

# THOUGHTS ON THE MARKET

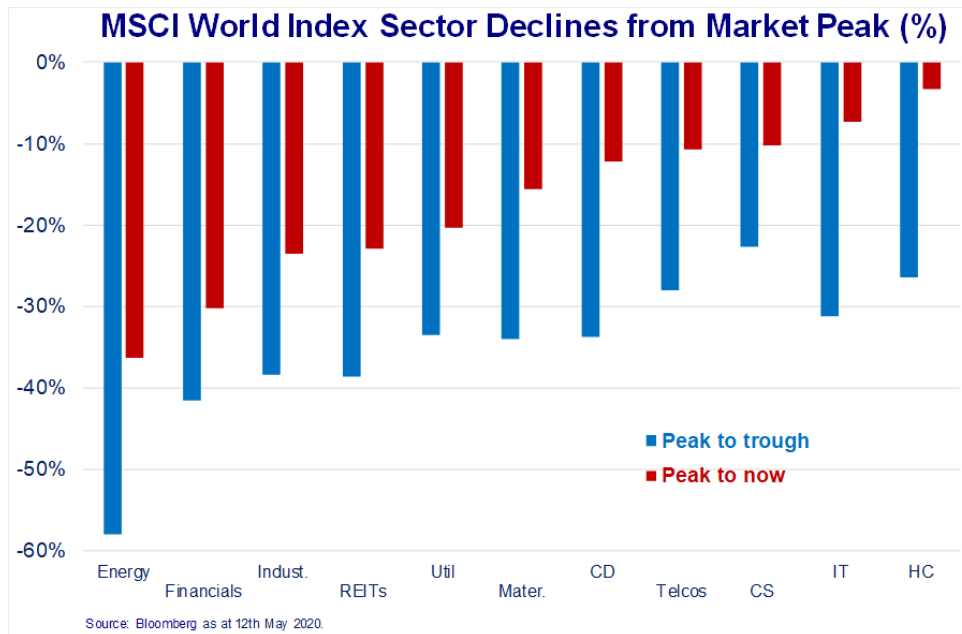
12<sup>th</sup> May 2020 – Stocks and credit record modest losses

## SUMMARY

- Markets began the new week on the backfoot. The big news story overnight was reports of new COVID-19 cases in Wuhan and South Korea which prompted investors to slightly reduce the disconnect between woeful economic data and buoyant market prices. South Korea had its largest increase in a month with 50 cases linked to one person who visited five bars last weekend, which combined with fears about COVID-19 mutations which are more infectious and potentially more fatal, to remind investors that many risks are outside the remit of central bank policy.
- In markets, US stocks were mixed as traders assessed moves around the world to relax economic restrictions against risks of case surges. The NASDAQ index rose for a sixth consecutive day which is its longest win streak this year with gains led by the Magnificent 5 which overnight accomplished a complete recovery from their losses in February and March. However, outside these stocks, the US market (at 49.8%) is now lagging the recovery rate of the MSCI World Index (55.2%) which confirms that the former's recovery has been quite concentrated.  
  
In other markets, oil came off its recent highs (-2.4% to USD24.14 per barrel) despite Saudi Arabia announcing deeper production cuts, and defensive asset were mixed with losses in gold (-0.1% to USD1700 per troy ounce) and 10-year US treasuries (yields rose to 0.71% with curve steepening), but the US dollar was slightly higher against the Yen (+0.4%), Sterling (+0.1%) and the Euro (+0.1%), but steady against the Australian Dollar.
- There were no material economic data points or policy announcements but there is increased discussion on the wire services about whether the US Fed would undertake negative rates. This to us is an academic debate which is being used to fill the news cycle as the vast bulk, if not all, of the FOMC committee believe the cost of negative rates is greater than the benefits, and they staunchly believe that a combination of QE and forward guidance enables the Fed to obtain the benefits of low rates without the cost of going negative.
- In COVID-19 news, the number of global cases of COVID-19 stands at 4.21 million with another +63.0k cases overnight with 5 countries having more than 200k cases, 10 countries have more than 100k cases and 44 with over 10k. It took 73 days to record 1 million cases, 13 days for the next million, 11 days for the third million, 12 days for the fourth million, and in the past 3 days another 200k cases have been confirmed. Meanwhile, deaths rose +2.4k overnight to 286.9k and the death rate dropped for a third day to 6.8%.

