

THOUGHTS ON THE MARKET

29th April 2020

SUMMARY

- Risk markets were flat overnight with no material movement in either the global sharemarket or regional credit markets as investors paused to consider what's ahead. The market narrative remained centred around recent competing themes with stimulus and reopening flagged as a large tailwinds, but more recently this has been accompanied by concerns mentioned several times in this report including behavioural changes in the household and corporate sectors weighing on growth at a time where the virus is still increasing in solid numbers without broad testing being in place. This risks a new wave of infections and could lead to renewed closures in a worst case scenario. We would add to that we remain concerned to the extent that Fed liquidity can offset systemic risks in credit markets.

In other markets, treasuries were firmer with 10-year yields down -4 bpts with curve flattening, the US dollar was weaker on the Yen cross but was little changed against the Euro, gold finished down -0.1% and global oil prices closed -3.4% lower in volatile trading after falling -21% early in the Asian trading session yesterday.

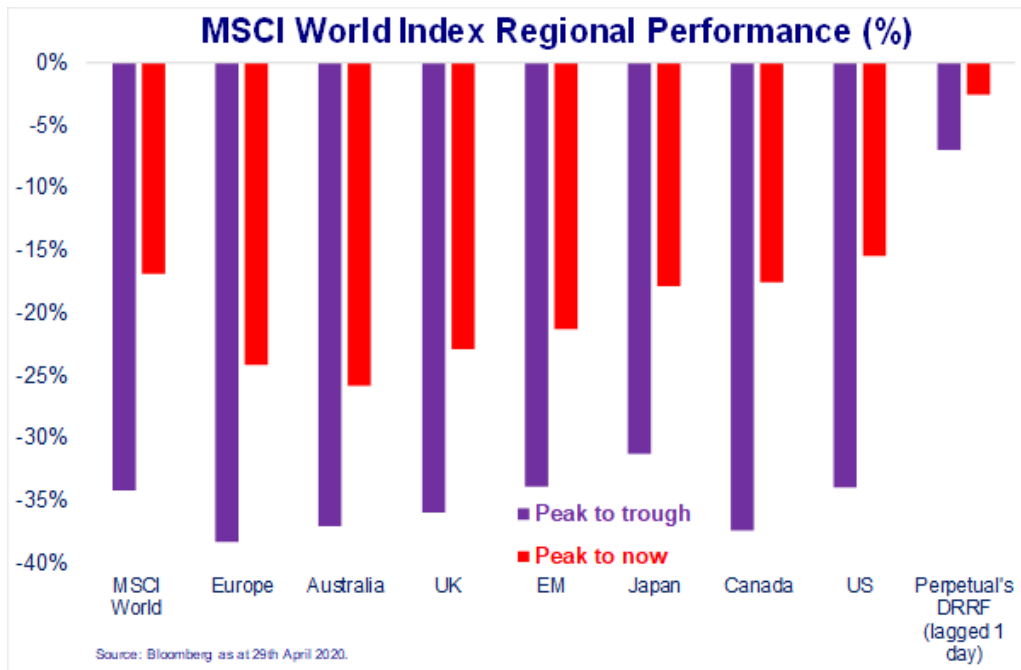
- There was no top tier macro data yesterday, but US consumer confidence recorded its largest decline in history but that is not surprising given the surge in jobless claims and restrictions in social mobility (but it's the most significant variable in our US and global EPS model which continue to decline). Tonight we get the preliminary estimate of March quarter US GDP growth and consensus is at -4.1% q/qa and while several key parts of the national accounts seem to have missed the March deterioration, there are always large margins of error going from partial indicators to estimates of economic growth.
- In COVID-19 news, the number of global cases stands at 3.11 million with another +69.3k cases overnight. This means 7 countries now have more than 100k cases, 20 over 20k cases and 36 over 10k. It took 73 days to record 1 million cases, 13 days for the next million and 11 days for the last million. That said, the growth rate of daily confirmed cases continues to decline (+2.4% since Saturday). Meanwhile, deaths rose +5.7k overnight (4-day high) to 216.8k, with the US now over 50k and the UK, Spain and Italy all over 20k, and the death rate sits at 6.90% (although final numbers are not yet in).

