Perpetual Investments

THOUGHTS ON THE MARKET

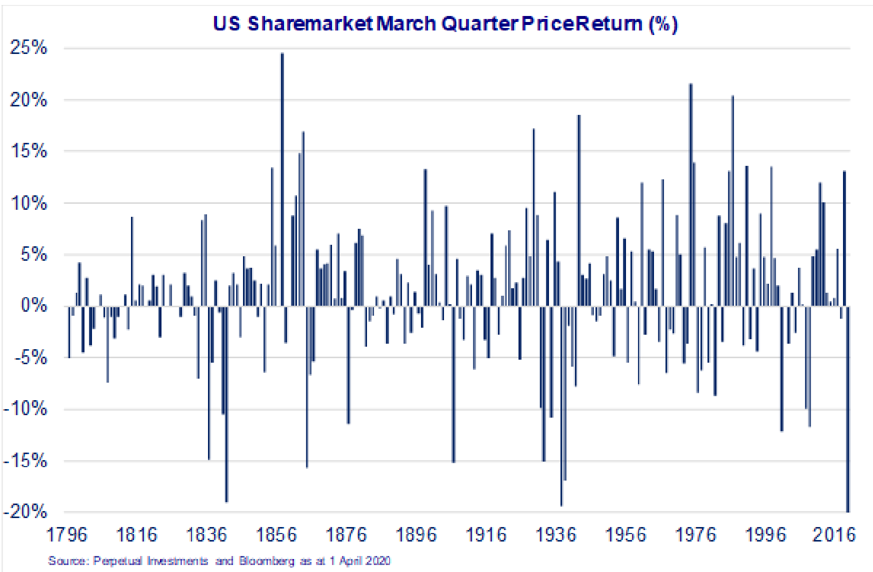
1st April 2020

SUMMARY

- For of all our readers, let us assure you that there is no April fool's day joke in this report. Economics is not called the 'dismal science' because it is written by Jerry Seinfeld, but yesterday we found out that Captain Cook was actually the first UK economist – when he left to discover what became Australia, he didn't know where he was going; when he got there he didn't know where he was, and it was all funded by the government.
- Anyway, cutting through the laughs, yesterday was a soft end to the March quarter in regional sharemarkets which recorded their third decline in the past 7 trading sessions. This closed out the March quarter at -24.9% in Australia and -20.0% in the US in price terms both of which were record lows since 1876 and 1796, respectively. In other markets, US bonds were mixed with curve flattening (down to 0.6%), the US Dollar was a touch weaker against the Euro and the Yen, gold closed -1.5% lower and WTI crude ended up +1.1% at USD20.30 per barrel, but traded below USD20 per barrel intraday for a second consecutive day.
- The major overnight economic data point was the March China Manufacturing PMI (+16.3 points to 52.0) and non-manufacturing PMI (+22.7 to 52.3) both of which went back into expansion territory, but this does not signal that the economy is back to normal, it just confirm sequential improvement from historic lows, as the lights went back on which suggests that the worst is likely behind both sectors, at least for now.

FINANCIAL MARKETS

- **EQUITIES**
  - Regional sharemarkets closed out the March quarter with a decline in the US (-1.6%) with an early advanced rolling over in the afternoon session. Having done well in recent sessions, defensive sectors underperformed with losses led by utilities (-4.0%), REITs (-3.3%) and financials (-3.0%) with only energy (+1.6%) closing above the breakeven line despite a flattish crude price. Yesterday's close meant that the US market just closed out its weakest March quarter price performance in history at -20.0% (see chart) and most of the decline was valuation compression with 2020 EPS expectations downgraded by only circa -5% only during the past 13 weeks.