## FINANCIAL MARKETS

- **EQUITIES**
  - The MSCI World Index declined -0.1% overnight in what was a quiet night for information flows with no policy announcements and no top tier economic data. Risk declines were led by energy (-1.1%) as oil prices came off recent highs (-2.4% to USD24.14 per barrel) and financials (-0.9%) despite a slight steepening in the US yield curve. This means that five sectors remain in bear market territory – namely the four FIRE sectors (financials, industrials, REITs and energy) and utilities, whereas healthcare (-3.3% below its 2020 peak) is inching towards a complete recovery.

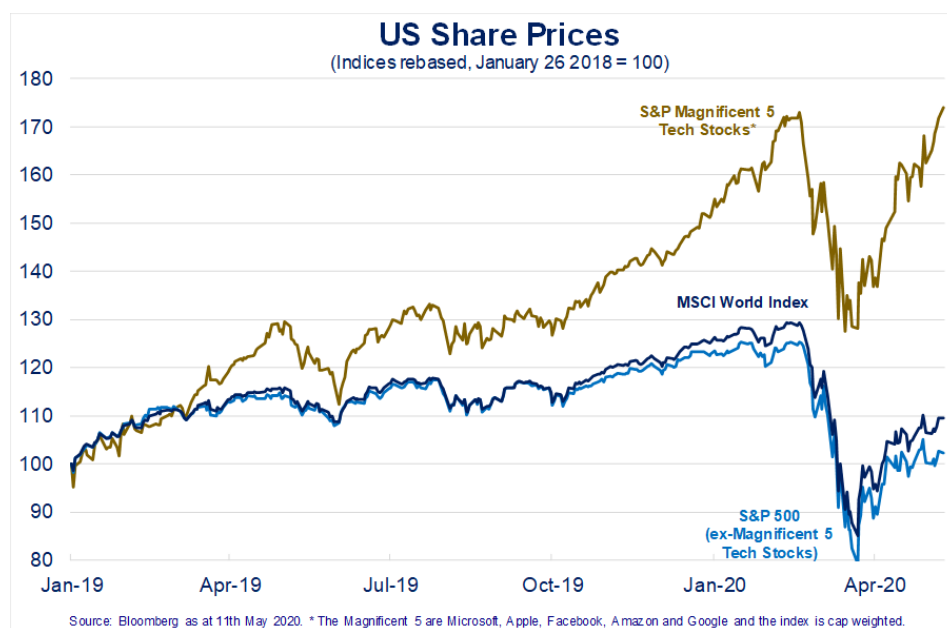


- There was mixed performance across the regions with Europe (-0.8%) leading the pace of losses as concerns rose that Germany's COVID-19 infection rate was rising once again, only days after the economy began to re-open. This sparked sharp losses in markets close to the epicentre of the virus, namely, Spain (-1.6%) and France (-1.3%), but Germany (-0.7%) and Italy (-0.3%) were both spared.

This negative lead saw the US market drop -1% at the opening bell but a solid rally in tech stocks saw the market lift for the remainder of the session and by the closing bell the Dow Jones closed -109 points lower (-0.5%), the S&P 500 was flat and NASDAQ (+0.8%) recorded its sixth consecutive gain which represents its largest win streak for 2020. The advances in tech was led by the Magnificent 5 (+1.2%) who overnight completed a completed recovery from their -26% price decline in February and March in just 39 days (see chart). Outside these five stocks, the US market's recovery rate (49.8%) from the mid-March trough is lagging the MSCI World Index (55.2%) which confirms the former's rally is quite concentrated.

Earlier in Asian trade, markets rose in response to a strong increase in US markets on Friday night, with large advances in Hong Kong (+1.5%), Australia (+1.3%) and Japan (+1.1%), but China (-0.1%) lagged as investors worried about rising geopolitical risks with the US.

