled by containment decisions that were effectively closing the global economy indefinitely.

As the human and economic impacts of the pandemic became very real, very fast, global share markets experienced their fastest simultaneous sell-off in history. With many companies' earnings outlooks being slashed overnight and facing a heightened risk of insolvency and closure, investors lacked a clear understanding of the future operating environment all businesses were likely to face. And it's hard to value a business if you suddenly have no confidence in how profitable that business might be in the coming months, let alone years.

But one thing was abundantly clear. If future business revenues and profits were going to be a lot lower, then the price investors were prepared to pay for those businesses today needed to be a lot lower as well. The sharp market corrections that followed, reflected this. In just 33 days from 19 February to 23 March, the S&P Global Broad Market Index (covering over 11,000 companies spread across 25 developed and 25 emerging markets), fell -34.4%. Over the same time period, the main US share market index (the S&P500) fell -33.9% and our own NZX50 price index fell -30.1%. The speed and severity of the decline has not been matched in living memory.

What has been happening in portfolios?

With the extreme market conditions in February and March, it was a highly challenging time for all assets and particularly higher risk assets. Regardless of the portfolio risk level, returns were negative for the quarter, and the size of the decline was larger for portfolios which included higher exposures to growth assets (i.e. shares).

Higher quality bond markets generally held up well and this helped soften the impact on portfolios holding allocations to these assets, while a weaker New Zealand dollar also provided some useful cushioning effects. But, overall, the negative returns from share markets were too widespread and too significant for portfolios not to have been adversely affected.

Over the first three months of the year, the MSCI local share market returns of a number of major markets made for sombre reading. France, Germany, UK

and Australia were all down between -23% and -26%; USA fell -19.6%; the MSCI World in aggregate declined -20% and our own NZX50 Index (gross index with imputation credits) was down -14.6%.

Diversification means most investors are not solely exposed to equity markets and instead hold some blend of bond and share investments in their portfolios. This too has helped. For a typical 'balanced' investor, holding approximately 50% of their portfolio in cash and bonds, the overall return for the quarter was approximately -12.4%. For portfolios containing larger allocations to bonds and cash, portfolio declines were progressively smaller.

Towards the end of the quarter we did see global equity markets recover some lost ground, but it remains too early to know whether this is a temporary respite, or the start of a more permanent trend.

Whilst we don't commonly expect negative share returns of this size over a three month period, we do build an expectation of periodic negative returns into our projection models. For much of the last decade, portfolios have been delivering higher average returns than we expect.

Unfortunately, this last quarter delivered a tough reminder of the potential downside risks that come with holding shares, and our longer term average returns have come down as a result.

If there is a silver lining, it is that strategic investors with an exposure to higher risk assets typically have (or should have) investment time horizons much longer than three months. So, whilst measuring the performance of the recent three month period looks poor, we do need to remind ourselves it is only a very small part of a much longer journey. And even including these updated returns, all portfolios – including higher risk portfolios – have all still comfortably delivered positive returns over the last five plus years.

What can we expect from here?

What has made the current market so difficult to navigate is that the world has never experienced an event quite like this. Nothing since the Great Depression (1929 to the late 1930's) has had such a widespread impact and created such uncertainty.



However, in today's crisis, we have almost 100 years of additional accumulated market and economic experience to call on as we seek a sustainable solution. And to help fight the COVID-19 pandemic and associated market contagion, there has never before been such a flood of scientific and government support.

On the medical side, we have seen a whirlwind of action. Global investment bank Credit Suisse, reports there are around 50 potential COVID-19 vaccines currently moving into, or towards, early trials around the world. The US National Institutes of Health are running the first US clinical trial with a drug which showed promise in testing for the treatment of earlier coronaviruses SARS and MERS and is concurrently being tested by researchers in China as well. In the meantime, while the world watches and waits for a vaccine, most of the medical efforts and advice in dealing with COVID-19 is focusing on aggressive testing and standards of care.

On the economic side, this enormous global challenge is being met by unprecedented monetary and fiscal support, many of which have never been used before.