FINANCIAL MARKETS

• EQUITIES

- The MSCI World Index was unchanged overnight as declines in the US, Japan and Australia were offset by solid gains in Europe, Canada and the UK. However, US market trends dominated the wire services with an early +1% opening rise weakening in morning trade with several rally attempts stalling as the Magnificent 5 tech stocks (Microsoft, Google, Amazon, Facebook and Apple) were sold down collectively -2.3% with the remainder of the market up +0.2%. Needless to add the S&P 500 (-0.5%) outperformed the NASDAQ (-1.4%) given the latter larger tech weighting but IT wasn't the largest overnight decliner with healthcare (-2.1%) potentially suffering from some profit taking.

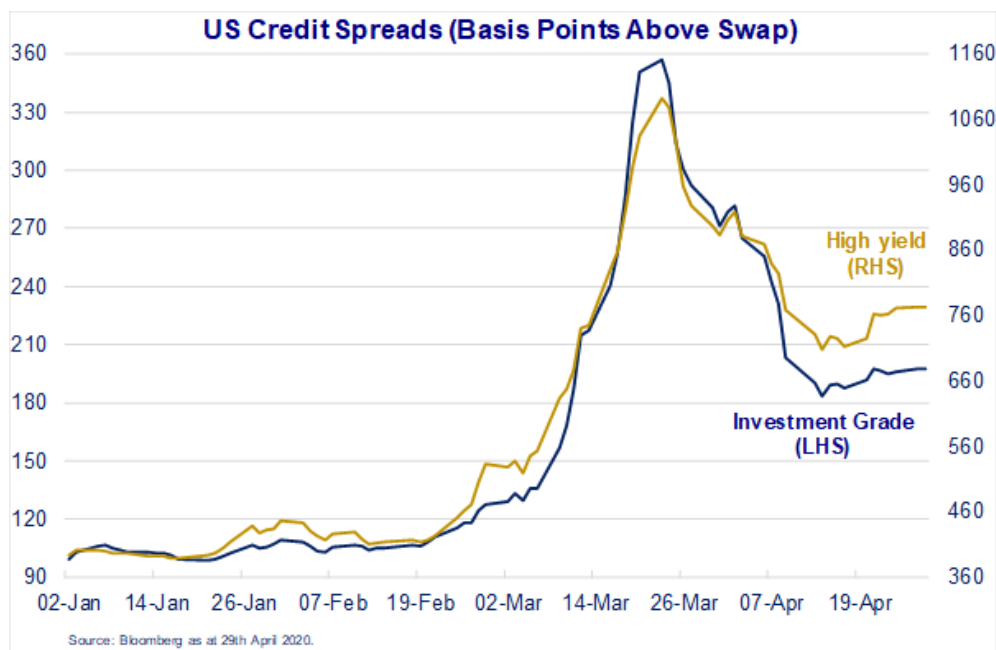
The US rally contrasted with a strong lift in Europe (+1.7%) with advances in financials (+3.9%), industrials (+2.5%) and energy (+2.4%) all of which have lagged the recovery in other sectors. There was a similar trend across countries with gains led by the UK (+1.9%), Sweden and Italy (both +1.7%). In Asian markets yesterday, performance was mixed with losses in Australia (-0.2%) and Japan (-0.1%), whereas Korea (+0.6%), China (+0.7%) and Hong Kong (+1.2%) closed higher. The rise in Europe and UK, and the decline in Australia, has the latter recording the largest peak-to-now decline across regions (see chart) despite Australia doing a magnificent job at containing infection rates to very low levels.