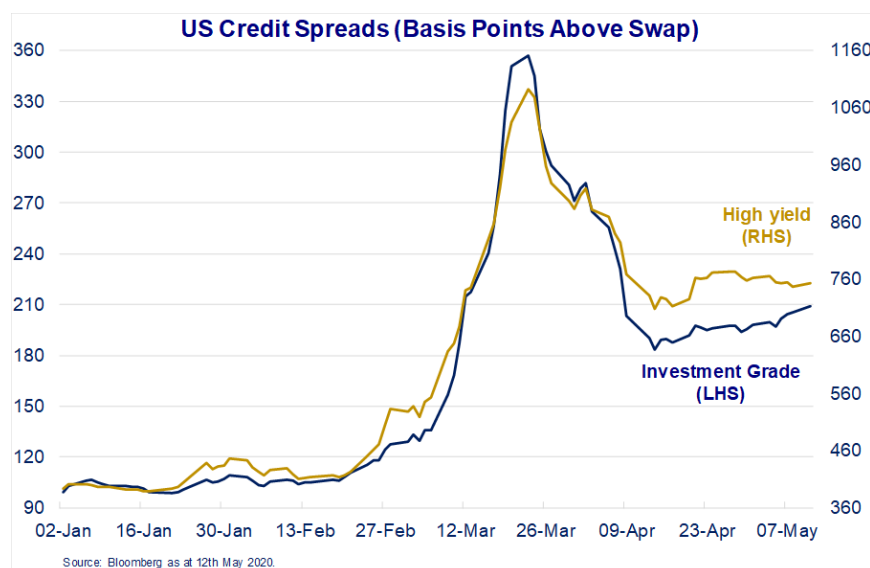
Futures markets suggest a mixed opening with Australia set to open -19 points lower (-0.4%) and Japan should be flat at the bell.



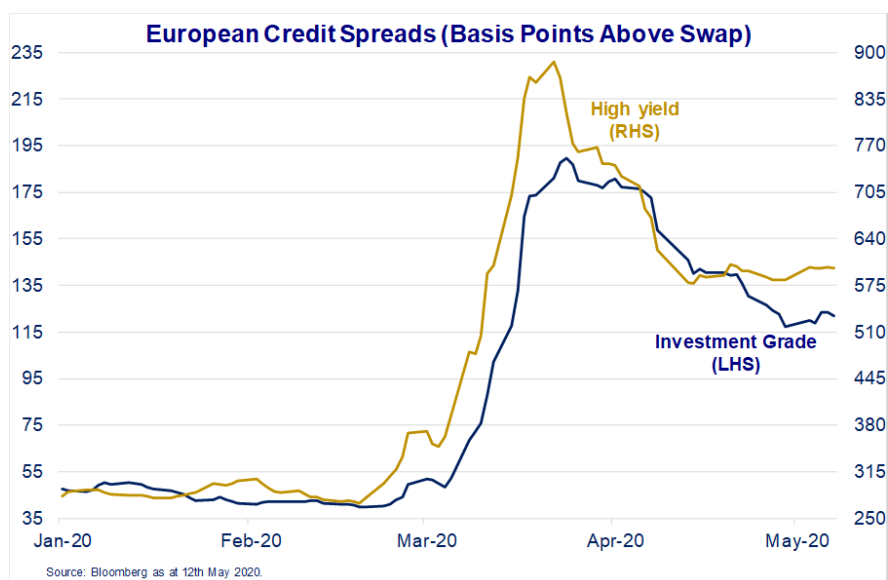
## • CREDIT MARKETS

- The negative sentiment in equity markets flowed through to credit markets which sold off across the board but, as in recent times, the losses were not large. Spreads in the US investment grade universe widened +4 points to +209 bpts which reduced the recovery rate to 58.3% (which is a 22-day low) with the spread to underlying swap rates having now increased +26 points from their trough (see chart). There were larger risk premiums in all sub-sectors led by telcos (+6 points to +234 bpts, 57%), subordinated financials (+4 points to +253 bpts, 59%) and consumer discretionary (+4 points to +258 bpts, 60%).

In the high yield space, spreads increased another +6 points to +754 bpts, which lowered the recovery rate to 50% with spreads increasing +45 points over the past 22 days. Among the subsectors higher risk premiums were garnered by healthcare (+41 bpts, to +624 bpts (24-day high), 57%) and industrials (+28 bpts to +866 bpts, 24%) with increases the most other sectors, but energy (-5 points to +1261 bpts, 68%) bucked the trend despite oil priced declining -2.4%.



- European credit markets were more mixed with the more liquid investment grade universe seeing spreads widen +3 points to +125 bpts which lowered the recovery rate to 43% (9-day low). There were across the board increases led by consumer discretionary (+5 points +191 bpts, 38%), IT (+4 points, +64 bpts, 47%) and energy (+4 points to +129 bpts, 26%). In contrast, spreads in the high yield universe declined -4 points to +595 bpts which the recovery rate up one notch to 47%. Among the sub-sectors, there was mixed performance with spreads in consumer staples (-15 bpts to +592 bpts, 76%) and subordinated financials (-9 points to +720 bpts, 34%) contracting strongly, whereas risk premiums widened in materials (+2 points, to +536 bpts, 50%) and utilities (+3 points, +327 bpts, 27%).