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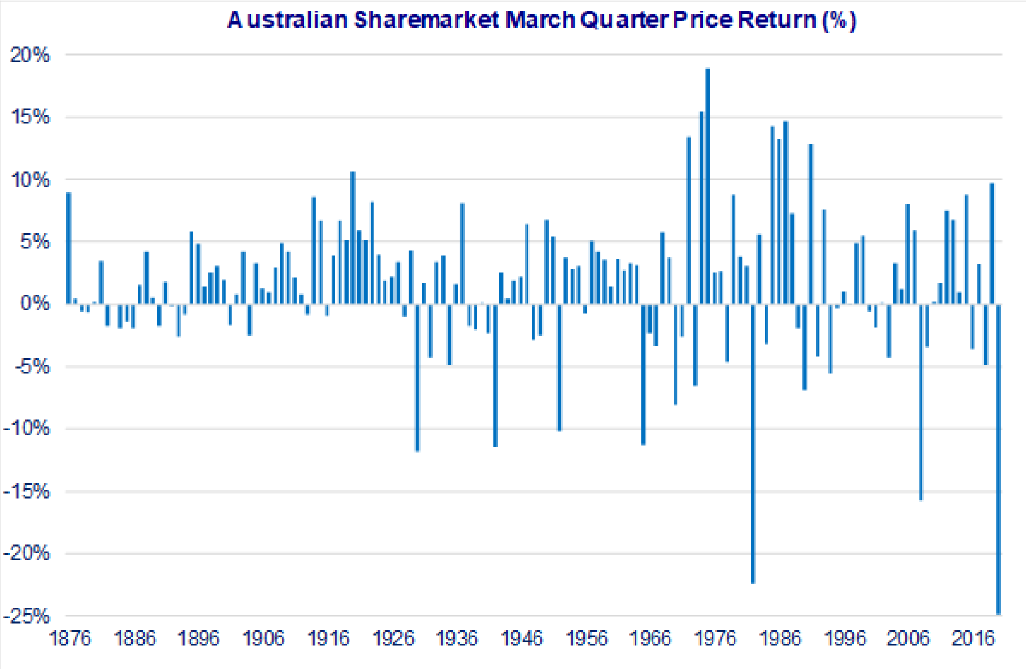
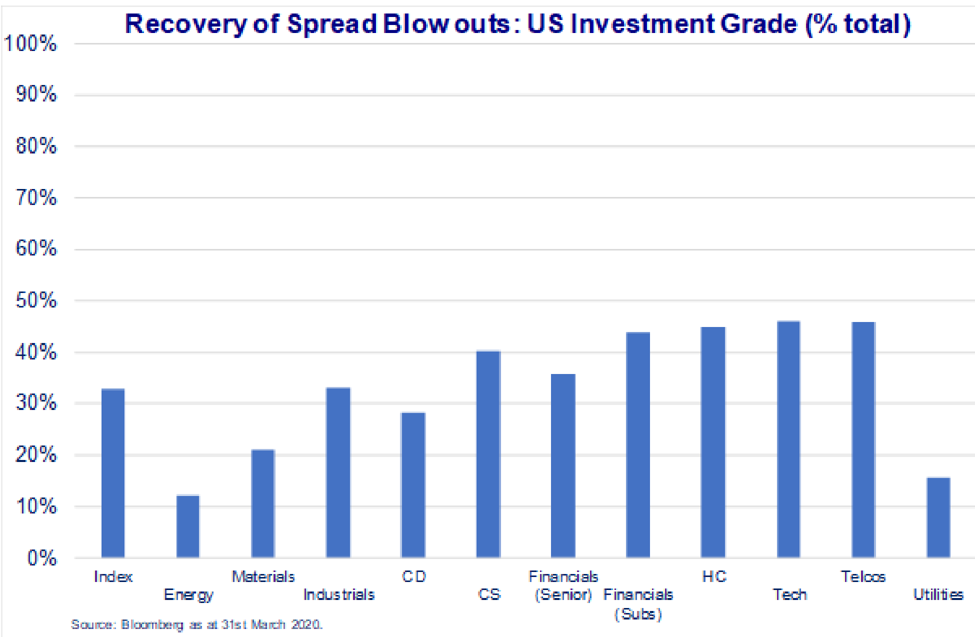
- In other markets, Europe closed higher (+0.8% d/d) following solid advances in Sweden (+2.3% d/d), Spain (+1.9%) and Germany (+1.2%). Among the sectors, energy (+5.8%) and materials (+2.6%) recorded sharp rises with consumer discretionary (-0.7% d/d) the only noteworthy decline.
- In Asia, performance was mixed with Hong Kong (+1.9%) and China (+0.3%) both closing higher, whereas Japan (-0.9%) and Australia (-2.0%) were in the red. The decline in Australia culminated in the worst ever March quarter performance in the history of the Australian and Sydney Stock Exchanges, dating back to 1876 (see chart), but futures markets suggest a positive opening at the bell this morning.



