Westwood®

Market Update

March 24, 2020

While we monitor developments from the coronavirus (COVID-19) across markets around the world and at home, our thoughts are with all those affected. As a firm, Westwood has managed through difficult market events and economic periods in the past (i.e., 2008 Global Financial Crisis, 1987 Black Monday, 9-11 Attacks), and we will continue to adhere to proven fundamental investing principles to navigate through this time of crisis.

The immediate effects of COVID-19 on the global economy are becoming increasingly clear and point to a sharp fall in output across the world. Consensus forecasts see U.S. economic output (GDP) falling between 10-30% in April–June, which will likely drive up **unemployment** significantly and more rapidly than nearly any other time in modern history. As a result, the world economy could contract about 1% this year given the constrained economic activity.

Globally, we now expect a 1H20 recession in emerging markets as containment is stepped up and developed markets contract. The speed and strength of the emerging markets recovery will depend not only on the robustness of the public health system but also on monetary and fiscal policies, especially if the inability to access credit turns into an additional macroeconomic drag. Even before the pandemic, we had expected emerging market central banks to cut 0.5% in 2020 to incentivize higher economic growth. The steep growth and inflation markdowns and the U.S. Federal Reserve (Fed) delivering 1.5% in rate cuts (down to near zero) likely leads to emerging market central banks following suit and easing considerably more as well.

Central banks around the world have acted swiftly to support financial markets, but one point to stress is that the ability of central banks and governments to “put a floor” under financial markets is limited. As history suggests, markets are only likely to bottom out when it becomes clear that the flow of new cases of the virus has peaked.

On March 23, 2020, the Fed announced an unprecedented move in an “open ended” expansion of the balance sheet by purchasing a range of assets. They started with planning to purchase an additional $375 billion in Treasury bonds and $250 billion in mortgage-backed securities (MBS) this week. Additionally, the Fed has set up a $300 billion lending facility to provide further support, with $30 billion in losses to be backstopped by the Treasury.

With interest rates now more or less back to their effective lower bound in the U.S., Eurozone, Japan and the U.K., monetary policy appears to be operating at the limits of what it can do to stimulate demand. The responsibility for providing lasting support for aggregate demand now sits squarely with fiscal policy. As of this writing, the COVID-19 stimulus bill was still pending.

Westwood Remote Readiness and Connectivity

As “shelter in place” directives have been implemented in our Dallas, Boston metro and Toronto locations, remote functions are in place. With our cloud-based technology platform, we are continuing to seamlessly manage portfolios and operate our business in this environment.