



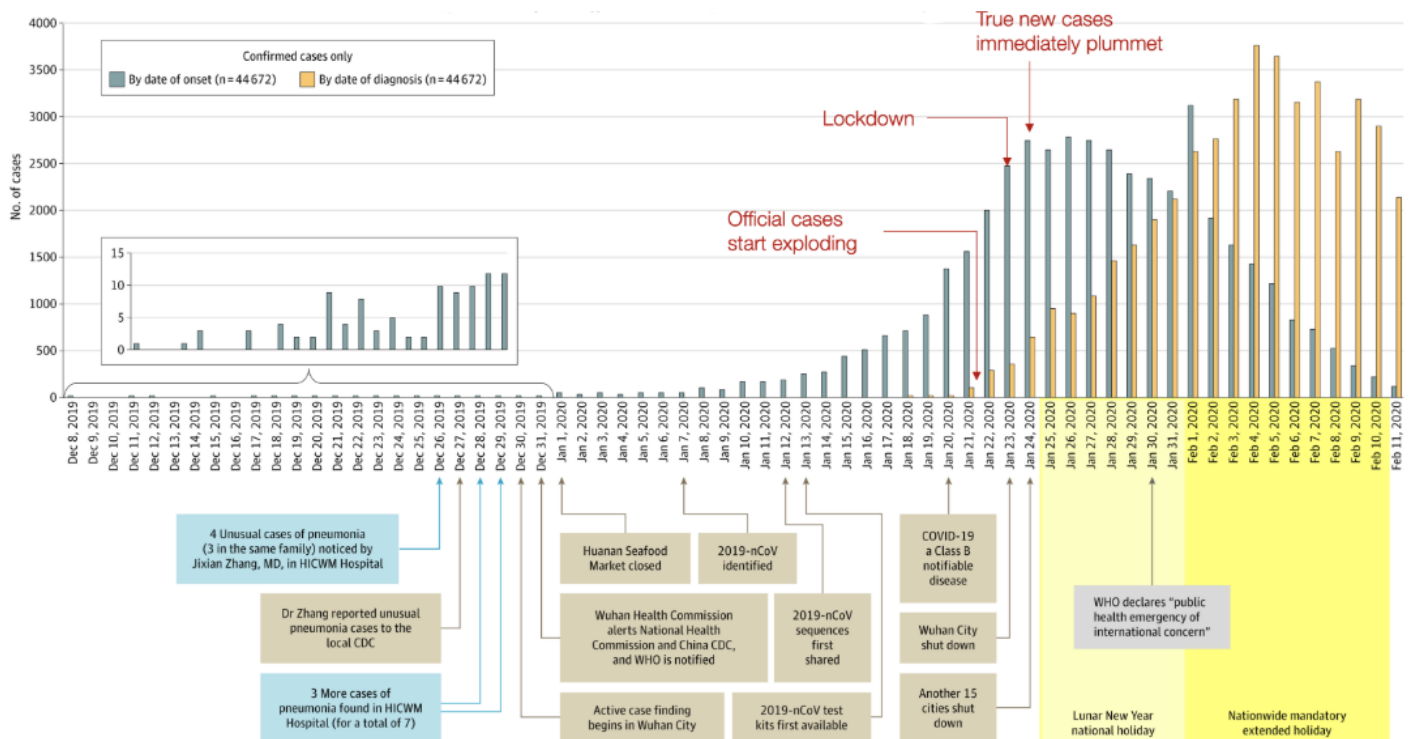
### COVID-19: The Black Swan of the Century

The COVID-19 pandemic has turned the world upside down. While things in China are already turning the other direction, the rest of the world is experiencing what China had two months ago. Widespread containment measures have disrupted economies around the world, creating fears of a global recession. As a result, most major stock markets slipped into bear territory. Things will get worse before they get better. However, we believe the market will recover before COVID-19 gets better. Therefore, we would like to recommend investors to take this opportunity to accumulate quality stocks with sustainable competitive advantages and strong balance sheets. Spread out your buying over several weeks, if not months. No one knows how bad things will get. But, eventually, this too shall pass.

