

THOUGHTS ON THE MARKET

17th April 2020

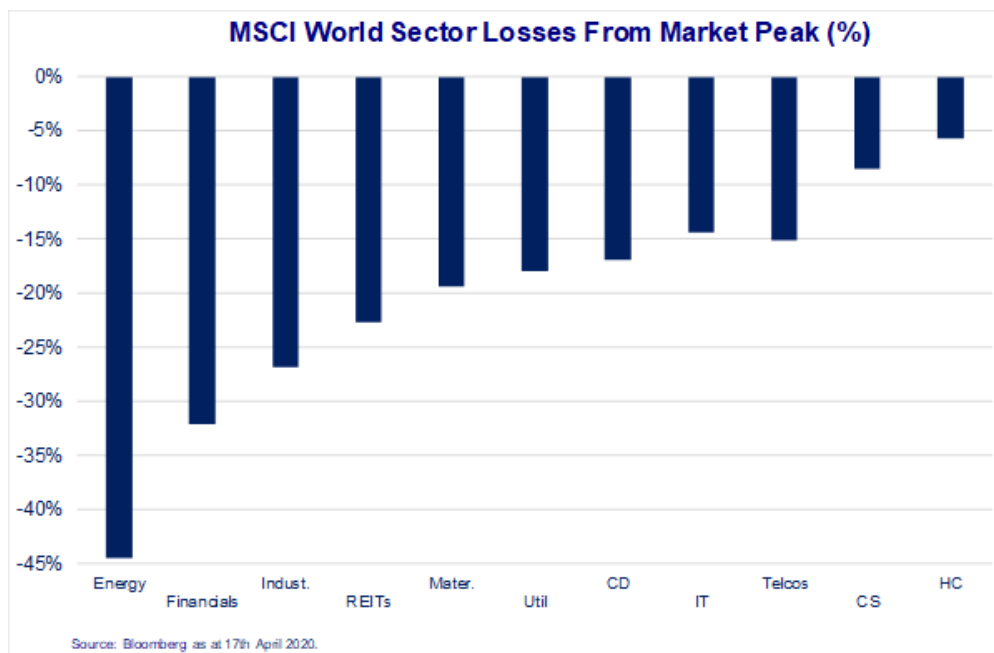
SUMMARY

- Global risk markets recorded modest gains amidst high volatility overnight as President Trump vaguely mapped out a phased re-opening of the US economy which saw the NASDAQ index return to positive territory for 2020. To be honest, we didn't think President Trump's talking about re-opening plan was the most bullish of news and it's heavily conditioned which may explain why many safe havens also posted gains with treasuries higher (yields lower) and curve slope steady, and the US dollar rose against all of the G10 currencies other than the Norwegian Krone, but gold closed -0.7% lower.
- The major economic news overnight was US initial jobless claims which recorded a further 5.25 million registrations in the week ending 11th April, which brought the four-week total to 22 million which is more than one-eighth of the US labour market, but Easter may have inhibited the number as well as capacity/processing issues. We think it will climb to around 30 million in coming weeks as systems catch up with form numbers, but the increase so far is enough to have US unemployment at 12% in April (a 79-year high).
- In other news, oil was subjected to downward pressure after OPEC noted in a report that June quarter oil demand will decline to a 30-year low which saw prices -0.6% lower at USD19.75 per barrel.

