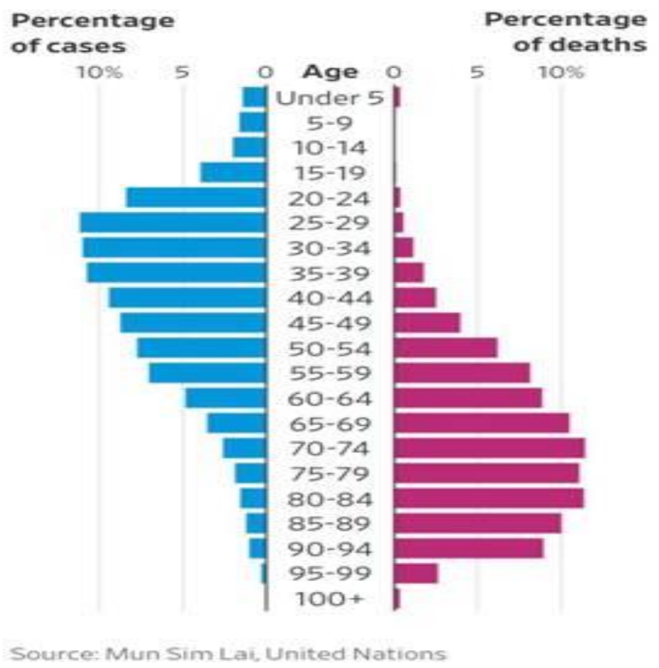
ECONOMIC COMMENTARY – SEPTEMBER 2020

COVID

Reports in recent weeks are showing optimistic signs of air tunnels between COVID-free parts of New Zealand and Australia, and New Zealand and the Islands in the coming weeks. This appears to be noise however as Air NZ CEO, Greg Foran, doesn't see a travel bubble for the next six months and Jacinda Ardern said in a recent election debate that she wouldn't put a date on when air travel would be possible. We will be allowed into COVID-free parts of Australia without quarantining but we will not have the same luxury if we wish to come back.



Source: Jarden. An interesting graph showing how differing demographics have been affected.

A similar theme surrounds a potential vaccine. Although dozens of vaccines are in development around the world, coupled with increasing market sentiment due to the accelerated efforts and results, deployment of the vaccine is a large issue. With such large numbers of vaccines needed combined with the widespread geographic nature of deployment, experts are warning widespread deployment will not be possible for another 6 to 9 months.

The re-opening of economies in Europe and the US has also seen the start of another wave of COVID, worse than the first in terms of number of cases but the number of hospitalized remains stable. Globally the medical profession is beating the pandemic. It will be expected that there will be a continued loss of jobs now that outdoor dining will be harder to maintain and lockdown measures have increased. Hospitality workers will be furloughed due to lack of demand. Pilots and flight staff are also on the firing block this month. It is expected that hiring will accelerate again with a vaccine.

US Election

This election continues to be a must watch as President Trump was diagnosed with coronavirus at the start of October. Markets climbed with news of Trump leaving hospital after less than a week. Odds on a Democratic sweep is on the rise. However, a week in politics is a long time.

The first presidential debate was a complete farce; other commentators have used less savory language to describe the event. A Biden win is seen as more likely, but some skeptics and analysts see this as being potentially harmful for the US economy.

The rally in equity prices this past August coincided with a hardening of Biden's polling lead, suggesting that markets are not nervous about a Biden presidency. The reason is simple: a Biden administration would be unlikely to pursue radical economic policies.

Hiked corporate taxes and increased fiscal stimulus is at the forefront of Biden's policies, aimed to make the wealthiest pay up and get Americans working again to boost the economy. Higher taxes will provide some headwind but is perhaps only a modest hit to corporate taxes. Whatever the result in November, we will likely not see the full effect of the potential change in government until March of 2021.

Uncertainty has increased amongst investors surrounding the election. No matter the election result, we will get more certainty of the future, and with certainty comes improved market sentiment.

Geopolitical Tensions

Public opinion about China in the U.S. is trending sharply lower ahead of the U.S. presidential election as we see U.S.-China relations transitioning to an intense rivalry across nearly every dimension of the relationship, including trade, technology, ideology, defence issues and more. Increased geo-political tensions between the US and China may be the new normal. It is unlikely that a Biden win will wash away tensions with China, with bipartisan support to confront China and their bully behavior of late. This political dynamic will move beyond the presidential election and the COVID crisis.

The US-China tension may also serve as a proxy measure for broader Chinese expansionist ambitions. The Indian Chinese border has been under dispute this year with both sides suffering fatalities. The situation is tense but somewhat more stable now. It is likely India has more to lose should a trade war ensue. There is much water to go under the bridge and should it escalate, how the US and Australia respond would make their current relationships with Beijing more delicate.