### Inside China

Chart 1: Timeline of Events in Hubei

(Zoom in to read)



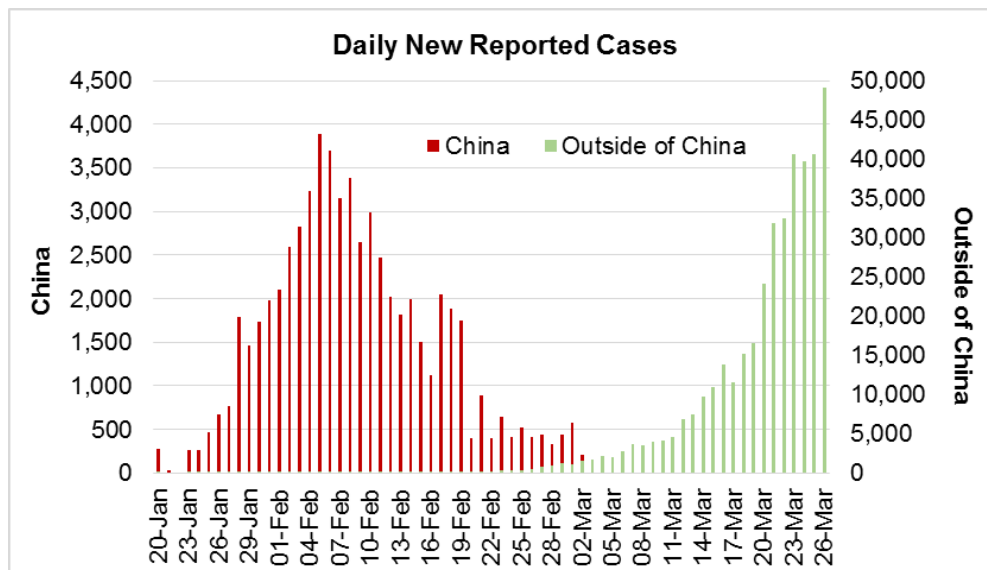
Note: Daily numbers of confirmed cases are plotted by date of onset of symptoms (blue) and by date of diagnosis (orange). The difference between the cases by date of symptom onset curve (blue) and the cases by date of diagnosis curve (orange) illustrates lag time between the start of illness and diagnosis of COVID-19 by viral nucleic acid testing. In other words, the orange bars show what authorities knew, and the blue ones what was really happening.

Source: Journal of the American Medical Association (JAMA), CDC, Tomas Pueyo

COVID-19 started in Wuhan, China in early Dec last year. It rapidly spread from a single city to the entire country in just 30 days. On Jan 21, 2020, the number of new official cases (orange) was exploding at around 100 (*refer Chart 1*). Two days later, authorities shut down Wuhan, as new official cases surged to around 400. The next day, another 15 cities in Hubei shut down. Up until Jan 23, when Wuhan closes, number of cases was growing exponentially. As soon as Wuhan shut down, true new cases almost levelled off. On Jan 24, when another 15 cities shut down, the number of new true cases ground to a halt. Two days later, the maximum number of true cases was reached. Since then, number of new cases has gone down. Note that there was a delay of **13 days** between the moment when the lockdown was announced and the moment when official cases started going down (Feb 5). Due to the effective containment in Wuhan, the rest of the country was less affected with only small number of cases.

As of Mar 26, the outbreak has killed 3,293 people and infected 81,961 people in China. Thanks to its draconian containment measures imposed two months ago, infections have slowed dramatically. There were no new domestic cases in recent days, only some imported cases. With no more new domestic cases, China said the lockdown in Wuhan will completely end on Apr 8, after **11 weeks of lockdown**.