- **CREDIT**
  - Credit markets defied the weakness in equities with spreads in both US and Europe continuing to come in. In the US, IG spreads contracted another -9 points to +272 bpts which is a two-week low meaning the IG index has now recouped one third of its losses since mid-January with a nice rally in bank sub debt (-19 to 316 bpts), but little elsewhere. In the HY space, US spreads fell a further -15 bpts to 882 (a 10-day low) with energy down -31 bpts to 2056 bpts which was its fifth best day of sector compression in the past 8 years.



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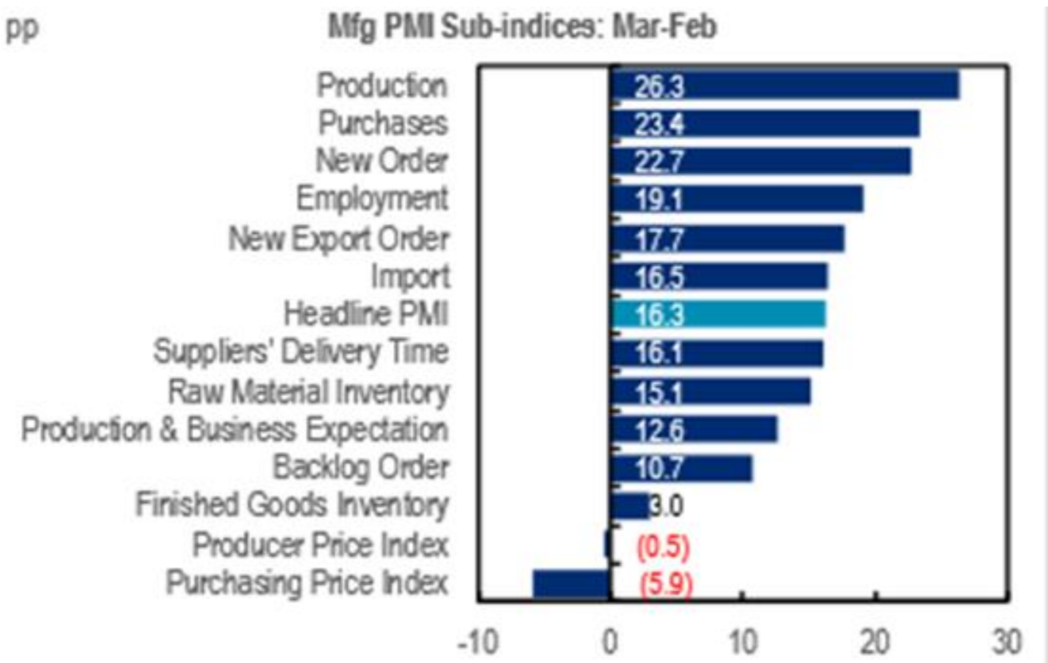
- In Europe IG spreads were -1 point lower at 177 as gains in financials (-7 and -6 in financial senior and sub debt, respectively) offset modest widenings in all other sectors, whereas HY came in -23 to 745 bpts with a large rally in energy (-48 to 1051 bpts) which hit USD21.50 in the European session, but this is not a sign that things here at stabilising and investors are starting to bottom fish.

