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Inside

Market snapshot

S&P/ASX 200 Index (points)

S&P/ASX 200 stocks Friday

Best	Close ($)	Change (%)
Cochlear	216.11	+21.08
Netwealth Grp	6.49	+18.65
Viva Energy Grp	1.56	+17.29
Oil Search	3.48	+17.17
Cooper Energy	.45	+13.92
Worst		
Unibail Rodamco Wfld	6.39	-14.11
Qantas Airways	3.18	-12.64
Collins Foods	5.96	-9.15
Gold Road Res	.94	-8.29
Northern Star	11.09	-8.12

Indices	Close (points)	Change
ASX 200	5539.3	+234.7
Nikkei	17431.05	-1128.58
Hang Seng (pm)	24032.91	-276.16
Shanghai A	3025.88	-37.76

Currency		Change
TWI	55.1	-0.9
$A/USc	62.96	-1.64
$A/¥	66.47	-0.62
$A/€	0.5565	-0.0056
$A/£	0.5037	+0.0003

Rates	Close (%)	Change
Cash rate	0.50	-0.25
180-day bills	0.626	+0.008
10-yr bonds	1.051	+0.054

Commodities	Close ($US)	Change
Gold (spot)	1529.31	-56.66
Iron ore	91.71	+0.96
Oil WTI	31.73	+0.23

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Trump brings relief but volatility stays

William McInnes

Wall Street's endorsement of US President Donald Trump's overdue COVID-19 pandemic response should deliver relief for Australian investors today, after incredible volatility underwrote the worst week for the local market since the global financial crisis.

The 1 per cent or 61-point rally signalled by S&P/ASX 200 futures will push shares within a whisker of exiting bear territory, where losses since the peak stand just shy of 23 per cent. A positive close today would also represent the first two consecutive sessions in the green in more than three weeks.

That optimism is backed up by Wall Street, where all three major indices closed on Friday up more than 9 per cent. The S&P 500 and Nasdaq Composite are no longer in bear markets.

The rally was sparked when Mr Trump declared a national emergency, outlining measures including buying large quantities of crude oil to shore up national reserves and boosting the nation's capacity to test for the COVID-19 virus.

But weekend developments, including Prime Minister Scott Morrison's requirement that all arrivals to Australia self-isolate for 14 days, frames the near-term outlook as being volatile to newsflow.

"Bottoms of markets are incredibly difficult to pick," said Perpetual's head of investment strategy for multi-asset, Matt Sherwood. "So far what we've seen is a big market panic and the market not initially responding to fiscal and monetary support. But when governments have announced things more along health lines, the market has responded. Markets are liking the sound of that."

On Friday, local shares staged an epic comeback to close the session 234.7 points, or 4.4 per cent higher, at 5539.3 after plunging as much as 8.1 per cent in the middle of the day.

The Bank of Canada became the latest central bank to cut rates aggressively, reducing its key rate by half a percentage point on Friday in a co-ordinated effort with the Canadian government, which declared a fiscal stimulus package.

"The stimulus is there and there is the potential road to a recovery, but you have to have a stabilisation of the health crisis and the economy," Mr Sherwood said. "Normally what you need is attractive valuations, large stimulus or liquidity and signs of economic stabilisation forming. We've got the first two and once we see the third, we may be not be too far away [from a recovery]."

Injections of liquidity supported the financial system last week, ensuring the plumbing of the market keeps working.

The Reserve Bank of Australia pumped $8.8 billion into short-term bank funding in a bid to ward off a breakdown in credit markets.

In the US, the Federal Reserve bought Treasuries across the yield spectrum, accelerating its previously announced purchases in a bid to prevent a worsening of the strains in financial markets. There are no aspects of funding markets that are distressed yet.

"Apart from strong central bank action, the other positive developments would revolve around the flattening of daily growth in cases in the US and Europe and potential for a vaccine – both allowing investors to get a better hold on likely severity and timing of the downturn," said Drummond Capital Partners managing director and chief investment officer Nick Reddaway.

Mr Reddaway said his firm had been buying stocks on Friday given the near

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Trump move brings relief; volatility stays

30 per cent fall in equity markets spanning the past three weeks.

But even so, he was not willing to conclude the worst is over.

"If last week was the bottom, it would be the first time in history that the market has fully priced in a recession, then rallied, before the recession even started," Mr Reddaway said.

"Markets are forward looking, but I don't think they are that prescient. It's hard to find justification for a sustained rally here given the US has botched its response and France, Spain and parts of Germany are locking down retail excluding grocery."

The one thing investors feel certain of is that the volatility seen in the past three weeks will be sustained, regardless of which direction the market moves in. "People are starting to realise this isn't a blizzard that's just going to blow away," said Swell Asset Management chief investment officer Lachlan Hughes.

"It's going to be here for the next few months and the market will be volatile."

That volatility could linger even after the concerns over the coronavirus subside, as companies take stock of the full impact of the outbreak on their cashflows and earnings outlook.

A number of companies have already scrapped their guidance, such as Corporate Travel Management, Flight Centre and Air New Zealand.

"There will be a severe hit to earnings and as that feeds through to markets, it's quite possible there will be a second round of selling," Mr Sherwood said. "There's every chance there could be a second wave in this coronavirus crisis."