### Outside of China



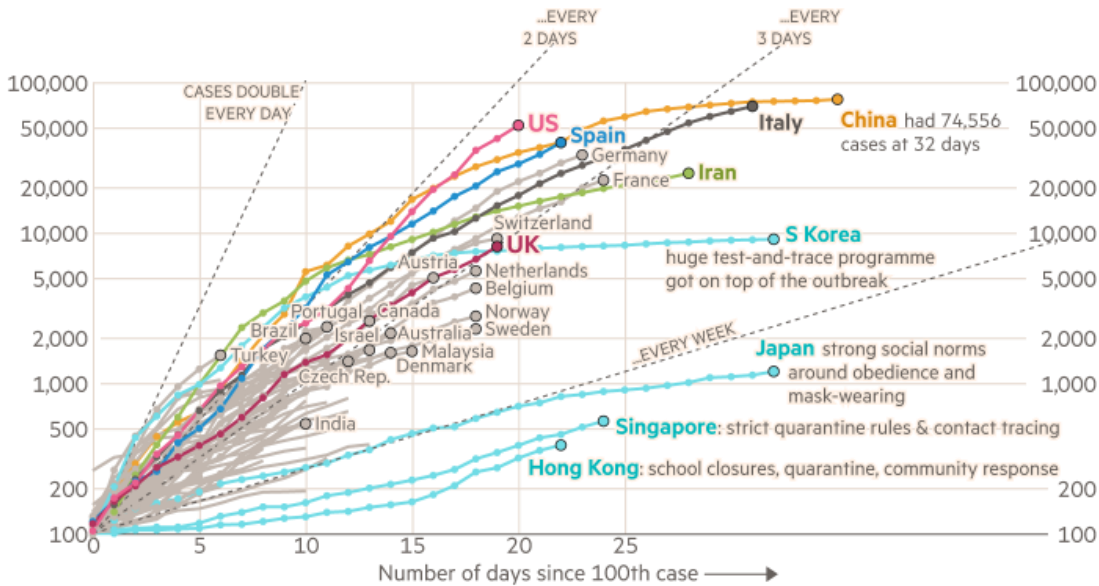
Source: WHO, CDC

While things in China are already turning the other direction, the rest of the world is experiencing what China had two months ago.

On Mar 16, the total number of cases and deaths outside China has overtaken the total number of cases in China. Outside of China, there have been 86,438 cases in over 150 countries as of Mar 16, and 3,388 deaths. These figures continued to grow rapidly since then. As of Mar 26, more than 380,000 people infected outside China with over 17,500 deaths. More than 180 countries have confirmed cases so far. The worst-hit countries are Italy, US, Spain, Germany, Iran and France. Meanwhile, Taiwan, Hong Kong, Singapore and Japan have managed to control the outbreak with **rapid and strict measures**. All of them were hit by SARS virus in 2003 and were more prepared than other countries.

## Country by country: how coronavirus case trajectories compare

Cumulative number of confirmed cases, by number of days since 100th case



FT graphic: John Burn-Murdoch / @jburnmurdoch  
 Source: FT analysis of Johns Hopkins University, CSSE; Worldometers; FT research. Data updated March 24, 19:00 GMT  
 © FT

Europe, with Italy as the epicentre of the outbreak, is now the latest hotspot. Italy reported 5,210 new cases and 685 deaths on Mar 26, raising total to 74,386 cases and 7,505 deaths. Note that 99.2% of Italy's deaths were people who suffered from pre-existing medical conditions, with a median age of 80 years. There are now at least 100 confirmed cases recorded in 78 countries globally. This includes 35 European countries, which accounts for some 75% of new daily cases. In most western countries, the number of cases has been increasing by about 33% a day. The WHO warned US could become the **new epicentre** of the COVID-19 pandemic after seeing a very large acceleration in cases in the last few days.