Central Banks that could still cut interest rates, cut them hard in March. New Zealand slashed its Overnight Cash Rate from 0.75% to 0.25% on 16 March, with comparable moves made during the month by Australia (from 0.75% to 0.25%), USA (from 1.00%-1.25% to 0%-0.25%) and the UK (from 0.75% to 0.10%).

In addition, many governments also stepped in with quite extraordinary levels of fiscal support, primarily to businesses. The New Zealand government announced an initial stimulus package equivalent to at least 6.3% of GDP. This was backed up by the Reserve Bank of New Zealand announcing an additional \$30 billion government bond repurchase plan to provide additional liquidity support to the economy and to help restore order to the local bond

market. Across the world we have seen a host of similarly eye-watering support packages being announced. The intention is to help businesses and employees survive through this immediate period of uncertainty, until each economy can, hopefully, emerge intact out the other side, to commence some form of sustainable recovery.

There are various pathways such a recovery could take. Despite the herculean policy response, we cannot yet rule out economic and unemployment outcomes that could rival earlier long-lasting recessions. However, this currently seems unlikely because, even as we write this, indications here and to a lesser extent internationally, are that infection rates could finally be starting to come under some greater measure of control. In many countries the worst may not yet be over, but it is nevertheless allowing greater focus to be given to how different countries can begin to plot a pathway towards reducing restrictions and restarting their economies.

In this regard, it is greatly encouraging to see that in China and even in Wuhan, where all of this began only a few short months ago, normality is slowly beginning to return. Residents that abide by precautionary health restrictions, are increasingly being allowed to move around the city and get back to work. While these are extremely heartening signs, we should still temper our optimism that the exit process from these unprecedented global physical distancing policies will be either swift or smooth.

More aggressive forecasters might claim that the remarkable stimulus measures are laying the foundations for a swift 'V-shaped' recovery (so-called V-shaped because an economy would theoretically recover just as fast as it went down). It's a lovely idea but seems doubtful. The substantial fiscal and monetary policy supports should certainly contribute to significantly lowering stress on businesses and households, but the business closures that have already happened are certain



to mean a sustained rise in unemployment levels, let alone any further erosions that may occur in the coming weeks as we try to navigate our way out of lockdown. No doubt some businesses, maybe many, will survive that otherwise wouldn't have, but the behaviour of consumers in a post lockdown world remains unknowable.

Rather than either of these two extremes, a more likely outcome is somewhere in the middle. Governments have shown a willingness to underwrite a recovery at any cost, and if we can begin the pathway out of lockdown sooner rather than later, then businesses, households and the economy will be best placed to mend faster. Even in that scenario, some industries will undoubtedly recover faster than others. Food, medical, internet/technology firms and essential services have already shown themselves to be relatively robust through the crisis. Domestic services, local freight and certain other non-essential businesses might recover relatively quickly, while the retail, tourism and education sectors are likely to face stronger headwinds.

Whilst the precise timing of a recovery is impossible to predict, once we do see the data on COVID-19 stabilise, and the effectiveness of the policy responses kick in, we can be assured that our entrepreneurs and corporates have the ability to survive, innovate and invest for a thriving future.

Another thing we can say with confidence is that whatever shape the recovery ultimately takes, the performance of the share market will be a leading indicator. In other words, share markets will be extremely likely to have commenced their rebound well before any improvement in medical or economic data is evident.

The performance of Chinese shares in February provides a compelling example. Mainland China shares experienced a sharp setback in late January as the national pandemic first became apparent. Between 13 January and 3 February, a stretch that included the week-long Lunar New Year holiday, the Shanghai Composite index fell 11.8% in Chinese renminbi terms. But then it experienced an equally sharp recovery, getting close to breakeven by 21 February. This happened despite the fact that, according to the China National Health Commission, the number of cases under treatment in China didn't peak until 17 February. The total death count on 3 February was just 425, while on 21 February it stood at more than 5 times that number. As morbid as it may sound, the mounting evidence of a humanitarian tragedy didn't stop the Chinese share market from rallying strongly over that period.