FINANCIAL MARKETS

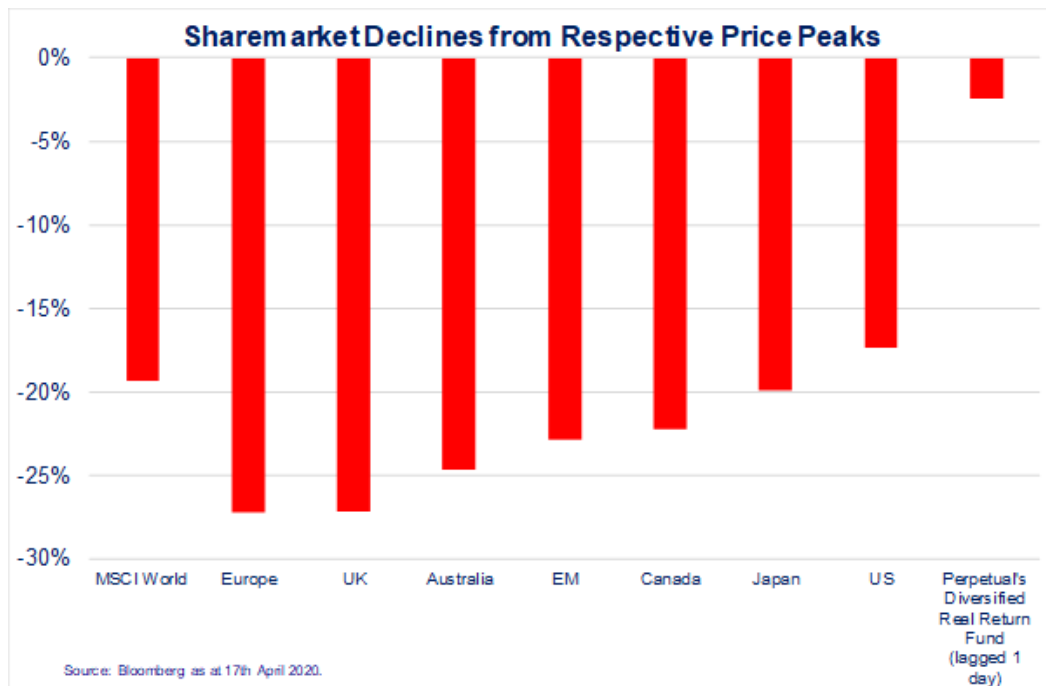
• EQUITIES

- The MSCI World Index closed +0.2% higher with regional gains led by a late rally in the US market which enabled the S&P500 (+0.6%) shake off earlier losses and close in the black, but the major news was a late surge in tech stocks (+1.2%) which saw the NASDAQ 100 index return to positive territory for 2020. Among US sectors, gains were yet again led by defensive sectors including healthcare (+2.2%), consumer staples (+0.8%) and telcos (+0.4%) which outweighed losses in financials (-1.7%) and energy (-4.0%).



- In Europe, the EuroStoxx 50 Index closed +0.2% higher with gains in the UK (+0.6%) and Germany (+0.2%) outweighing losses in France (-0.1%) and Spain (-1.1%). Sector performance was similar to the US with advances led by tech (+3.3%) and healthcare (+1.5%), whereas financials (-1.2%) and energy (-2.0%) were at the tail end of the field. Yesterday in Asian trade, markets were mostly lower with losses in Japan (-1.3%), Australia (-0.9%) and Hong Kong (-0.6%) but China closed fractionally higher (+0.1%).

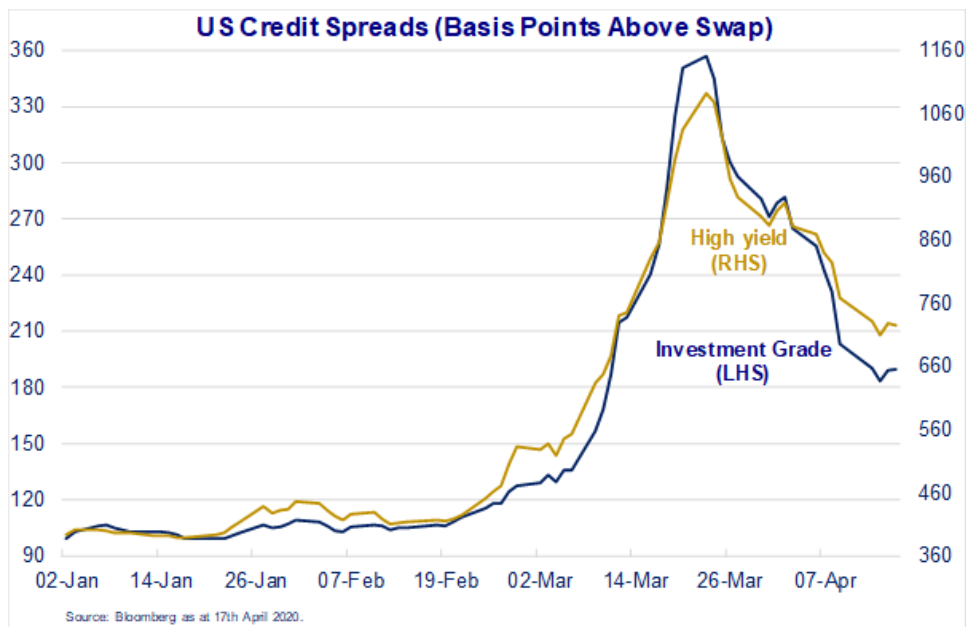
So overall, Europe (-27.2% from its February peak, with a recovery rate of 29%) and the UK (-27.1%, 24.5%) remain the most sold down market since the February peak, with the US (-17.3%, 48.9%) continuing to grind upwards in response the aggressive Fed policy actions, and despite ballooning COVID-19 case numbers. Australia is middle of the road (-24.6%, 34%) despite strong containment of COVID-19 and a very strong fiscal response.