## THE GLOBAL ECONOMY

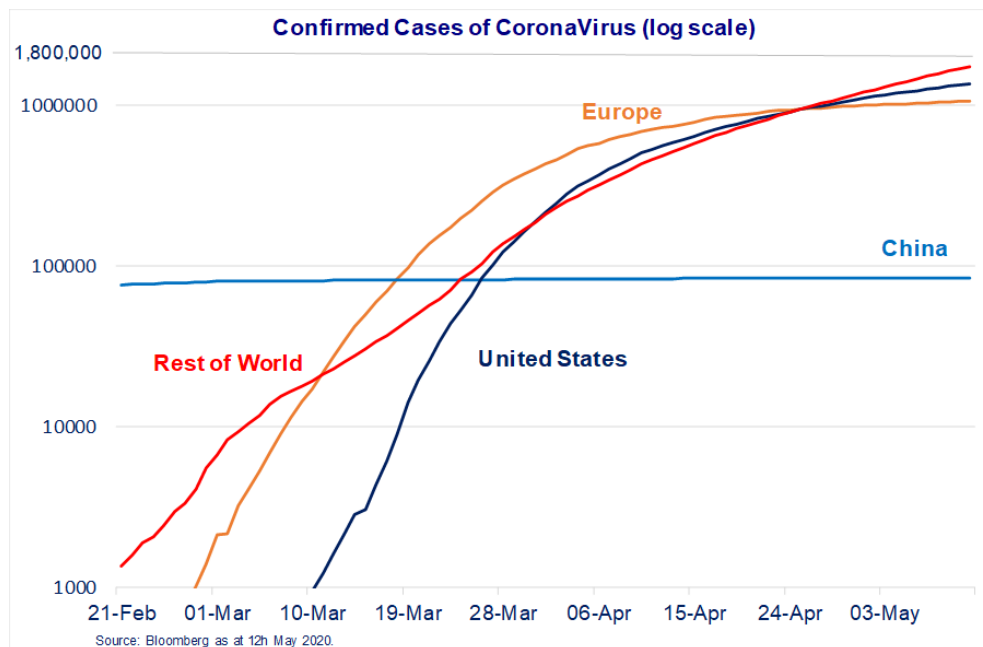
- There were no major economic data releases overnight.

## POLICY

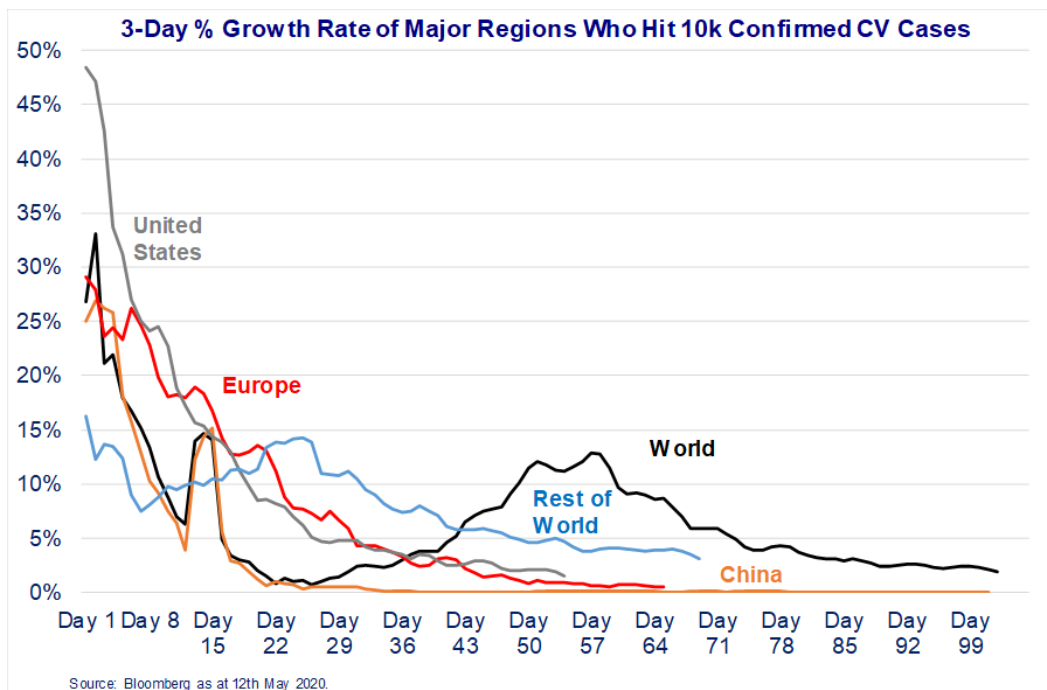
- There were no major policy announcements overnight.