THE GLOBAL ECONOMY

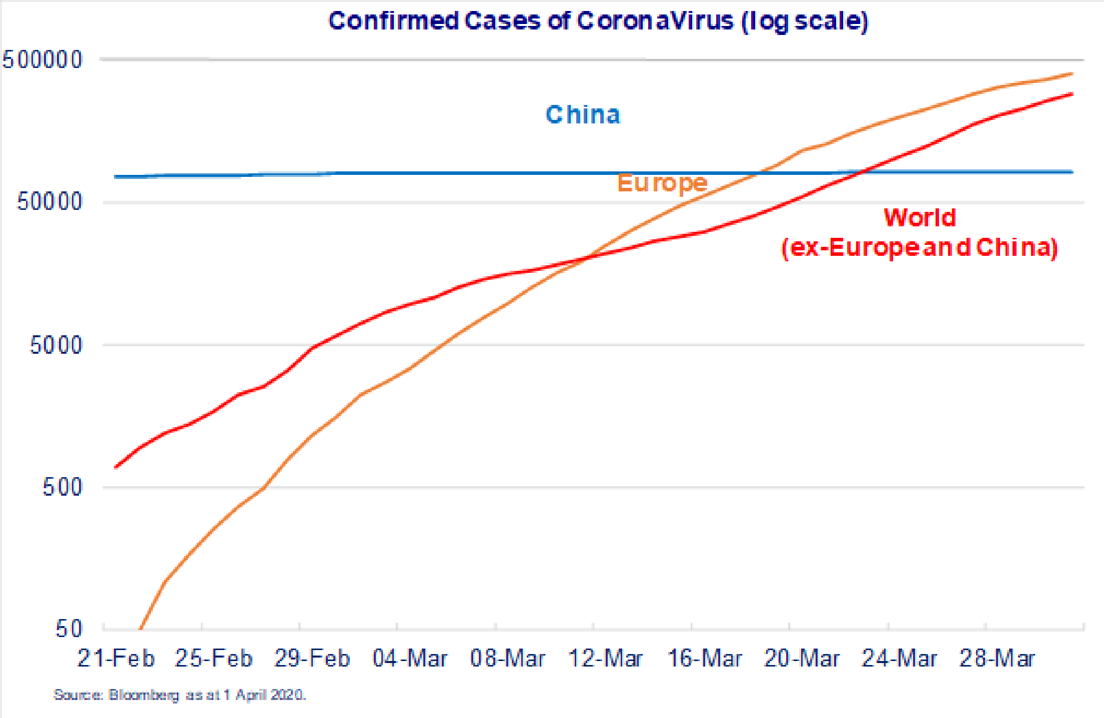
- China's Manufacturing PMI (+16.3 points to 52.0) and non-manufacturing PMI (+22.7 to 52.3) went back into expansion territory in March, but this does not signal that the economy is back to normal, it does confirm sequential improvement and that the worst is behind both sectors, at least for now. This was in line with a recent bounce in coal usage and also gains in traffic congestion suggesting that things had improved from an historical low. Consequently, the upcoming March IP number should improve on the plunge in February, but March quarterly growth is still likely to be deeply negative, and the lockdown in trade partners may impact by through either the trade or supply-chain channel. Even though China expanded at 7% in the GFC, Chinese exports declined by -27% y/y and were below zero for the best part of a year.

  Among the manufacturing components, the increase was led by production (+26.3 points to 54.1), new orders (+22.7 points to 52.0 – but new export orders remained in contraction territory (+17.7 points to 46.4)) and employment (+19.1 points to 50.9 – see chart below)). In the non-manufacturing space construction (+28.5 to 55.1) outperformed services (+21.7 points to 51.8) pointing to a slower return to normal.

