

COVID-19 Market Update: 20 March 2020

Australian Equity Funds managed by Platypus Asset Management

- We are operating on the basis that the Coronavirus induced shock is transitory.
- We are considering the near-term risks and opportunities in the current environment and will make decisions on a stock-by-stock basis to manage the portfolio for the long-term.
- An investment in equities is generally considered high risk and should be entered into with an investment timeframe of at least five years

Platypus Asset Management (Platypus) is Australian Unity's appointed domestic equities manager.

We are a growth manager and invest in a concentrated portfolio of stocks with the aim of producing strong returns over the medium to long term by identifying and investing in companies with strong future growth prospects.

COVID-19 has had an unforeseen impact on global capital markets to date in 2020 and will sharply slow economic activity in the next two quarters and beyond. The timing and the shape of the recovery is impossible to predict at this point in time.

Platypus is operating on the basis that COVID-19 induced shock to the global economy (and therefore capital markets) is transitory i.e. it is not the Spanish Flu type pandemic that wiped out a large percentage of the global population in the early part of the twentieth century. That said, the macroeconomic impact from the pandemic in the first half of the calendar year 2020 will be materially worse than what would have been expected only a week or two ago. We have seen a glimpse of what the data looks like when activity comes to a grinding halt when China released Jan-Feb data on 17 March 2020.

At the time of writing this Market Update, earnings risk has emerged too quickly and too broadly for it to be avoided in Platypus's equity portfolios and we now expect **all companies** on the ASX to withdraw profit guidance, with a very small number of exceptions.

There are stocks in the Australia equities market whose earnings are exposed to the movement of people (travel as an example). We think that such businesses are the riskiest followed by those businesses who rely on global supply chains (retailers as an example). There will be disruptions in moving or manufacturing product as a result of the shut downs/quarantines. Some businesses will manage these issues in the supply chain better than others. Cyclical businesses whose earnings will be affected by lower economic activity, more broadly come next in the pecking order of risk (examples include resources, energy and logistics companies).

Balance sheet strength will be paramount for businesses to navigate through the turbulence caused by the virus. At Platypus we will consider the near-term risks and opportunities through this framework and will make decisions on a stock by stock (bottom-up) basis to manage the portfolio for the long term.

An investment in equities is generally considered to be high risk and therefore should be entered into with the expectation of a medium to long term investment duration of at least five years. If the current volatility within markets is causing you concern, we suggest seeking professional advice regarding your current investments.

Further information

If you have any questions please contact your [Business Development Manager](#). Alternatively, you can speak with our Adviser Services team on 1800 649 033, our Investor Services team on 13 29 39 or email investments@australianunity.com.au.

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