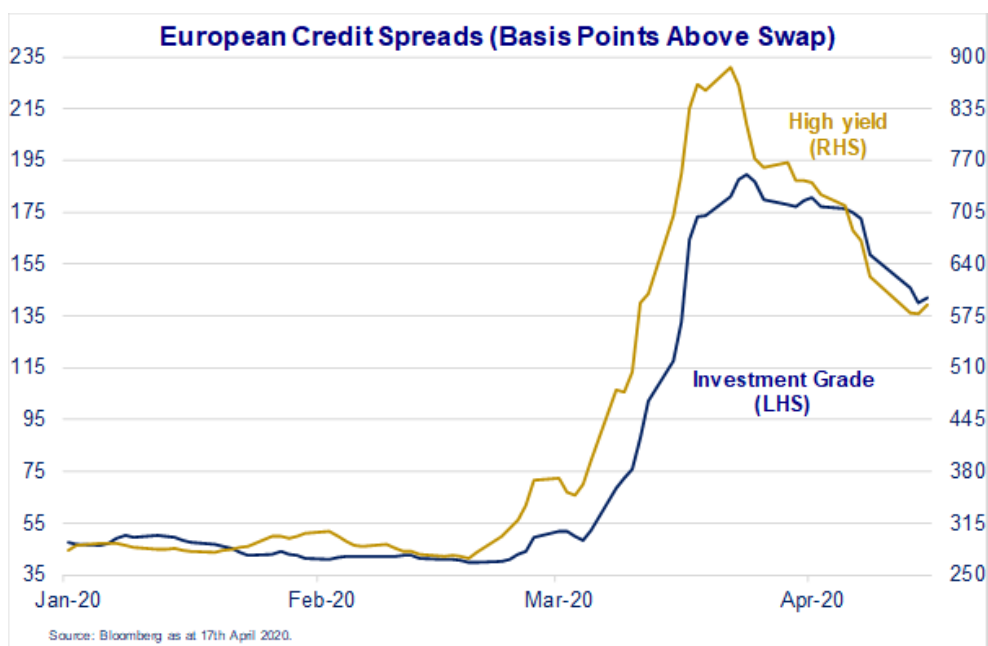
- Futures markets suggest a rise of +0.1% in Australia on the opening bell, although I suggest it could be well in excess of 2%.

• CREDIT

- US credit markets were best described as flat with IG spreads up 1 to 190 bpts which was its second day of widening, although the gains to date are not particularly large. Despite another fall in crude prices (-0.6% to USD19.75 per barrel) energy spreads contracted -4 to 331 bpts, but senior and subordinated financials both gained 3 points (to 178 bpts and 233 bpts, respectively) after Morgan Stanley noted in its earnings report that it expected its future results to be less resilient. In US HY, spreads came in another -4 points to 725 bpts (see chart below) with widening in senior financials (+5 to 721 bpts) and consumer staples (+4 to 518 bpts) offset by a contraction in industrials (-13 to 762 bpts) after Boeing announced it would restart commercial plane construction next week.