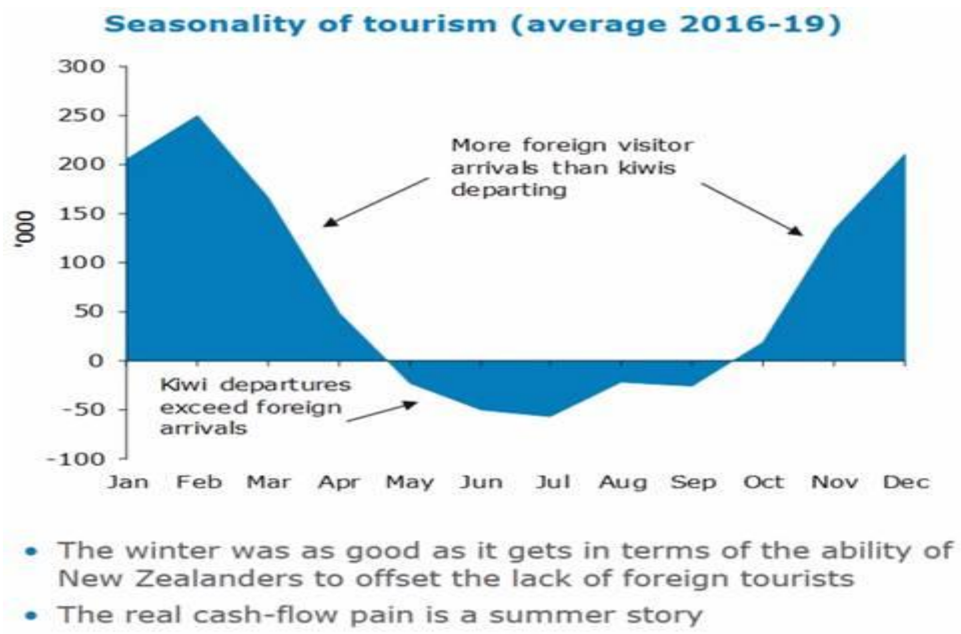
Nagorno-Karabakh, a landlocked region in the South Caucasus, has had Armenia and Azerbaijani facing off.

NZ Election

There are couple of interesting scenarios to watch out for with the New Zealand election. Will the support for ACT be large enough to get National over the line? Will Labour be able to win enough seats to govern on their own or will they need a coalition with Greens to stay in power? Does this spell the end for NZ First for the time being? If not would Labour work with them again?

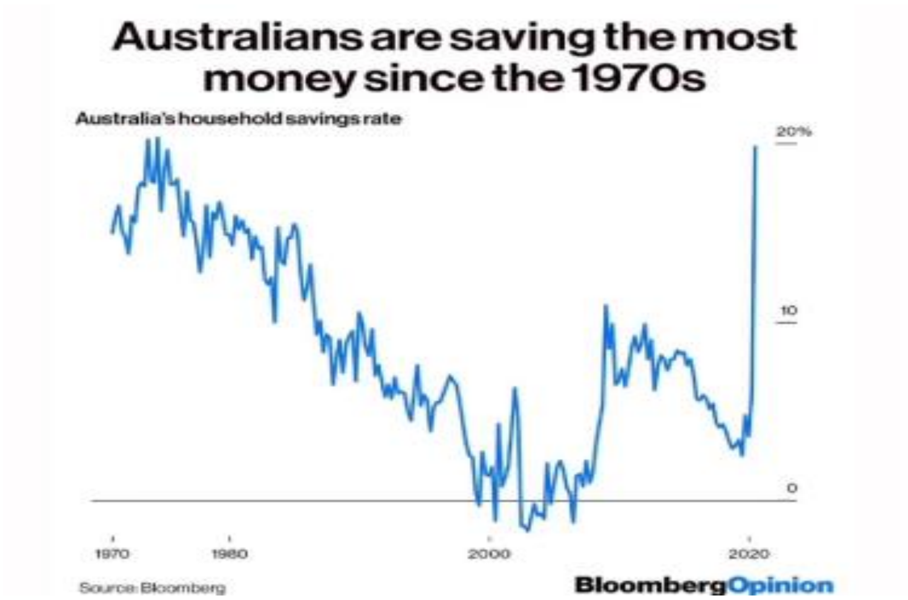
It is unlikely that the election will throw up any surprises. The market should be able to handle any unexpected change in government. A potential sell off on the days following the election may be on the cards, but nothing that won't be recoverable by the end of the week.

Markets and Economy



Source: Jarden. Now we will really see the effects of tourism coming into Summer.

Potential domestic tourism and bubbles with the Pacific Islands and Australia should help bridge the gap.



Source: Schroders. Savings rates over the ditch.

Paying off debt makes good sense too!

Decades can happen in weeks in the middle of a crisis. 2020 has been a year filled with crises, and we are only three quarters of the way through. It is easy to say this has been the toughest year in recent history, but it is not over until it's over and the next year could be even worse.

There is expected to be increased volatility in the coming weeks due to elections and COVID mania. It is important for investors to stay active and watch their portfolios in such a volatile market. Fund managers are constantly managing their risks and are well equipped to deal with the ebbs and flows that will continue through until the end of the year and beyond. Stay cautious, but there are profits to be made by taking good opportunities.

With interest rates at historically low rates, government bonds and cash, usually a risk-free haven, have turned so unattractive they aren't worth buying in most cases.

Fiscal stimulus will be ongoing as both presidential nominees are promising this in their campaigns. How long will this plaster be able to hold together the cracks in the walls? Economies will not be able to recover properly until lockdown measures are fully gone, travel is back in full swing, and hiring accelerates. There is only so much fiscal and monetary stimulus will do to boost the economy, but the action taken thus far has been swift and necessary.

Challenging yet exciting times ahead.