## VIRUS UPDATE

- Although final numbers are not in, the number of global cases of COVID-19 stands at 4.17 million with another +65.6k cases overnight (so it is likely that Monday will be the 41st day in the past 42 where daily increases have topped 70k). The increase means 5 countries have more than 200k cases, 10 countries have more than 100k cases, 28 over 20k cases and 44 over 10k. It took 73 days to record 1 million cases, 13 days for the next million, 11 days for the third million, 12 days for the fourth million, and in the past 3 days another 170k cases have been confirmed. That said, the growth rate of daily confirmed cases is declining (+1.9% since last Friday). Meanwhile, deaths rose +2.6k overnight to 287.0k, with the US now over 80k (28% of global deaths even though they have only 4% of the global population), the UK and Italy over 30k, with Spain and France over 25k, and the death rate dropped for a third day to 6.8%.

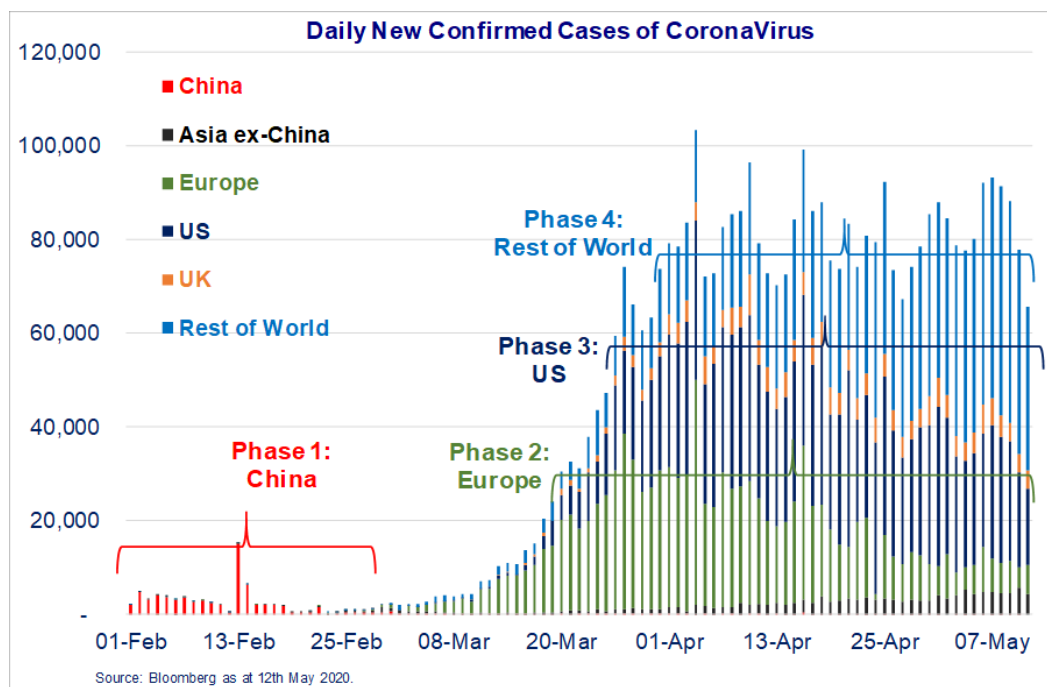


- We break the infections into four groups – the US, Europe, China and ‘others’ and the rest of the world outside the G3 economies now has the most total cases (+43.2k to 1.72 million) and highest daily new cases (and by a considerable margin) followed by the US (+16.4k (47-day low) to 1.35 million) and Europe (+6.1k to 1.06 million), with the latter two’s daily increases, in terms of percentages, grinding lower which shows that social isolation works to reduce the spread of the virus, even though it comes at an enormous economic cost. In the rest of the world, the two concerns here are Russia (+11.7k (record high) to 221.0k) and Brazil (+2.8k to 165.5k).