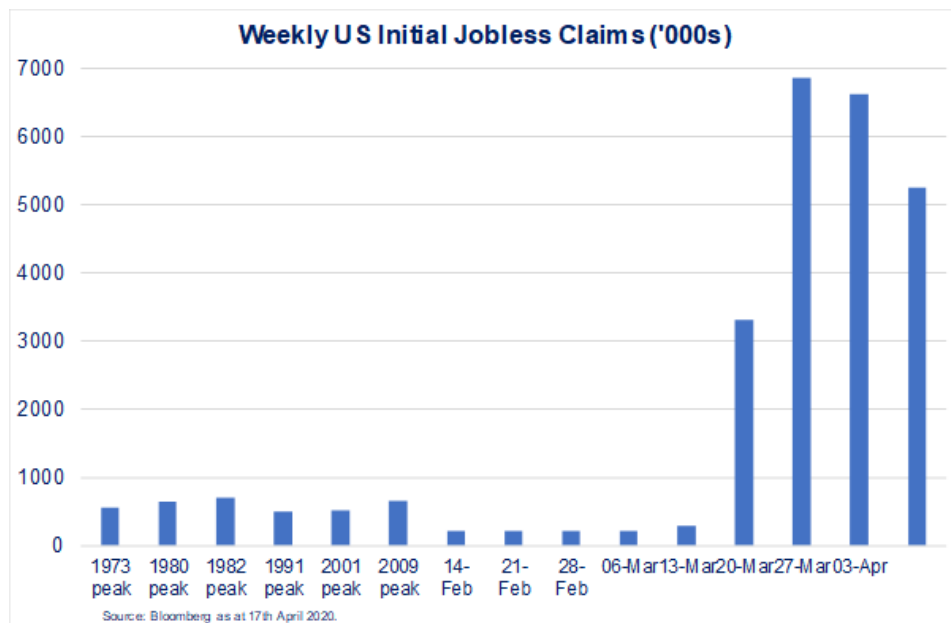
- European credit markets recorded their first widening of spreads in the past 8 trading sessions, but the rises were minor. In the Investment Grade space, spreads increased 2 to 142 bpts against option adjusted swap rates, but the only noteworthy news was the increase in senior and subordinated financials which both advanced 5 points (to 150 and 221 bpts, respectively). In the HY space, spreads increased 11 points to 589 bpts (see chart below) with gains in all sectors led by senior financials (+27 to 670 bpts) and materials (+18 to 513 bpts).



THE GLOBAL ECONOMY

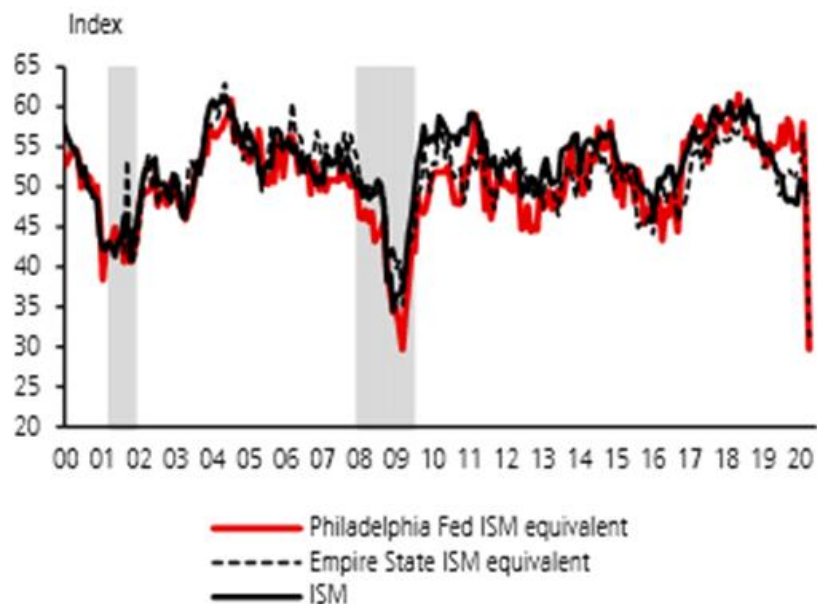
- Initial jobless claims were 5.245 million in the week ending April 11th, which brought the 4 week total to 22.02 million which is around one-eighth of the US labour market. On the negative side, this means the US economy in the past four weeks has lost nearly all of the jobs created during the record-long 10-year expansion to early 2020. However, on the positive side, 30 states reported declines in claims, led by Pennsylvania, Florida and California. States with large manufacturing sectors tended to have lower claims in a sign that the economic impact has primarily been in the service sector, but states which moved late to mobility restrictions (such as Georgia and Michigan) generally led the rise. Overall, 22 million job losses are enough to have US unemployment rise to about