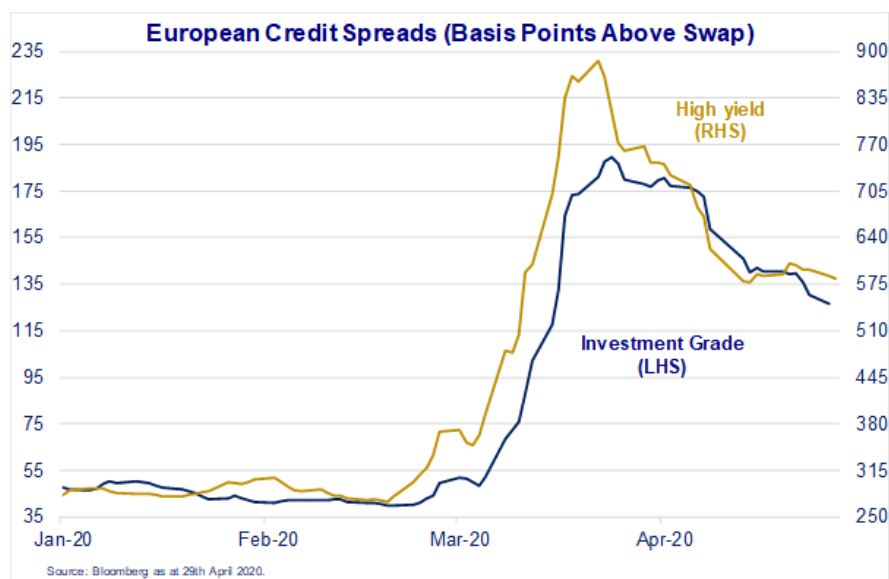
In futures markets gains are expected at the opening bell in both Australia (+0.4%) and Japan (+0.8%), although I suspect both are likely to open lower

• CREDIT

- US credit markets were flat overnight with very little movement in spreads. The investment grade universe recorded a +0.2 point increase in spreads to +197 bpts which kept the recovery rate at 63%. There was little movement within the sub-sectors with energy the largest improver with a contraction of -1 point (to +343 bpts, 56%) as crude prices (-3.4% to USD12.34 per barrel) rallied hard from an intraday decline of nearly -21% which lifted sentiment, but there was nothing else of note. Things were even more subdued in the high yield space (see chart) with spreads declining -0.1% (to +774 bpts, 47%) but energy spreads came in a more substantial -22 points (to +1452 bpts, 56%) and subordinated financials also marginally improved (-3 points to +508 bpts, 41%), but most other sectors recorded increases of +1 or +2 bpts in an uneventful day.

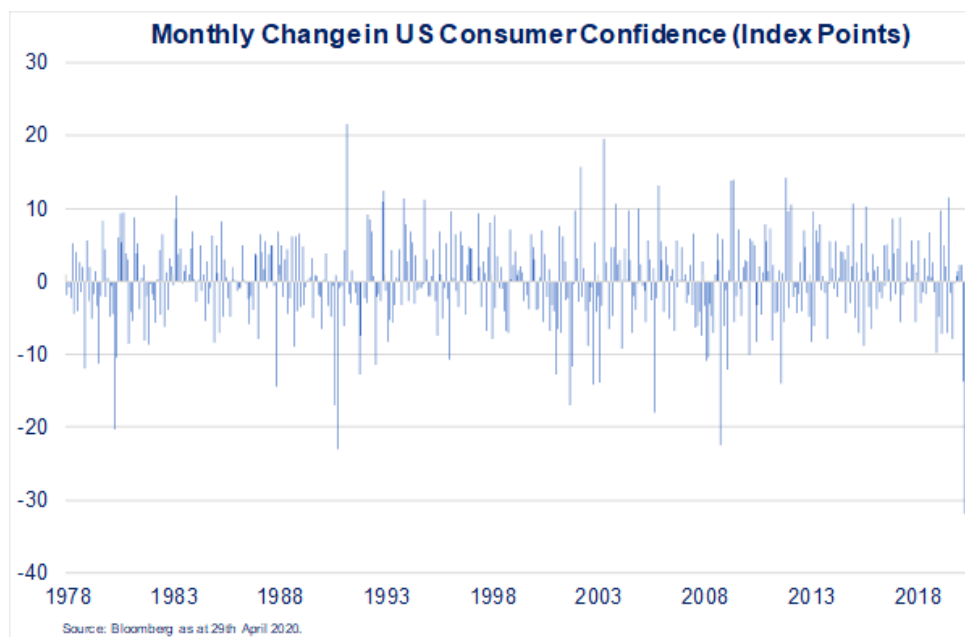


- European credit markets recorded a modest reduction in spreads with the investment grade universe gauge contracting -2.5 points to +124 bpts which lifted the recovery rate to 44%. The improvement in spreads were quite uniform with all sectors coming in -2 to -4 points which pulled recovery rates up one notch. In the high yield universe, spreads came in -4 points to +582 bpts, which saw the recovery rate rise back to 50% for the first time in two weeks (see chart). Improvements in risk premiums were still single-digit in all sectors with the largest being in consumer discretionary (-7 to +757 bpts, 48%), with financials (+1 to +703 bpts, 36%) the only sub-sector to record higher spreads.