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This may also be what we have witnessed more recently in the performance of other developed share markets. From the depths of despair on 23 March, when global markets had been in a state of near freefall, we saw markets turn quite strongly. From 23 March to 14 April the S&P Global Broad Market Index rebounded +24.3%. Likewise, the S&P500 index bounced back +27.2% and our own NZX50 price index delivered +19.5%. It is far too early to say that 23 March was 'the bottom' and that the market recovery is now assured, but it is a strong signal that investors are eager to look past the ongoing and still unresolved problems of COVID-19, towards a more promising future.

And on this basis, the recent buying action looks far more rational. The swift selloff preceding it meant the prices of many quality companies had been discounted to such an extent, that their expected future returns were suddenly significantly higher than they were only a few short weeks ago.

The other thing we should also keep in the backs of our minds is that one day, probably one day next year, there will be a COVID-19 vaccine. With some of the brightest scientific minds on the planet engaged in a virtual testing arms race, we can be optimistic that one day soon, with a vaccine in hand, we will be able to apply our total focus towards economic recovery.

What should I do?

We understand the temptation to look to infection rates for some hint as to when containment efforts will cease and businesses will reopen but, as we've outlined above, we don't think they will provide much practical use to investors. The number of positive tests will continue to climb for some time, if for no other reason than testing is becoming more widely available. For the past few weeks, global testing regimes have been skewed mostly towards extremely ill people, or those that presented with COVID-19 symptoms, leading many to conclude that true infection rates were being vastly underreported. As testing becomes more and more widespread, we will continue to get a much more accurate read on this.

But, regardless, stocks rebounded in China long before COVID-19 was contained there. The recovery started while one hundred million migrant workers were still quarantined in their hometowns, major cities were ghost towns and factories nationwide were shut. Markets saw subconsciously what most people failed to fathom – that life would soon slowly begin returning to normal.

A Chinese investor who sold during the post-New Year panic and then waited for confirmation of quarantines ending would have missed the initial rebound. This is even more true for those waiting to see economic data showing China fully up and running. That is effectively waiting for total clarity, which in investment terms, comes with a hefty price tag. Only by understanding how markets work, and by deliberately separating out the dreadful medical news from the market and economic news, would a mainland investor have navigated that stretch successfully.

We encourage all investors to learn from that example.

Medical statistics will surely - and tragically - get much worse from here, before they get better. It's hard to do, but you also need to be able to compartmentalise recent events into three separate buckets.

In the first one, gently place all the horrible medical statistics. Label that bucket "the human impact of COVID-19".

Then put all the awful economic news, company closures and corporate earnings write-downs in another bucket. Label it "reasons share markets have already gone down."

Finally, in your last bucket, put shares. Label that bucket "leading indicator."

Only by understanding how markets work, and by deliberately separating out the dreadful medical news from the market and economic news, would a mainland investor have navigated that stretch successfully.

Memorise that final label, so that when share markets turn increasingly positive, you remember they are hinting at what the economy will do in the future, not what it has already done.

Remember also that while no one can predict the precise day it might happen, the share markets will very likely tell us life is going to get better, well before we actually feel and see that improvement in the world around us.

Now, more than ever, we need to simplify our approach. We need to focus on things we can control and to firmly embrace the actions and behaviours that, over time, are more likely to deliver the best results. In the same vein, we also need to steer clear of obvious pitfalls.

Emotional reactions to markets – whether it's euphoria during a rally or anxiety during a correction – are often extremely damaging to long term investment success. It's easy to commit to a strategy when the markets are up. It's much harder to stick to that strategy when your portfolio is falling and your job, and health, may suddenly look less secure. However, you won't be able to reap the rewards of long-term investing if you are unable to take the bad days along with the good.

So, if you have a long term investment plan in place and if your goals, objectives and circumstances haven't changed, then the best thing you can do – bar none – is not to panic.

Talk to your adviser if you need to update your information, but otherwise your adviser will very likely be in contact with you if any action needs to be taken to rebalance your portfolio to keep you on track to achieve your long term goals.

If you're still experiencing anxiety, turn off the news, stay off social media, and make some plans to do something fun to celebrate the day we are all released from our bubbles.