12% in April if the Department of Labour survey correctly captures to dislocation and the US labour force “only” shrinks by 3%.



• IN OTHER US DATA

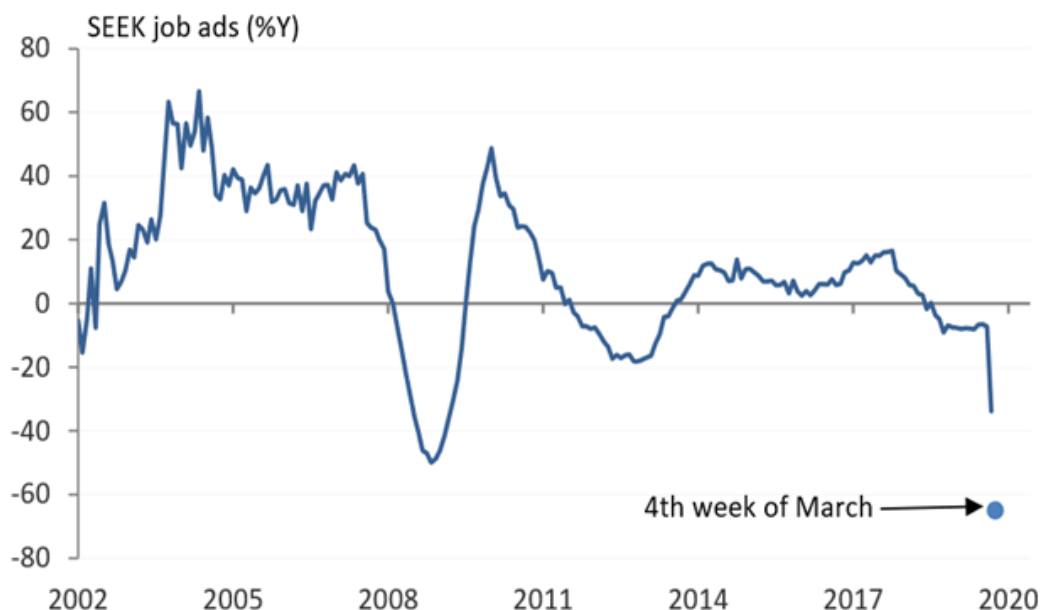
- The Philadelphia Fed manufacturing index fell -43.9 to -56.6 which is an historic low at unprecedented speed, with 60.1% of firms reporting less activity and only 3.5% reporting improvements. Indexes of new orders, shipments, employment, and hours all showed acute declines and these suggest the April ISM manufacturing index will decline to the low-30s (see chart).



- US housing starts fell -22.3% to 1.216 million in March which was the largest monthly decline since 1984, but commentary noted that the March figures reflected weakness in only the latter half of the month as mobility restrictions spread across the economy, which means April should be worse. The decline was sharper in multifamily activity probably reflecting greater restrictions on bigger projects as they are characterised by higher worker numbers and probably had to shut sooner.

- There were very few signs of labour market weakness in Australia with employment up +6k in March. That said, the survey was taken in the first and second week of the month, which meant it missed all the travel cancellations, social distancing and lockdown changes around the 20th March. Regardless, the better-than-feared number took annual employment growth down to a 3-year low of +1.8% y/y, with full-time flat (+1.0% y/y) and part-time increased (+6k, +3.4% y/y) and this saw unemployment rise +0.1% to 5.2%, but under-utilisation increased to 14.0% (2-year high).

