The month ahead – February 2020

Global equity markets had a volatile start to 2020, as fears of the coronavirus outbreak caused an uptick in market volatility. January got off to a good start with indices in the US, Australia and New Zealand making new all-time highs, but concerns around the virus saw most benchmarks give back some gains.

With the pickup in volatility and lingering concerns with regards to the coronavirus, February could provide further periods of volatility. Here's what ANZ is watching heading into the month:

CORONAVIRUS AND POTENTIAL ECONOMIC IMPACT

As the fallout from coronavirus continues, the economic impact from the disruption of global travel and trade is hard to get a handle on. Comparisons are being made to the 2002-2003 SARS outbreak, which, according to the National Institute of Health, cost the global economy US$40 billion.

Given the potential risks, we have seen large corporations take significant measures, including McDonald's and Starbucks, which temporarily suspended operations in Wuhan and surrounding cities in an attempt to halt its spread.

If we see an escalation in the number of people or a widening reach of the virus, we could begin to see growth impacted.

RESERVE BANK OF NEW ZEALAND LIKELY TO LEAVE INTEREST RATES UNCHANGED

On 12 February, the Reserve Bank of New Zealand will meet for the first time in 2020 and the first in nearly three months.

After cutting the Official Cash Rate to a record-low 1% in 2019, a number of pundits had expected another one or two cuts heading into 2020. However, the final quarter of 2019 saw an improvement in New Zealand economic data: Business confidence bounced from a multi-year low to its highest level in more than a year and inflation data topped expectations nearing the target mid-point of 2%.

Furthermore, global sentiment – at least from an economic data perspective – has improved, abating fears of any near-term slowdown. Against the backdrop of the improving sentiment, we expect the central bank to leave rates unchanged, but acknowledge global and local uncertainty remains.

RESERVE BANK OF AUSTRALIA TO CONSIDER A RATE CUT

Two weeks before the RBNZ meeting, the Reserve Bank of Australia will meet. With the Australian economy facing uncertainty, mostly on the back of the devastating wildfires, there have been calls for the RBA to cut rates to ease borrowing pressures as those affected look to rebuild.

However, expectations of a rate-cut were tempered somewhat with a strong December employment report, which showed the Australian economy added nearly 30,000 jobs in December and the unemployment rate fell to 5.1%.

PRESIDENT DONALD TRUMP'S IMPEACHMENT TRIAL CONTINUES

In the US, the impeachment trial of President Donald Trump is set to continue in February. With both sides having laid out their cases in the charges the President abused power and obstructed Congress, the Senate will debate whether new witnesses will testify – something the White House and Republicans are trying to avoid.

While we have seen little economic impact from the impeachment trial, we note heading into an election year US politics playing a significant role in global geopolitical uncertainty.

THE RACE FOR THE DEMOCRATIC NOMINATION BEGINS

Against the backdrop of President Trump's impeachment trial, the race for the Democratic nominee heats up with four caucuses and primaries in February, beginning with Iowa on 3 February, followed by New Hampshire, Nevada, and South Carolina.

While the first four states are a small representation of what's needed to win the nomination (about 4%), early states can be significant, especially for lesser-known candidates looking for a media bump to put them in the conversation for a victory.

With that being said, there are still four clear frontrunners (Joe Biden, Pete Buttigieg, Bernie Sanders and Elizabeth Warren) and polling suggests one of these candidates to sit atop of the polls come the end of February.

STILL OVERWEIGHT INTERNATIONAL EQUITIES BUT ACKNOWLEDGE RISKS

Over the New Year period, we remained overweight international equities. We continue to see an improvement in global sentiment, most notably on the back of the signing of the 'Phase 1' trade deal between the US and China.

Furthermore, key leading indicators are showing signs of improvement including improving PMI data in Europe, retail sales in the US and labour markets continuing to add more workers back into the workforce (falling underemployment), with 2.1million jobs added to the US economy last year. With the US-China trade uncertainty abating (for now), we see companies are starting to consider capital expenditures, which we expect will improve productivity and help absorb rising wages, supporting margins.

However, we do note the coronavirus could pose a potential economic threat, particularly to Chinese activity and global supply chains, and we will be monitoring the developing situation, including the fiscal response from Chinese authorities.

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