Key market movements for the quarter

In stark contrast to most of the past decade, the first few months of 2020 delivered an unparalleled increase in market volatility. A thawing of hostile US-China trade relations and the realisation of the long awaited British exit from the European Union in January were quickly forgotten with the emergence and spread COVID-19.

The outbreak of the novel coronavirus in China initially impacted the global economy by disrupting supply chains, with exports coming out of China, and demand from the Chinese, being reduced. This quickly morphed into a global pandemic causing fatalities worldwide and forcing many governments to impose strict limitations on public movements in an effort to limit the spread of the virus. This in turn caused many firms to reduce or cease production, exacerbating the supply shock. It caused a spike in unemployment which began to compromise many households' ability to earn and immediately curbed aggregate consumer expenditure. This compounded the economic stress by adding a demand shock. With future sales now uncertain, many firms paused investment plans, preferring instead to bed down capital in an attempt to ride out the pandemic. The net impact – although yet to be fully quantified – will be a significant temporary reduction in economic output and a sharp rise in unemployment. In economic terms, the global economy has unofficially fallen into a recession.

With expectations for economic output in the immediate future being significantly reduced, today's value of a share in a company's future (more uncertain) earnings was rapidly and significantly discounted. No nation or industry was spared and every single one of the major equity indices posted double digit declines (refer to table 1 below). From the market high on February 19th the MSCI World Index declined by -33% by the end of March 23rd.

This was the fastest decline in excess of -20% in history. Historically, declines of this magnitude have played out over months or even years, yet this peak to trough move came in a staggering 23 trading days.

This unprecedented event was met with unprecedented emergency government support. Central banks counterattacked with a twin assault of highly accommodating monetary policy (lower interest rates) and breath-taking fiscal support allowing money to be pumped into struggling households and ailing firms. These initiatives will hopefully help keep many companies in business and serve as a springboard to recovery once current business restrictions are removed. The most notable bailout plan was the US\$2.2 trillion emergency relief bill passed by US senate on March 25th. With this record stimulus (along with many other relief packages worldwide) the market began to rapidly price in a decreasing likelihood of some of the more frightening economic scenarios. Since the low on March 23rd, markets rallied strongly and the MSCI World Index recovered +14.5% to March 31st to close out a -20.0% quarter.





International shares

-20.9%
(hedged
to NZD)

No developed nation in the index was immune from the economic fallout initiated by COVID-19 and quarterly declines of double digits were almost universal. In local currency terms the US's S&P500 lost -19.6%, MSCI Europe ex UK fell -20.9%, MSCI Japan dropped -17.2% and the UK's FTSE 100 shed -23.8%.

-10.6%
(unhedged)

The worst hit sector was energy. In a recessionary environment demand for oil will typically reduce as consumption falls, which generally diminishes the value of firms in this industry. To compound matters, at the same time as this was occurring a price war broke out between Russia and Saudi Arabia. In early March negotiations between OPEC (the Organization of the Petroleum Exporting Countries) and Russia over proposed production cuts to stabilise the price of oil, failed. Shortly thereafter Saudi Arabia announced unexpected price discounts to customers and declared an increase in oil production. Russia retaliated with increases in production of their own and, with supply increasing while demand fell, the price of oil tumbled and at one point touched a remarkable \$20 per barrel. These events contributed to stock market trading curbs (or circuit breakers) being triggered several times, whereby prices had fallen so significantly that all trading was suspended for 15 minutes, in an attempt to allow market participants to regain composure and aid in rational decision making.

Other industries more sensitive to economic growth such as industrials, materials and financials were also hit harder, while defensive sectors like healthcare, utilities and consumer staples were (relatively) more resilient. Technology firms that might benefit from modified living/working arrangements had more subdued losses as well.

Generally, energy, industrials and materials firms are held in higher than market weight in strategies that employ a value tilt, and due to the unique nature of this event, firms in these industries tended to perform worse than the broader share market average. Small company shares also underperformed large company shares with the risk of failure generally being amplified for smaller companies.

As is often the case in periods of market upheaval, investment flowed out of New Zealand as foreign investors sought safety of cash. This reduced demand for New Zealand assets led to a significant weakening in our dollar, especially against other developed nation currencies such as the US dollar, the Japanese yen and the euro. This helped to dampen the losses on holdings of unhedged foreign assets.