More surprising than the payrolls were hours worked (+0.5% m/m, +0.7% y/y), which meant that the stat averaged -0.1% q/q for March which reduces some risks around GDP growth, but that is just a timing issue as other statistics have plunged such as foot traffic -86% and Seek jobs ads (down -65% in the last week of March - see chart below), not to mention record lows in household and business confidence. That backdrop is likely to see unemployment rise to 10% - 12% in the next two months, but definitions of how the ABS define unemployed may render the gauge as misleading – to me, hours worked (-10% - 15% in aggregate in the first three quarters of 2020) and the under-utilisation rate (likely to rise to 25% to 30%) will be clearer signals.

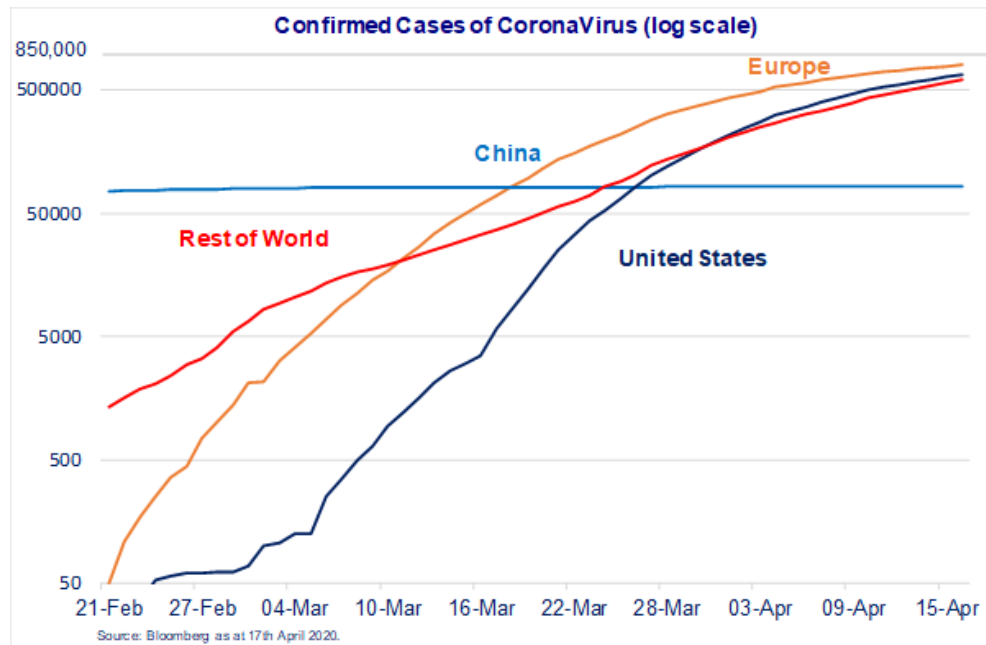


POLICY

- There were no policy announcements overnight, but President Trump outlined some guidelines for a tentative reopening of the US economy. The guidelines are based around increased testing/screening and requirements of falling case numbers, and it places much of the onus for the recovery on governors in a three-stage process with restaurants, movie theaters and sports venues could open in phase one if they practice “strict social distancing”, with schools, day care centres and bars reopening in phase two and the remainder after this. According to Bloomberg, “the document calls on states to establish “safe and efficient screening and testing sites” ensure “sentinel surveillance” for the disease and “quickly and independently” supply protective gear, medical equipment and hospital capacity to handle a surge in cases”. Even at this early stage, we’d say that implementation is harder than planning.

