

CEF MEMBER RESPONSES: COVID-19

We surveyed a number of CEF members whose work revolves around global, macroeconomic factors, asking each of them to respond to a few questions about recent COVID-19 activity. Some requested to remain anonymous.



In Seon Hwang
Ascend Partners



Carl Thong
Sunstone Group



Henry Kaestner
Sovereign's Capital



Luke Roush
Sovereign's Capital

HOW LONG DO YOU ANTICIPATE THE RESULTING ECONOMIC SLOW DOWN TO CONTINUE?

In Seon Hwang: Impossible to know, too early to tell. This is a simultaneous supply side and demand side disruption, not just a financial crisis, oversupply, or recession induced demand drop. Also impossible to know what form of COVID returns this winter.

Carl Thong: I anticipate that the slow down will be for 2 quarters (Q1 and Q2) of 2020.

Henry Kaestner: I anticipate we are going to operate at 60% for a quarter, 80% for the quarter following and be back to normal.

Luke Roush: 6-12 months... Not explicitly because of covid-19, but because covid-19 triggered an inevitable pullback on what had otherwise been a 12-year bull market run. The covid-19 direct effects likely impact the next 2-3 months (slower but not standstill) but the longer-term 6-12 month effect is hangover from the bull market with some smaller knock-on effects of covid-19.

Anonymous: The economic impacts of COVID-19 are likely to be felt for some time. Over the short to medium term we can expect an economic slowdown across a large part of the global economy. But the long-term effects are likely to be significant.

DO YOU THINK WHEN THE CRISIS IS RESOLVED THAT MARKETS WILL HAVE A V-SHAPED RECOVERY OR DO YOU ANTICIPATE A LONGER-TERM CORRECTION?

In Seon Hwang: Unless there is a much bigger fundamental economic and infection issue, the market seems to want to do a quicker V. Lots of money looking for a home.

Carl Thong: Yes, I anticipate a V-shape recovery. The fundamentals in the US economy are strong (i.e. unemployment rate, strong domestic and international demand). The rest of the world seems to also be on a growth trajectory.

The ASEAN economy has always been a growth region, because historically, it has been behind the curve in terms of economic development. However, 20 years ago, many multinationals (particularly financial services industry) referred to countries such as Thailand, Indonesia and Malaysia as “emerging markets” and Singapore and Hong Kong as “developed markets.” Here is what I have observed... The largest ASEAN economies (Indonesia, Singapore, Malaysia, Thailand) can no longer be referred to as “emerging” because the markets have become mature, and as a result, have become more efficient with resiliency.

China is the outlier, but that is mainly because China is going through what I call an “economic recalibration” exercise. For the past 20 years, they were artificially shielded (and supported) by the Chinese government. Now, with the Trump administration’s position on such unfair trade practices, the trade war (and now the Part 1 agreement) has forced China to recalibrate economically, for the better in the long term. I anticipate Trump to win the second term and hence Part 2 of the trade agreement will be negotiated and I expect China’s demand will catch up.

Henry Kaestner: If the stock market wasn't already trading at such historical highs, I'd predict a V-shaped recovery... Instead, I think it's going to be more gradual, and yet will recover.

Luke Roush: Longer term correction... Due to bear market pullback (less due to covid-19 and more due to overheated nature of current market).

Anonymous: Markets have, in my view, been over-valued for some time. While the economy may experience a V-shaped recovery, I expect markets to take longer to recover.

WHAT ECONOMIC IMPACTS DO YOU SEE THE CORONAVIRUS HAVING ON YOUR PERSONAL BUSINESS? ON THE GEOGRAPHIC AREA WHERE YOU ARE LOCATED?

In Seon Hwang: Investors want to see some calm before allocating money into new ideas.

Carl Thong: For our management consulting/training business, our business has dropped 90% for Q1. Initially, we were expecting our strongest Q1 2020, but the coronavirus has disrupted our revenues. Most clients are pushing our engagements back to Q2 and Q3, so prayerfully we will more than make up for what was delayed in Q1. For this business, we are in 10 Asian countries, with most of our businesses coming from Singapore, Hong Kong, Indonesia and India. For our healthcare call center business, our business has picked up nicely. For our consumer products business, our business has also picked up, mainly because we are now starting to sell masks and hand sanitizers.

Henry Kaestner: BAND provides services that would actually benefit from a more "work at home" economy. The negative impact would come to the stock if market multiples are compressed.

Luke Roush: Limited near-term. May help a few businesses, and hurt a few different ones in our portfolio.

Anonymous: Aside from the universal effects of travel being cancelled, business meetings being reduced and consumers stockpiling, the effects on Australia, coming so soon after a catastrophic wildfire season and widespread flooding are likely to be painful. A significant number of students in Australian universities return home to China and other parts of Asia over our summer break, and those students have, in many cases, not been able to return. This causes substantial disruption for the education sector and in particular casual employees in that sector. Given Australia's heavy reliance on education and tourism, a recession appears inevitable. However the vast majority of Australia's meat, fresh produce and other consumer staples products are produced domestically, giving a resilience against food supply chain disruptions.

DO YOU HAVE ANY UNIQUE OBSERVATIONS THAT PEOPLE GENERALLY AREN'T TALKING ABOUT?

In Seon Hwang: Italy will be an interesting test case. If they and S. Korea can contain new infection rates in the next week or two, the markets will rally favorably. Also, the market seems to overreact to NY reported new cases.

Carl Thong: The coronavirus has resulted here in Singapore with a sense of “coming together” to combat the virus situation. This is refreshing.

Henry Kaestner: I think that millions more people will be impacted in their paycheck than will ever get sick. Unfortunately it's the millions (hourly workers in services businesses) that can least afford it. IF governments see this and try to overly compensate for this, it could impact the economy negatively, impacting yet more jobs. Christ followers need to step up their giving/relief/development efforts and by investing in entrepreneurs that can create more jobs. This travesty is an AWESOME opportunity for Christ followers to step up, invest and give more, and show why we aren't as freaked out as people without eternal hope are.

Anonymous: While the virus' effects in industries like tourism and education are likely to ease as concern around the virus reduces, COVID-19 is already causing supply chain disruptions in some industries, and these are likely to take far longer to recover. Whether a particular supply chain has been disrupted or not, businesses around the world will be re-evaluating the resilience of their supply chains and considering how to make them less susceptible to these kinds of pandemics. This is likely to result in reduced efficiencies and economies of scale as businesses prioritise supply chain stability over economic efficiency. These kinds of global panic events tend to have long-lasting repercussions. The global economy relies on extensive trust in supply chains, liquidity, currency conversion and a range of other factors that are likely to be tested over the next 3-6 months. It may take some time for that trust to be rebuilt.