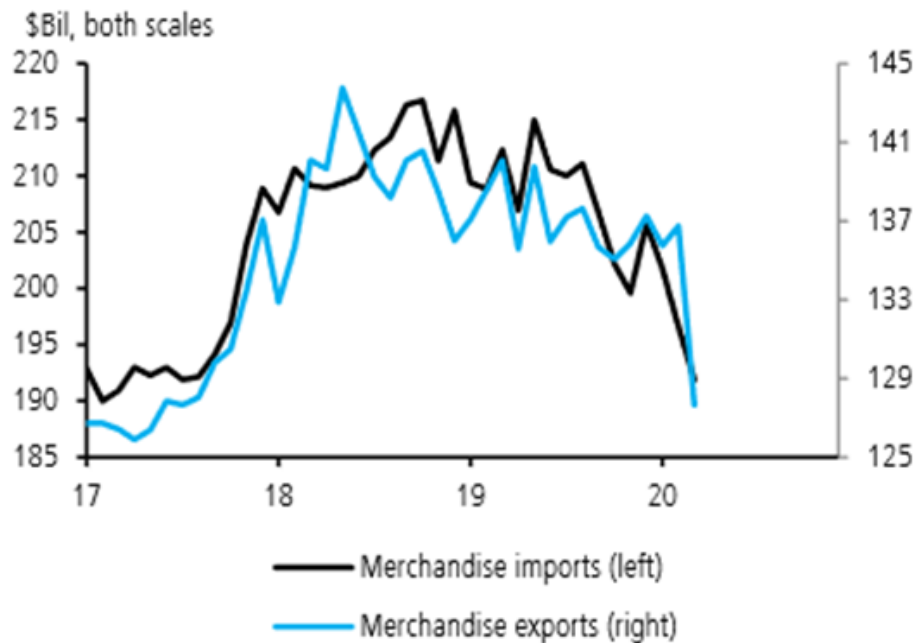


THE GLOBAL ECONOMY

- There were no major economic releases overnight. However, there were a couple of second and third tier data points:
 - The US Conference Board measure of consumer confidence recorded its largest monthly decline in its history (-31.9 to 86.9 – see chart) as labour market dislocation and enforced isolation sapped sentiment. The decline was not remotely surprising, but we mentioned it as the statistic is the most statistically significant variable in my US and global earnings model which we should be able to provide an update of late next week (when April is closed and the ISM gauges are reported).



- The US merchandise trade deficit widened sharply to \$-64.2 billion in March as imports declined a modest -2.4% m/m and exports dropped a sharper -6.7% m/m. This suggests that latter was beginning to be depressed by global COVID-19 economic closure, but the decline in imports is not outside the realm of normal monthly volatility. The ports are essential operations which remain open, with the export downturn reflected weakness across most goods (led by autos down -18% m/m), and while consumer goods imports fell as would be expected, other imports were stronger led by a +3% m/m lift in capital goods, which matched the surprise rise in core capital goods orders in last week's durable goods report but that may be a case of China meeting its order backlog. Needless to add the import numbers will weaken in the coming months.