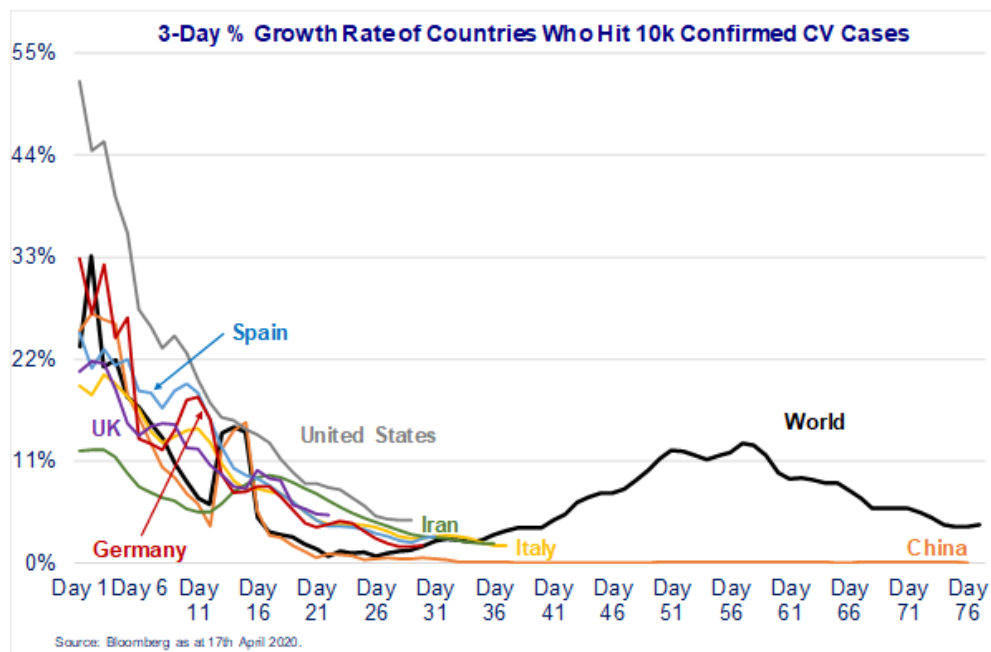
VIRUS UPDATE

- The world recorded another +91.7k confirmed cases of COVID-19 which is the third highest daily increase, which saw the 3-day global growth rate increase fractionally to 4.14%. The total confirmed cases increased to 2.15 million and deaths rose to 143.7k which brings the global death rate up to 6.63%.

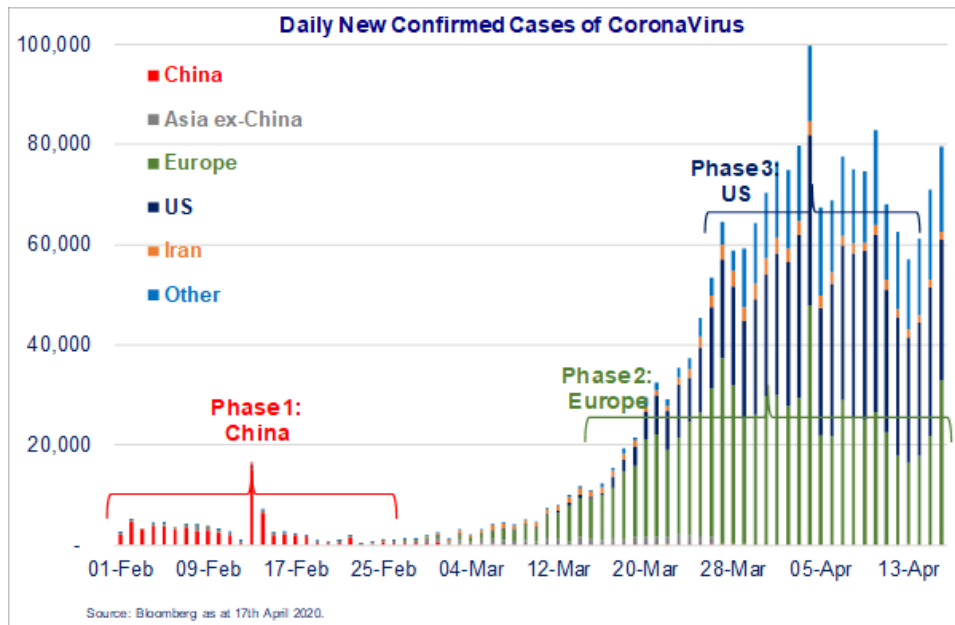


- Europe (+32.8k to 813k) continues to lead the world in terms of total cases and the daily number of cases was a 12-day high with a large +17.1k rise in France, which saw its 3-day growth rate surge to 6.2%. However, the rest of Europe was 'contained' which keeps me of the view that the region's curve is flattening (outside the occasional rogue number) and that its trending lower like China's did in March, albeit not in a straight line. This confirms that social isolation works to reduce the spread of the virus, even though it comes at an enormous economic cost.