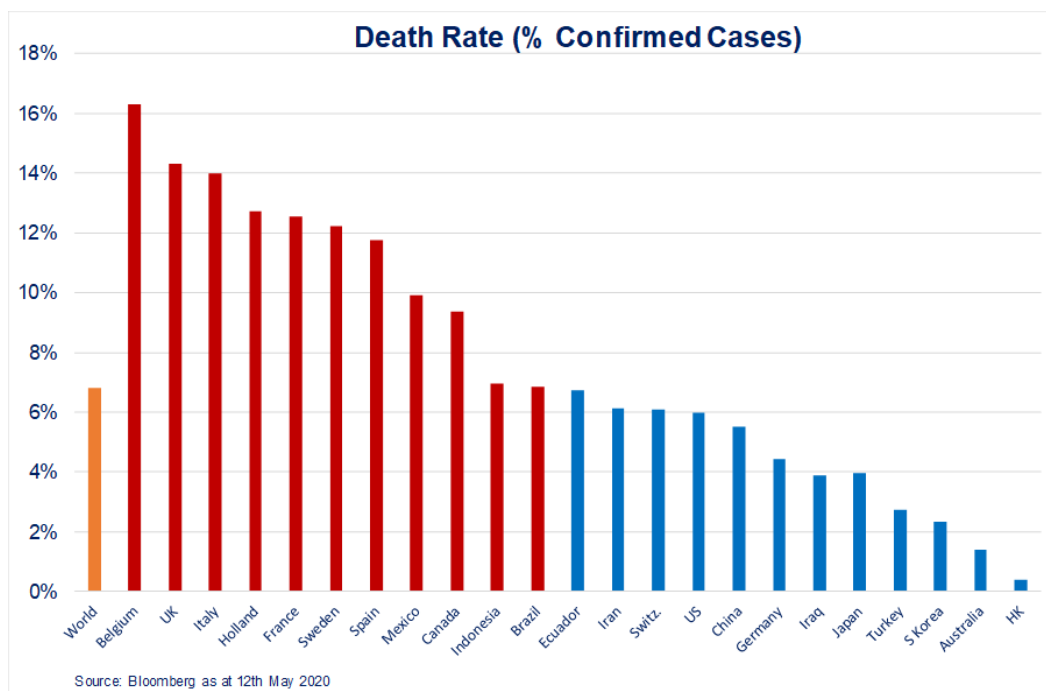
- Among countries, the most cases are in the US (+16.4k to 1.35 million), Spain (+3.1k to 227.4k), the United Kingdom (+3.9k to 224.3k), Russia (+11.7k (fresh record high) to 221.3k), Italy (+0.7k (9-week low) to 219.8k), France (+0.4k to 177.5k), Germany (+0.6k to 172.5k), Brazil (+2.8k to 165.5k), Turkey (+1.1k to 139.8k), Iran (+1.7k to 109.3k) and China (+4 to 84.0k). Australia confirmed cases rose +15 to 6,963 yesterday which placed us 50th in terms of total infections.

Elsewhere, Singapore recorded +486 new cases to 23.8k most of which are linked to foreign workers who are forced to live in crowded dormitories, with the countries having the largest case numbers in South East Asia after overtaking Indonesia (+233 to 14.3k) and the Philippines (+292 to 11.1k). Note final numbers for yesterday at not in yet so these numbers can rise.



- The global death rate declined for a third straight day to 6.8% with another +2.5k fatalities overnight bringing the global total to 286.9k. The US (+0.7k) has the most deaths at +80.2k, with the UK (+0.2k to 32.1k), Italy (+0.2k to 30.7k), Spain (+0.1k to 26.7k) and France (+0.3k to 26.6) all over +25k. The death rate is highest in European

countries where the health systems have collapsed led by Belgium (steady at 16.3%), the UK (-0.2% to 14.3%), Italy (+0.1% to 14.0%), the Netherlands (-0.1% to 12.7%), France (+0.1% to 12.5%), Sweden (-0.1% to 12.2%), and Spain (-0.1% to 11.8%). However, several emerging markets are now on the leader board including Mexico (-0.1% to 9.9%), Indonesia (steady at 6.9%) and Brazil (steady at 6.8%).



Yours sincerely,



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