### Top 10 Affected Countries Outside China

Countries	First case	Confirmed cases	Deaths
Italy	31-Jan-20	74,386	7,505
USA	23-Jan-20	63,750	884
Spain	1-Feb-20	47,610	3,434
Germany	28-Jan-20	36,508	198
Iran	20-Feb-20	27,017	2,077
France	25-Jan-20	24,920	1,331
Switzerland	26-Feb-20	9,714	103
UK	1-Feb-20	9,533	463
South Korea	20-Jan-20	9,241	131
Netherlands	28-Feb-20	6,412	356

Source: WHO, CDC, Data as of 26 Mar 2020

Positively, some countries have successfully **flattened the curve** without extreme measures (such as lockdowns) but with aggressive testing and case isolation. For instance, Singapore's strong ability to trace, detect and isolate COVID-19 carriers has helped to put it ahead of other countries in containing the disease. Another success story is South Korea. It managed to slow the growth of new cases through intensive testing, efficient tracing and isolation, travel bans, and efficient quarantining. They even set up drive-through testing, allowing at least 10,000 people to be tested per day. COVID-19 is unlikely to disappear completely because it transmits too easily among the human population. So, we will likely see waves or low level disease once we lift the quarantine measures.

In the coming weeks, we expect the outbreak to continue to spread and the number of affected countries to climb even higher. South Korea, Singapore and China all managed to contain the outbreak within 2-3 months. Back home, more than 2,000 people have been infected by COVID-19 as of Mar 26, with 23 deaths. According to Health director-general Dr Noor Hisham, Malaysia will see higher number of cases in the next two weeks. The worsening outbreak has forced many countries to impose national lockdown, including Malaysia.

### Malaysia lockdown

On Mar 16, the government announced that it will implement the Movement Control Order from 18 to 31 Mar to address the COVID-19 outbreak. These include:-

- |   |
|---|
| <ul style="list-style-type: none"><li>• Prohibition of mass movements and gatherings across the country including religious, sports, social and cultural activities.</li></ul>  |
| <ul style="list-style-type: none"><li>• Overall restrictions of all Malaysians travelling abroad.</li></ul>   |
| <ul style="list-style-type: none"><li>• Restriction on entry of all tourists and foreign visitors into the country.</li></ul>   |
| <ul style="list-style-type: none"><li>• Closure of all kindergartens, schools and education institutions, both public and private.</li></ul>  |
| <ul style="list-style-type: none"><li>• Closure of all government and private premises except those involved with national key services (or essential services) namely water, electricity, energy, telecommunication, postal, transportation, irrigation, oil, gas, fuel, lubricants, broadcasting, finance, banking, health, pharmacy, fire, prison, port, airport, safety, defence, cleaning, retail and food supply.</li></ul> |

The current priority of the Government is to prevent the spread of this new epidemic that will affect more people. This came after the number of cases more than doubled to 553 over two days. We believe the government is doing the right thing because the only way to prevent the outbreak from getting worse is **social distancing**. That means keeping as many people home as possible so that the virus doesn't spread. This method has been proven to be effective in China (refer Chart 1). As soon as there was a lockdown, the number of cases levelled off before going down.

The other thing the government must do is **massive testing**. Current measures of social isolation alone will slow down the spread of COVID-19, as they have in Italy, but are unlikely to contain it, as they have in China and South Korea. Testing, isolation and quarantine were what stopped COVID-19 transmission in China, not travel restrictions and lockdowns, according to WHO's assistant director general Bruce Aylward.

## COVID-19 testing per capita

COUNTRY/PROVINCE	POP.	# TESTED (AS OF)	TESTS PER MILLION PEOPLE
Japan*	125.5M	14,072 (Mar. 19)	112
United States	329.4M	111,638 (Mar. 20)	339
United Kingdom	65.8M	64,421 (Mar. 18)	983 ■
New York State	19.5M	32,427 (Mar. 20)	1,667 ■
Guangdong, China	113.5M	320,000 (Feb. 28)	2,820 ■
Italy	62.4M	182,777 (Mar. 19)	2,929 ■
South Korea	51.8M	316,664 (Mar. 20)	6,109 ■

\*Includes just domestic cases; not returnees on charter flights.  
Updated as of March 20, 2020 at 12:30 p.m. EST.