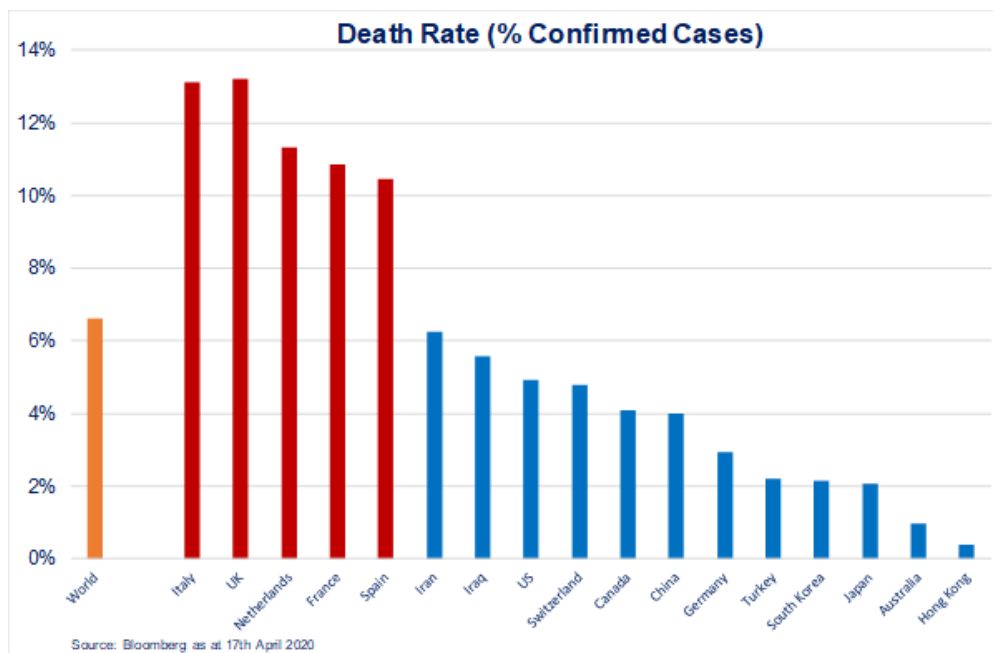
Similarly, the US (+28.2k to 667.2k – but the final numbers are not in) recorded its second highest rise in the past week, but the 3-day growth rate down to +4.6% which is equivalent to those seen in other countries four weeks after they reached 10k cases. New York new confirmed cases (+8.9k to 223.7k) increased by its second highest amount in the past week, which took the 3-day growth rate up to 4.5% but the number of deaths soared +3.2k to 14.8k, which took the death rate up to a record high of 6.6%.



- Among countries we can see the number of daily cases rose strongly overnight, but the gains are more concentrated which could reflect counting errors rather than another breakout. The most infected country remains the US (+28.2k to 667.2k), Spain (+4.3k to 184.9k), Italy (+3.7k (3-day high) to 169.0k), France (+17.1k to 165.0k), Germany (+2.8k (5-day high) to 137.7k), United Kingdom (+4.6k to 104.1k), China (+1 to 83.4k), Iran (+1.6k to 78.0k) and Turkey (+4.8k (second highest daily increase) to 74.2k).



- The global death rate has risen to +6.63% (having doubled in the past 7 weeks and risen for 33 consecutive days) with a record +9.3k fatalities overnight bringing the global total to 143.7k. The US had its worst day of increases (+4.5k to 32.9k), but the death rate is highest in European countries where the health systems have collapsed led by the UK (+0.2% to 13.2%), Italy (steady at 13.1%), the Netherlands (+0.2% to 11.3%), France (-0.7% to 10.9%) and Spain (-0.1% to 10.5%).



Yours sincerely,



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