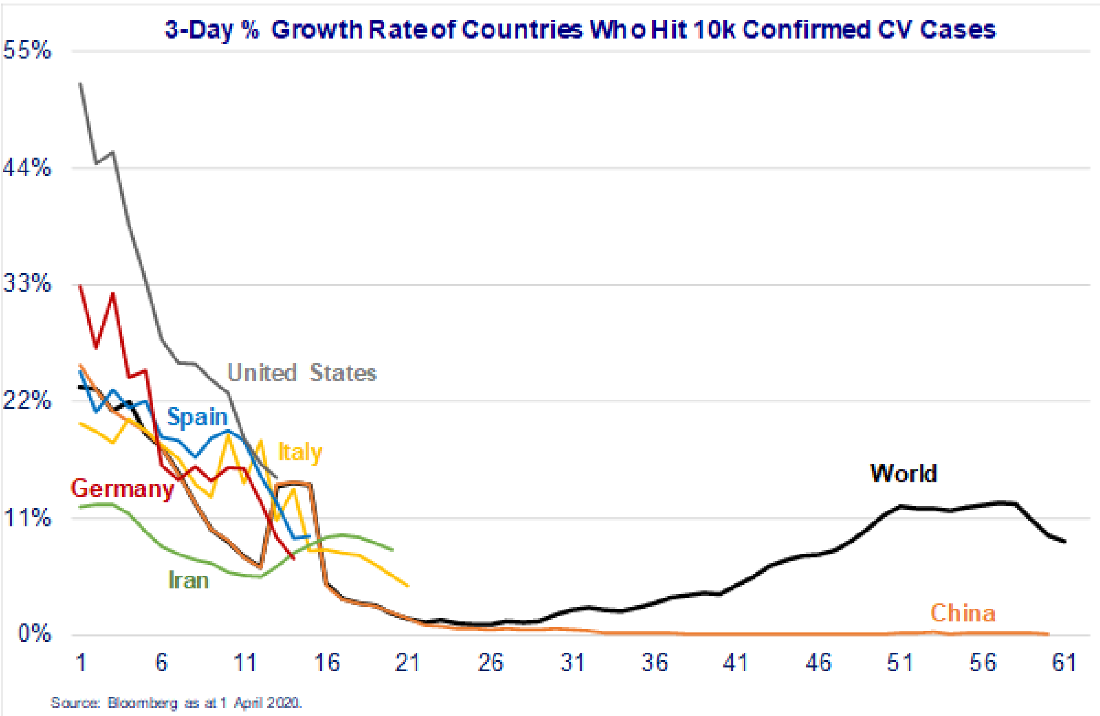


VIRUS UPDATE

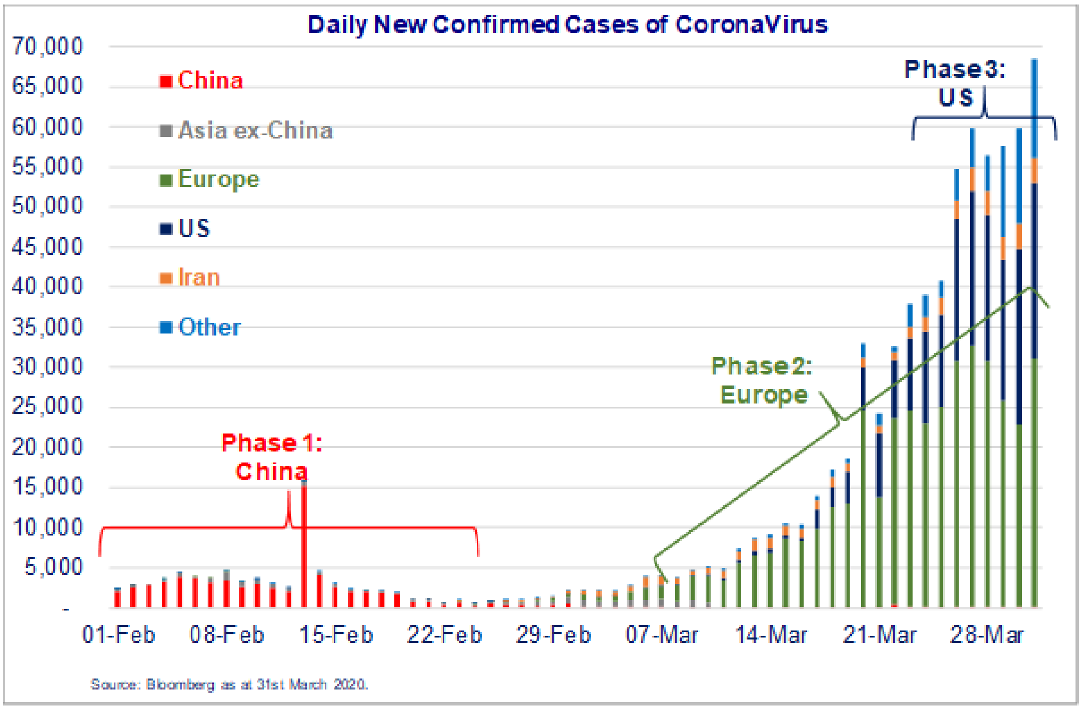
- Confirmed Coronavirus cases rose a record +70.9k overnight to 846.1k, deaths rose a record +4,411 to 41.9k and the death rate rose to 4.9% (21st rise in the past 24 days despite surging case numbers) having doubled of the past 6 weeks.