In New Zealand dollar terms, the MSCI World ex Australia Index had a quarterly return of -20.9% on a hedged basis and -10.6% unhedged. On an unhedged basis this index has delivered a slender gain for the last 12 months, while the 10 year returns still comfortably exceed 8% p.a. whether hedged or unhedged.

Source: MSCI World ex-Australia Index (net div.)



Emerging markets shares

-13.8%

Emerging markets fell heavily with the rest of the world as the economic impact of COVID-19 was priced in. The relative strength of the US dollar also served as a headwind to these economies which often have US dollar debt outstanding, and the index fell -19.0% in local currency terms for the quarter.

Given that COVID-19 originated in China, it might be reasonable to expect this nation to be among the poorest performers for the quarter. However, this was far from the case, with MSCI China down only -10.3%. This relatively smaller decline was in part due to China's further progression in managing and recovering from COVID-19. Reported new cases of the virus have tailed off considerably and large parts of their economy are through lockdown restrictions and getting back to work. The relatively better performance of the China market was also helped by the two largest names in the index. Alibaba and Tencent are engaged in internet related services and telecommunications, which have been significantly less disrupted through the crisis, and together represent over 30% of the index.

South Korea and Taiwan both declined 'just' -18.3%, with both indices holding higher than average exposures to the technology sector. Conversely, Latin American commodity exporting nations such as Brazil (-35.8%) and Colombia (-37.7%) struggled the most.

In New Zealand dollars the MSCI Emerging Markets Index produced a quarterly return of -13.8% for a -5.7% return over the last 12 months.

Source: MSCI Emerging Markets Index (gross div.)



-14.5%

New Zealand shares

New Zealand shares were not spared in this environment. One of our major exports is tourism and with our borders now closed, and potentially remaining closed for a significant period of time, firms like Air New Zealand (-71%) and Auckland Airport (-43%) suffered considerably. In contrast to this, our domestic market is comprised of a larger than average representation of defensive industries such as utilities (-17%), healthcare (-0.3%) and consumer staples (+7%). Regardless of the economic cycle, New Zealanders will continue to buy power, healthcare and food and these industries performed relatively well. Real estate companies (-20%) struggled as the global slowdown is expected to have an adverse effect on commercial and residential property markets.

Overall, the S&P/NZX 50 Index declined -14.5% for the quarter, but due to the impressive three quarters that preceded this one, remains positive over the last 12 months, and longer.

Source: S&P/NZX 50 Index (gross with imputation credits)



-24.0%

Australian shares

Our neighbours across the Tasman did not fare as well as the New Zealand market, and Australian returns were amongst the lowest in developed markets. The Australian share market is dominated by financials and materials firms which are typically more sensitive to economic growth. The S&P/ASX 200 declined -23.1% in Australian dollar terms as, among the larger firms, only a couple of healthcare companies and the two large grocery stores were able to manage flat or small positive returns.

Energy companies, gambling firms and flagship airline Qantas were among the largest losers, while the performance of small capitalisation firms generally lagged large capitalisation firms.

Returns to New Zealand investors were further eroded by a relatively weak Australian dollar over the quarter as the NZD / AUD foreign exchange rate flirted with parity during March.

Source: S&P/ASX 200 Index (total return)



+2.2%

International fixed interest

Faced with a global health emergency and economic crisis, fixed income market behaviour paralleled the global financial crisis in the late 2000s with issuer credit quality being placed firmly under the microscope. High quality bonds such as those issued by central governments were sought after, as many market participants looked to shelter in safer assets. This generally pushed higher quality bond yields down, and their prices up.

Conversely, lower quality bonds suffered declines as the market priced in an increasing risk of default on their future interest obligations. Generally, the lower the credit quality of the bond the worse the returns, with some bonds quickly declining in excess of -20%. For investors who had been moving down the credit spectrum to chase higher yield as interest rates declined, this unfortunately revealed the higher risk they had been exposing themselves to.