Source: COVID Tracking Project, Business Insider

On Mar 27, the government announced a **RM250b economic stimulus package** consisting of RM128b to maintain people's livelihood, RM100b to support the SMEs, RM2b to boost the economy and RM20b stimulus package announced on Feb 27. However, direct fiscal spending by the government is only RM25b (1.7% of GDP) with the balance coming from the banks (RM175b) and EPF (RM50b). A significant portion of government's fiscal spending will be RM10b one-off cash handouts to B40 & M40 households; RM6b wage subsidy for employers to retain workers; and RM4b additional development spending (*refer Appendix*). The stimulus package is focused on protecting jobs and people's welfare as well as ensuring businesses will have sufficient resources to ride out the slowdown over the next few months.

According to Finance Minister Tengku Zafrul, the MOF has forecast fiscal deficit would rise to 4% (vs 3.2% initial forecast under Budget 2020) and is based on new oil price of between US\$35 to US\$40 per barrel (vs US\$62 previously). Malaysia's massive fiscal spending is in line with other major economies that have been ramping up their responses recently to counter the impact of COVID-19. For instance, the US and Singapore have unveiled fiscal packages worth US\$2t (9.3% of GDP) and SGD55b (11% of GDP) respectively. Massive government stimulus will help to ease the blow on businesses, especially SMEs, and households, as they are the key drivers of the economy. For instance, in Malaysia, SMEs contributes about 40% of the country's GDP and 20% to export annually. SMEs also make up some two-third of the total employment in the country.

## Fiscal and Monetary Measures Introduced in Malaysia (see details in Appendix)

Date	Measures taken by Government
27-Feb	<b>RM20b economic stimulus package</b>
	<ul style="list-style-type: none"> <li>• RM3.5b from government's direct spending</li> <li>• RM3.5b from Bank Negara Malaysia (BNM)</li> <li>• up to RM13b from household disposable income via lower employees' EPF statutory contribution (from 11% to 7%)</li> </ul>
16-Mar	Additional stimulus measures worth RM620m
23-Mar	Additional stimulus measures worth up to RM40.7b
	<ul style="list-style-type: none"> <li>• up to RM40b from household disposable income via RM 500 monthly withdrawals from EPF Account 2 for one year</li> <li>• RM 730m from government's direct spending</li> </ul>
27-Mar	<b>RM250b economic stimulus package (inclusive of all above)</b>
	<ul style="list-style-type: none"> <li>• RM128b for people's welfare</li> <li>• RM100b for SMEs</li> <li>• RM2b to stimulate economy</li> <li>• RM20b announced on Feb 27</li> </ul>
Date	Measures taken by BNM
3-Mar	OPR reduced by 25 basis points to 2.5% to provide a more accommodative monetary environment to support economy
20-Mar	SRR reduced to 2% from 3% to release liquidity into the banking system
25-Mar	Relief measures to assist borrowers - targeting SMEs and individuals and corporates

Source: MOF, BNM, PCM

## Impact on markets

Widespread COVID-19 containment measures have disrupted economies around the world, resulting in global equity selloff. This is further exacerbated by oil price crash after Saudi Arabia decided to cut prices and boost production in a bid to recapture market share. This came after OPEC's supply cut pact with Russia fell apart. As a result, US oil prices crashed as much as 34% on Mar 9. Two days later, the WHO declared COVID-19 a **pandemic**, pointing to global spread with over 118,000 cases of the virus illness in more than 110 countries. *"In the past two weeks, the number of cases of COVID-19 outside China has increased 13-fold, and the number of countries has tripled,"* according to the WHO.

There are fears the COVID-19 could lead to a **global recession**. At one point, most of the major indices lost more than 30% of its value from recent peak. They have since recovered some of the losses. The benchmark S&P 500 and Dow Jones composite has now lost 18.6% and 21% respectively year-to-date (YTD). On the other hand, the European key indices are still in bear territory, down more than 20%. In Asia, all the major indices tumbled between 16.4% and 31.1%, except China CSI 300 Index which was down only 9.7%.

