INVESTMENT COMPANIES AMID MARKET VOLATILITY DUE TO COVID 19

Coronavirus is having a major impact on public health and the global financial markets. Investment companies like any other companies are not immune to market volatility created by the pandemic. Many investment companies are looking back to the 2008 global financial collapse for clues for navigating the current crisis.

Understanding "Volatility"

The anticipation of what is coming has elevated volatility to levels not seen since the great recession. Most readers know that volatility is a measure of risk, and while there are many different measures of volatility, historical volatility is measured by the standard deviation of returns of a given asset.

Governments to the rescue

With corporate earnings extremely strained, the strength of equity markets has left investors puzzled. Various efforts have been made by governments to ensure that businesses manage to sustain the impacts of the pandemic which include various crisis response economic packages.

Investment companies to stay resilient amid market volatility due to COVID 19

With financial stimulus packages, it is likely that a vast majority of rated investment in Europe, the Middle East, and Africa (EMEA) is capable of sustaining the market volatility caused by the pandemic facilitated by their improving assets which helped structurally improve their balance sheets leading to the pandemic outbreak.

Companies better placed to withstand turbulent market conditions

With time, companies with low leverage, small-cap, and Value are considerably outperforming Large-Cap and Growth due to large-cap and growth companies are riskier at these turbulent times, and investors have consistently demanded a higher premium to hold onto them.

Reasons for optimism

1. Major progress in containment of the virus has helped flatten the curve in some parts of the world which is expected to be the norm across the world as time progresses. Further, news of progressive research related to potential treatments and a vaccine is cause for optimism.

2. Massive government backing to help fill the void left by the loss of activity is meant to help business, investment companies stay solvent so they can get back to business when the business atmosphere returns to normality.
3. Easing lockdown measures and re-opening of business in some parts of the world like China and other South Asia countries have slowly resumed economic activity without sparking another major wave of the outbreak.

For investment managers to understand and respond well to the current market events, it is important to trace back to the Great financial collapse while examining their market stability and systemic risk, modern monetary theory, and the lessons of financial market history. With a clear understanding of these aspects, investors and investment companies will manage to mitigate the effects of the pandemic as it unfolds.

In a nutshell, it is a common assumption that the containment efforts around COVID-19 will start to soften sooner rather than later and economic activity will begin to rebound and earnings will eventually bounce back.

This has already started in Tanzania since there was no lockdown and the government has put incentives in place to allow so.