As the crisis evolved, bond market liquidity started to dry up, particularly for lower quality bonds. This meant forced sellers (i.e. investors requiring liquidity) had to accept lower and lower bid prices in order to exit their positions. This in turn began to put selling pressure on higher quality bonds as some investors also sought to raise cash wherever they could. This led to a partial reversal of the earlier gains on government bonds, although yields still ended the quarter significantly lower than they had been three months earlier. The US 10 year treasury started the quarter with a yield of 1.92% and at one point in March touched 0.32% before finishing the month at 0.68%. To put this in perspective, until February 2020 the yield on this instrument had varied by less than 2% since late 2011 yet it varied by 1.60% in the quarter alone. The story was universal with European, British and Japanese government bonds all witnessing similar yield compressions and volatility.

Part of the roll out of central government relief packages included significant reductions in central bank interest rates. This will reduce the cost of borrowing and will help companies needing to take on new debt in order to navigate the economic challenges ahead. The second aspect of the significant monetary stimulus packages was the restarting of bond buying programs (also known as quantitative easing) where central banks act as large buyers of securities in the bond market. This helps restore liquidity to these markets and to support businesses looking to issue new debt. Early signs were positive as March saw a record issuance of new investment grade bonds in the US as corporates sought to recapitalise.

In aggregate, higher quality sovereign bonds outperformed corporate bonds, and longer duration bonds outperformed shorter duration. The FTSE World Government Bond Index 1-5 Years (hedged to NZD) posted a +2.2% quarter to take its 12 month return to +4.4%, while the broader Bloomberg Barclays Global Aggregate Bond Index (hedged to NZD) returned +1.4% for the quarter and +6.0% for the last 12 months.

Source: FTSE World Government Bond Index 1-5 Years (hedged to NZD)

**+1.3%**

New Zealand fixed interest

The New Zealand fixed interest market followed the same general trends as the global market. Government bonds were sought after, and lower quality corporate bonds declined. The Reserve Bank of New Zealand slashed the Official Cash Rate to an all time low of 0.25% on March 16th and announced a Large Scale Asset Purchases (“LSAP”) programme on March 23rd. The LSAP is the biggest to ever be rolled out in New Zealand and includes a commitment to purchase up to \$30 billion of New Zealand government bonds in the secondary market over the next 12 months, across a range of maturities.

Overall the S&P/NZX A-Grade Corporate Bond Index advanced +1.3% for the quarter and +4.2% over the last 12 months, while the longer duration S&P/NZX NZ Government Bond Index rose by +3.5% for the quarter and +5.3% for the last 12 months.

Source: S&P/NZX A Grade Corporate Bond Index

Table 1: Asset class returns to 31st March 2020

Asset Class	Index Name	3 months	1 year	3 years	5 years	10 years
New Zealand shares	S&P/NZX 50 Index, gross with imputation credits	-14.5%	0.4%	11.9%	12.2%	13.0%
Australian shares	S&P/ASX 200 Index (Total Return)	-24.0%	-15.4%	-2.4%	1.6%	2.6%
International shares	MSCI World ex Australia Index (net div., hedged to NZD)	-20.9%	-10.9%	1.9%	4.2%	8.7%
	MSCI World ex Australia Index (net div.)	-10.6%	2.7%	7.8%	8.2%	8.6%
Emerging markets shares	MSCI Emerging Markets Index (gross div.)	-13.8%	-5.7%	4.2%	4.6%	2.8%
New Zealand fixed interest	S&P/NZX A-Grade Corporate Bond Index	1.3%	4.2%	5.0%	4.9%	5.7%
International fixed interest	FTSE World Government Bond Index 1-5 Years (hedged to NZD)	2.2%	4.4%	3.0%	3.1%	3.8%
New Zealand cash	New Zealand One-Month Bank Bill Yields Index	0.2%	1.3%	1.7%	2.0%	2.5%

Unless otherwise specified, all returns are expressed in NZD. We assume Australian shares and emerging market shares are invested on an unhedged basis, and therefore returns from these asset classes are susceptible to movement in the value of the NZD. Index returns are before all costs and tax. Returns are annualised for time periods greater than one year.