## Performance of Major Indices in 2020

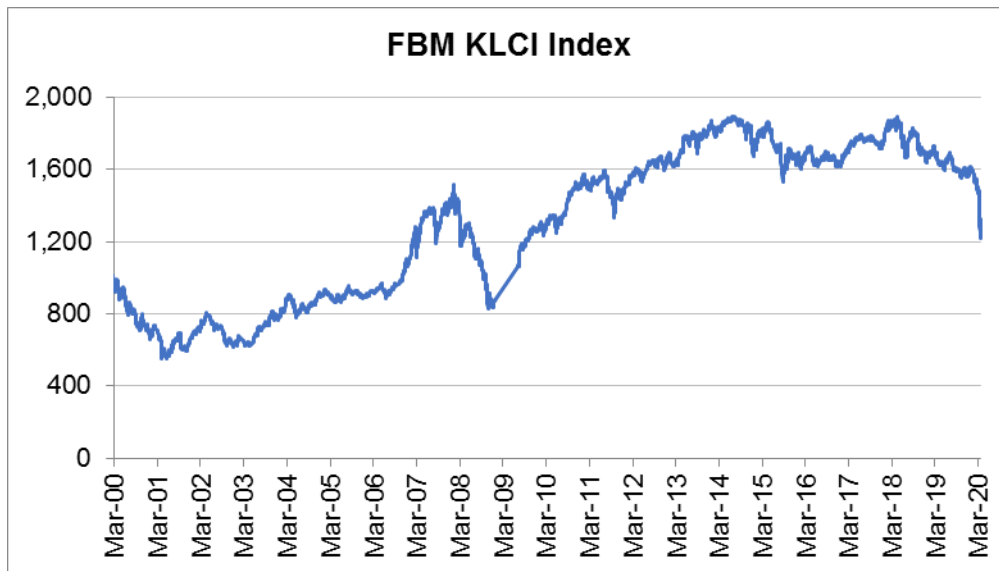
US Indices	31/12/2019	26/3/2020	YTD return
Dow Jones Industrial Average	28,538.44	22,552.17	-21.0%
S&P 500	3,230.78	2,630.07	-18.6%
Nasdaq	8,972.60	7,797.54	-13.1%
Europe Indices			
CAC 40	5,978.06	4,543.58	-24.0%
DAX	13,249.01	10,000.96	-24.5%
FTSE 100	7,542.44	5,815.73	-22.9%
Euro Stoxx 50	3,745.15	2,847.78	-24.0%
IBEX 35	9,549.20	7,033.20	-26.3%
Asia Indices			
S&P/ASX 200	6,684.08	5,113.29	-23.5%
Shanghai Shenzhen CSI 300 Index	4,096.58	3,698.05	-9.7%
MSCI AC Asia Pacific Index	170.66	135.38	-20.7%
Hang Seng Index	28,189.75	23,352.34	-17.2%
Nikkei 225	23,656.62	18,664.60	-21.1%
Jakarta Stock Exchange Composite	6,299.54	4,338.90	-31.1%
Philippines Stock Exchange PSEi	7,815.26	5,401.58	-30.9%
Stock Exchange of Thailand SET	1,579.84	1,091.96	-30.9%
FTSE Malaysia KLCI	1,588.76	1,328.09	-16.4%

Source : Bloomberg

On Mar 15, the Federal Reserve cut rates by a full percentage point to near zero and promising to a QE program of US\$700b (later upgraded to unlimited QE) to boost liquidity and stem damage from the COVID-19 outbreak. However, markets responded negatively. A day later, volatility gauges known as fear indexes spiked, with the Euro STOXX 50 in Europe surging almost 28% to an all-time high while the CBOE Market Volatility index soared 44% to a record close as stocks plunged further into bear territory. The S&P 500 closed down 12%, while the Dow Industrials plunged almost 13%.

Investors worried that the Fed action, joined by central banks in Japan, Australia, UK and elsewhere, may be insufficient for companies facing a sharp slide in demand. A Reuters' poll of economists suggested the global economy was already in recession. On Mar 25, the White House and Congress struck a deal for **US\$2tr stimulus package** to stem the COVID-19. With approval given by the Senate and The House, President Trump has signed into law the largest stimulus package in US history on Mar 28. The plan includes about US\$500b for distressed companies, US\$367b to aid small businesses and US\$250b direct payments to individuals/families and US\$250b in unemployment insurance.

