Ismael Pili
Head of Research

The Return of Animal Spirits

Overall Summary:

The spread of the coronavirus (COVID-19) has led to a sharp correction in global markets and can be seen as **"event-driven"** (a one-off shock) and/or a "black swan" (unexpected and catastrophic). Almost forgotten from the bear market equation is the collapse in oil prices on the back of the Saudi Arabia-Russia tussle that effectively form what we see as the twin black swans affecting global economies and the financial markets. This contrasts with bear market triggers that are **structural** (such as an economic imbalance or the popping of an asset or financial bubble) or **cyclical** (such as higher interest rates suppressing economic growth and corporate profitability) in nature. Event-driven corrections typically have a shorter duration with a faster recovery. However, whether this proves to be the case this time around remains to be seen. As it pertains to the pandemic, consider the fact that the extent of the pathogen's global spread has no precedent (SARS, MERS were relatively limited and focused in comparison), while interest rates are already quite low.

Vietnam's standing remains fundamentally strong(er), yet this has not spared its stock market from the sell-down seen in the rest of the world. Heightened fear and risk aversion amidst high uncertainty does not bode well for markets in general, more so for frontier and emerging markets (EM).

In our view, the issue plaguing the Vietnam market is largely exogenous and global in nature. As such, renewed interest in the Vietnamese stock market may have to take its initial cue from developments outside its borders. In this regard, we expect the push to global markets (with Vietnam riding alongside its rise) to come along three stages, largely along **addressing the health scare**, **expansionary monetary policy on a global and coordinated scale**, and **robust fiscal stimulus programs**.

Addressing the health scare

First and foremost, this is a health issue. The root of the problem is the virus and the impact it has had on global economic growth and corporate profitability. The lockdowns, flight restrictions, border closures, curfews, and other tactics nations are adopting to control the pathogen's spread are simply a means toward the ultimate end to "flatten the curve" (i.e., fewer new COVID-19 cases, or more recoveries than new cases). To this end, **tracking the progress nations have on this war against the virus could serve as an unofficial lead indicator**, as we think this will be the first necessary step to embolden investors back into the market and to adopt a less defensive tact.

In this initial phase, we may simply find higher beta names taking the lead in the market's ascent that not only applies to Vietnam, but global markets as well. Valuations will not be a differentiating point (as most names will be cheap (in relative and/or absolute terms)), while fundamentals will be less of a consideration. At the onset, the idiom "a rising tide lifts all boats" would apply -- bad companies are given hope, while good companies can be had for a relative song.

For Vietnam, beta is as much a function of access, and in this regard, **size and liquidity** will overlay the **hunt for beta**. **Financials**, the **VIC-family names**, and some other selected stocks would be good starting points to watch.

Expansionary monetary policy

Extending the initial rise in markets would require that an **expansionary monetary policy on a global and coordinated scale continue** – akin to the fuel to feed the investor confidence fire that was sparked by the virus curtailment. Economies will undoubtedly be in the doldrums and that will necessitate an accommodative monetary stance. Though interest rates will already be at historical lows and it may be argued that central banks will have less firepower, we think there is **scope to lower rates** in select countries (with some going negative) and there are other non-conventional approaches such as further **quantitative easing**, **reserve requirement**

reduction, **open market operations** (a pledge to buy government bonds in unlimited amounts, providing a backstop to the corporate bond market, for example), or **helicopter money** that can be employed. Looser monetary policy is conducive to equities, while the low fixed income yields and potentially large defined benefit (pension) schemes will translate to greater interest in stocks in the pursuit of returns. Emerging markets and some frontier markets – where Vietnam is held in high regard – are well positioned for this, as EM equities had not risen as greatly as developed markets (specifically the US), valuations are cheaper, and growth potential is better.

For Vietnam, **domestically focused sectors** that may benefit from a **low rate environment and access to credit** in conjunction with the ongoing themes of a rising middle-affluent class, demographic dividend, or modern retail may find the usual suspects in **property**, **consumer discretionary**, and **banks** attracting investor attention.

Robust Fiscal Stimulus Programs

The third and final part of our roadmap entails **fiscal spending broken down to two parts**. The first part is to **plug the holes created** by the reduction in productivity, higher unemployment and underemployment, lower capacity utilization, etc. This may entail additional **cash payments to individuals and businesses**, **paid sick leaves**, **student loan waivers**, or **expanded unemployment insurance**. The second part would involve the introduction of fiscal stimulus **packages to foster growth**, which can come from **infrastructure spending**, **tax cuts** (to both payroll and businesses), or refundable tax credits. The USD2 trillion fiscal stimulus package (virus relief bill) in the US is such an example.

Though the magnitude of Vietnam's slowdown will be nowhere close to what we expect elsewhere in the world, we anticipate fiscal stimulus programs will be introduced, albeit in lesser measures. **Infrastructure-related plays** could include **construction**, **materials**, **power**, **aviation/ports/logistics**, and/or **industrial parks**.

The Return of Animal Spirits

The above-mentioned checklist would, in our opinion, herald **the return of animal spirits to Vietnam and global markets in a more sustainable manner** (rather than the bouts of market volatility we have seen thus far). In a low rate environment that we think can prevail for several years, **equities seem like the obvious investment destination rather than fixed income**. Within equities, this should entail a **switch out of the defensives and low beta** names, and into **cyclicals and higher beta** stocks as well as the **fundamentally attractive market leaders**.

Disclaimer