How to function well day by day

A wellbeing plan

It is expected to have many and mixed feelings at the moment. Some of them, such as mild anxiety, for example, drive us into action such as buying the necessary things for ourselves and our family, maintaining hygiene, etc.

This is not bad in itself, but it is important to find the right balance. It is not good to avoid or overdo any activity. Save your strength for later stages, if the situation gets prolonged, as marathon runners do!

Let's remember all the things we can do and experience, even in this situation, as many of them can be positive.

Getting out for a walk, listening to music, reading, watching films, contacting friends, kindness and positive relationships with others.

Remember: no stigma!

In crises, it is common for us to experience shock first and then to adapt gradually. At the same time, not all people react in the same manner and it is important to understand that. We are expected to have ups and downs and our behaviours are expected to change. Let's be aware of everything around us! It is good if we can focus on what we can control, and not on what's beyond our control. We can control the things we can do for ourselves and our family – a schedule of activities at home or making a wellbeing plan.

Tips for making a wellbeing plan:

Stick to your usual activities or adapt them to this situation:

- Get up at the same time and go to bed at the appropriate time.
- Don't set goals that are too ambitious. Help children do that as well. Talk and agree arrangements with your teenagers, make a schedule with your children to give them structure.
- Find a space where you can work. Make it your "place where you go to work". The same applies to children if they gone back to school or university.
- Stick to your usual work/study times.
- Try to eat on time, as usual.



Let's remember all the things we can do and experience, even in this situation, as many of them can be positive.

Connect with family and friends – talk, have video calls, video hangouts (Zoom/Skype) play board games, etc. Tell others how you feel and what you need:

- Find a friend for support – someone you know and trust. Make sure your children can also connect with their friends online. If you have just one computer at home, agree on who will use it and when, taking into account the priorities of each family member.
- Group work teams – many workplaces and schools are using these, meet regularly online and make arrangements.

Do the things you enjoy. Read books you haven't had the time for, draw/paint, try some online dancing, singing, foreign language classes, watch a stage play or a concert on YouTube, sort old photos, do jigsaw puzzles, play with other family members, with pets, organize challenges, breathing exercises, meditations, or other exercises. Let your imagination run wild.

Reduce your immersion in information. We are constantly overwhelmed with information, messages, news.

Stress is a natural response when we are so overwhelmed from all sides. This also reflects on our body – we can feel tired and our immune system can become weaker. So, control your exposure to information. Separate fake from real news. We cannot escape the situation we are in, but we can adjust our exposure to the situation.

Monitor your moods. You can use this self-awareness scale.

Think about where you would put your feelings on the scale from 1 to 10. Let number 1 be the feeling of joy, and 10 be the state you are in when you feel really bad. Remember how you feel when you are happy (your thoughts, the feeling in your body, how you feel). Remember how you feel when you are unhappy (your thoughts, the feeling in your body, how you feel). Prepare a plan in advance on how you will cope with feeling unhappy. Make a mini-plan: “When I feel unhappy, I will take a break, I will play my favourite song, I will call someone on the phone”. By taking quick action you can help to make the situation easier for yourself.



We cannot escape the situation we are in, but we can adjust our exposure to the situation.

Set up a time when you will start worrying:

- For example, start at 5:15pm.
- Later, when the time to worry comes, your worries might seem lesser compared to when they first occurred to you.
- If you have made a deal with yourself to worry at a specific time, then honour that deal.
- Don't plan on doing it before going to bed, and if worries or concerns do appear at that time, take a piece of paper and write them down.
- Note down your concerns in the diary and over time a paradox will happen – the list of concerns will grow smaller.

Plan and have an awesome day!

- Focus on what's happening right here and right now.
- Include exercise in your daily schedule.
- Practice gratitude. Write down one, two, or three things each morning for which you are grateful.
- Celebrate your achievements at the end of the day. Reflect on all the things you managed to do throughout the day and be proud. Being relaxed and happy is also an achievement worth celebrating!

And finally, keep your sense of humour. Find the light in your situation, remember to laugh and bring joy to others. We are in this together.

Kia Kaha

Source: <https://www.unicef.org/serbia/en/how-function-well-day-day>