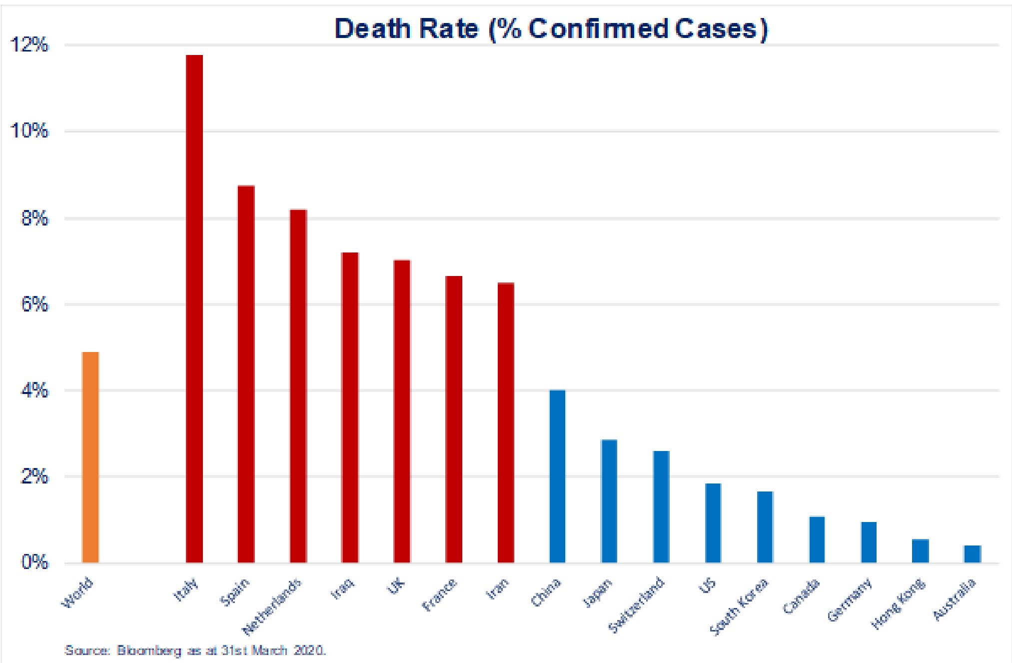
- Europe (which recorded its second largest daily increase of +30.9k to 398.5k) continues to lead the world in terms of total cases and new daily cases which meant that its recent run of 4 days of declining new cases numbers came to an end, but that is indicative of social isolation not working (although they would want to break the upward rise very quickly). In contrast, the US had its worst day of new cases (+21.9k) and the 3-day US compound growth rate has taken longer to come down, which meant the base grew quickly so growth may present a wrong interpretation of the pressure on the US health system, especially in New York.



- Among countries, the most cases are in the US (which rose a record +21.9k to +181.1k), Italy (very modest at +4.1k to 105.7k), China (+80 to 82.3k), Spain (a record +9.2k to 94.4k), Germany (+4.8k to 71.0k), France (which rose a record of +7.7k to 52.8k) and Iran (who had its third worst day of +3.2k to 44.6). Australia confirmed cases has increased (+198) to 4,559 which placed us 18th in terms of total infections.



- The global death rate has risen to +4.9% with another 4.4k fatalities overnight bringing the global total to 41.5k. The death rate is highest in Italy (+0.4% to 11.8%) and Spain (+0.2% to 8.8%) where the health systems have collapsed, and above the global average levels in the Netherlands (+0.9% to 8.2%), Iraq (-0.1% to 7.2%), UK (+0.7% to 7.0%), France (flat at 6.7%), and Iran (-0.1% to 6.5%). The US (+355 to 3363) now has passed China (+1 to 3305) in total deaths.



Yours sincerely,

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MORE INFORMATION

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