Bursa Malaysia is not spared from the market rout, falling as much as 35.6% from its all-time high in April 2018. The sell-off has been fast and furious, helped by foreign selling and short-selling activities. Foreign selling intensified in Mar, totalling **RM4.9b** up to Mar 23. This is more than the RM2.1b worth of stocks sold in the first two months of the year. To mitigate potential risks from the heightened volatility and global uncertainties cause by COVID-19, short-selling has been suspended from Mar 24 until April 30. Meanwhile, the ringgit has weakened to RM4.39 (down 6.8% YTD) against the USD on continued demand for safe-haven greenback.



Source: Bloomberg

### Time to put your money to work

Our initial concern with COVID-19 was supply chain disruption. The virus outbreak has forced the government of China to quarantine almost one-half of its population and extended the Lunar New Year holiday by more than a week. This, in turn, resulted in massive disruption of Chinese manufacturing which directly impacting global supply chains. However, China factories are now gradually resuming production and life appears to be back to normal. Apple supplier Foxconn said it would resume normal production in China by the end of Mar. China's economy will swiftly return to its potential growth and there will be significant improvement in 2Q20, according to People's Bank of China (the central bank of China) Deputy Governor Chen Yulu.

Globally, the number of COVID-19 cases has surpassed 460,000 with more than 20,000 deaths. We believe things will get worse before they get better. However, that doesn't mean the market will follow the same sequence. The market is a forward discounter. Repricing will continue until we can get more information and understand how bad the outbreak will be in terms of severity and length.

Nevertheless, we think the market will recover when COVID-19 appears to peak in US as well as globally. Furthermore, the recovery from a bottom can be very swift. Therefore, we would like to recommend investors to take this opportunity to **accumulate quality stocks** with sustainable competitive advantages and strong balance sheets. Businesses that will survive even a severe recession and even grow stronger as some weaker competitors may be wiped out in this testing time. **Avoid highly-g geared companies** and those with low profit margins. Spread out your buying over several weeks, if not months. Additionally, investors can do stock switching/restructure their portfolios such as selling stocks that have not fallen much and switch to stocks that have fallen more or those that will benefit from the pandemic over the long term.



We believe COVID-19 will be contained within the next few months. In the meantime, investors should be prepared for more market volatility. That's guaranteed as long as humans are the ones making buy and sell decisions. But **we will get through this**. As Warren Buffett said during the peak of the 2008 GFC,

*“In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497.”*

No one knows how bad things will get. But, eventually, **this too shall pass**.

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For Phillip Capital Management Sdn Bhd



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**Nona Salleh**  
Executive Chairperson

## Appendix

### RM250b Economic Stimulus Package

#### People's Welfare

- RM10b allocation for one-off payments to support B40 and M40 households
  - RM1,600 in financial aid to households earning RM4,000 and below per month
  - RM1,000 in financial assistance to households earning RM4,000 to RM8,000 per month
  - RM800 to singles aged 21 and above earning up to RM2,000 per month
  - RM500 to singles aged 21 and above earning between RM2,000 and RM4,000 per month
  - RM200 for every student studying at an institute of higher education
- Free internet worth RM600m for all users from April 1 until the end of MCO
- An additional RM400m to be invested in improving network quality across the country
- An additional RM1b for the Ministry of Health to buy new equipment, on top of the RM500m already allocated
- An RM8m fund to cover Covid-19 testing costs of up to RM300 each for insurance and takaful policyholders
- Three-month deferment of insurance premium payments for those affected by Covid-19 outbreak
- PRS (private retirement scheme) members are allowed to withdraw up to RM1,500 from Account B from April to December 2020
- RM530m for discounts of 15% to 50% on electricity bills with usage of up to 600kW for six months from April
- RM100m to set up storage and distribution food centres
- Exemption of rental payment for PPR (Program Perumahan Rakyat) and public housing for six months
- One-off cash aid of RM500 to government pensioners
- One-off cash aid of RM500 to e-hailing drivers
- Up to RM40b from household disposable income via RM500 monthly withdrawals from EPF Account 2 for one year

#### RM 100b for SMEs and Businesses

- An additional RM4.5b for SMEs, micro entrepreneurs
- Deferment of income tax payment for SMEs for three months starting April 1
- Wage subsidy of RM600 per month for workers earning below RM4,000 for three months if a company's income has more than halved since Jan 1
- Exemption of HRDF (Human Resources Development Fund) levies for all sectors for six months starting April 1
- Interest income of banks will only be taxed after the moratorium period
- Moratorium on loans to be expanded to include loans from TEKUN, MARA and cooperatives as well as government agencies that grant loans to SMEs, starting April 1

#### RM2b to boost economy

- Government to focus on domestic investments- all projects valued at RM2b, as stipulated under the previous package, will be carried out from April
- All ministries to review their budgets so costs can be reduced amid current challenging climate

## Fiscal stimulus by other major economies

COUNTRY	STIMULUS SIZE	STIMULUS (AS % OF GDP)	NOTES
US	US\$2 trillion	9.3% of GDP	<p>US\$1,200 cash handout to middle income Americans , with extra US\$500 for each child (full for those earning less than US\$75,000 a year, none for those earning above US\$99,000 a year)</p> <p>US Fed signals unlimited QE on March 23, 2020</p> <p>Expansion of unemployment insurance system by 13 weeks plus four month enhancement of benefits that would also cover gig workers as well as regular employees, thus guaranteeing a period of full salaries if forced out of work by Covid-19</p> <p>US\$360 bil assistance programme for small businesses</p> <p>US\$500 billion loan or emergency funds for big businesses</p> <p>Hundreds of billions in emergency funds for states, hospitals and other medical providers</p>
UK	£65.5 billion	3% of GDP	<p>"Unlimited spending" to pay up to 80% of salary of staff who are kept on, covering wages up to £2,500 a month</p> <p>£500m hardship fund to directly support vulnerable people through council tax relief for 2020 and 2021</p> <p>£3 billion a month package for the self-employed to support self-employed or free lance workers, limited to those earning £50,000 and below. Paying up to 80% of the average monthly income over a three year period, capped at £2,500 a month</p>
China	RMB 500 billion		<p>Stimulus mainly done through monetary easing efforts. The Chinese Central Bank reduce the reserve requirement ratio by 0.5-1 percentage points</p> <p>Local governments of China giving out prepaid spending vouchers.</p> <p>Have signaled a more proactive fiscal policy, but not unveiled yet.</p>
Hong Kong	HK\$120 billion	4.1% of GDP	<p>Cash payout of HK\$10,000 to HK permanent residents aged 18 and above, totalling to HK\$71 billion</p> <p>One off special allowance to 200,000 eligible households under the HK\$30 billion Anti-epedemic fund</p> <p>Paying one month rental for low income tenants living in public rental units</p> <p>Paying examination fees for school candidates of the 2021 Hong Kong Diploma of Secondary Education examination</p>
Singapore	S\$55 bil	11% of GDP	<p>S\$15.1 billion to support more than 1.9 million local employees (co-funding 25% to 75% of wages depending on sector for wages up to S\$4,600 through end-2020) Employers will get the payout in May, July and October</p> <p>S\$1.2 billion to give S\$1,000 a month for nine months to eligible self-employed person income relief scheme (SIRS) plus S\$48 mil for training support scheme</p> <p>S\$4.6 billion care and support package -- S\$300-S\$900 one-off cash payout to all Singaporeans aged 21+ plus S\$300 for each child age 20 and below</p> <p>S\$800 for three months for low and middle income workers who lose their jobs</p> <p>Grocery vouchers (S\$300 in 2020 and S\$100 in 2021) for Singaporeans living in one or two-room HDB flats</p>
South Korea	KRW 11.7 trillion	0.6% of GDP	<p>KRW3 trillion for small- to medium-sized businesses struggling to pay wages to their workers</p> <p>Childcare subsidy</p>

Source: The Edge Malaysia, March 2020