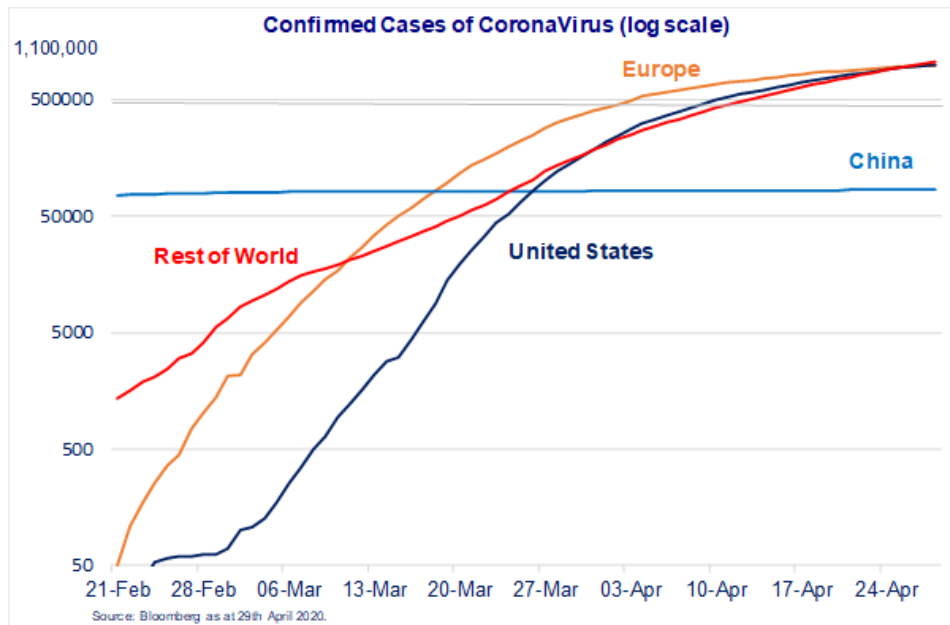
- The big economic release tonight is the March quarter US GDP report and while some sell-side analysts have numbers as large as -10% q/qa and consensus is at -4.1% q/qa, the partial indicators suggest about -3.1% q/qa as capital goods shipments appear to have missed March deterioration (as has construction to some degree) and the inventory drag is not as large as expected.

POLICY

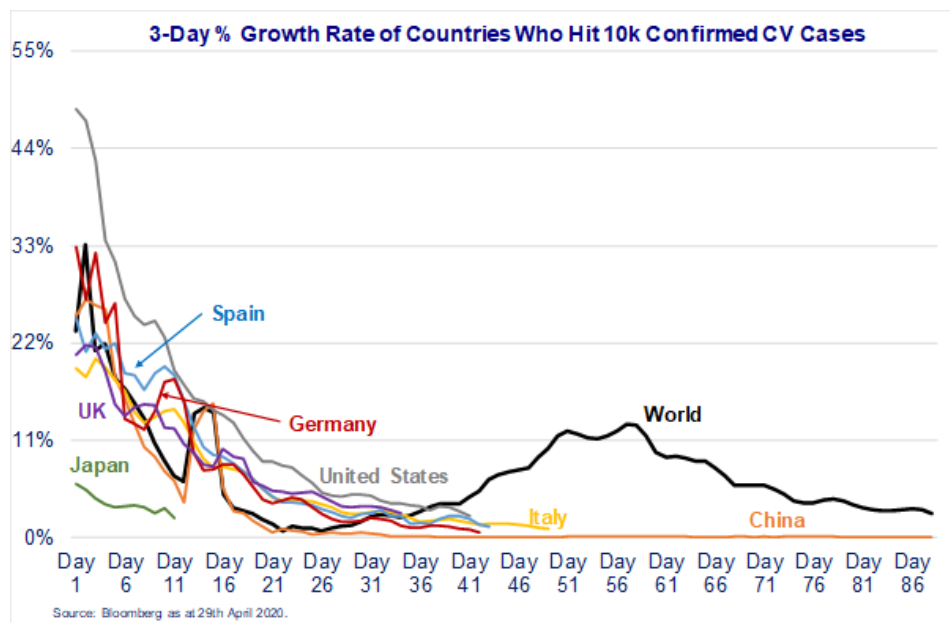
- As new cases slow to very low levels, Australia is ramping up testing to include asymptomatic people and with the government's goals on testing and contact tracing seemingly on track, NSW, Queensland, WA, SA and Tasmania, are preparing for an easing of social distancing curbs. However, this does not mean things are back to normal and that we are all headed back to work – these are the first tentative steps towards what will be the new normal.

VIRUS UPDATE

- The number of global cases of COVID-19 stands at 3.11 million with another +70.8k cases overnight with daily confirmed cases in the US (+23.1k) cracking 1 million but still trending lower. The overnight increase means 7 countries now have more than 100k cases, 20 over 20k cases and 36 over 10k. It took 73 days to record 1 million cases, 13 days for the next million and 11 days for the last million. That said, the growth rate of daily confirmed cases continues to decline (+2.4% since Saturday). Meanwhile, deaths rose +5.7k overnight (4-day high) to 216.9k, with the US now over 50k and the UK, Spain and Italy all over 20k, and the death rate sits at 6.90% (although final numbers are not yet in).

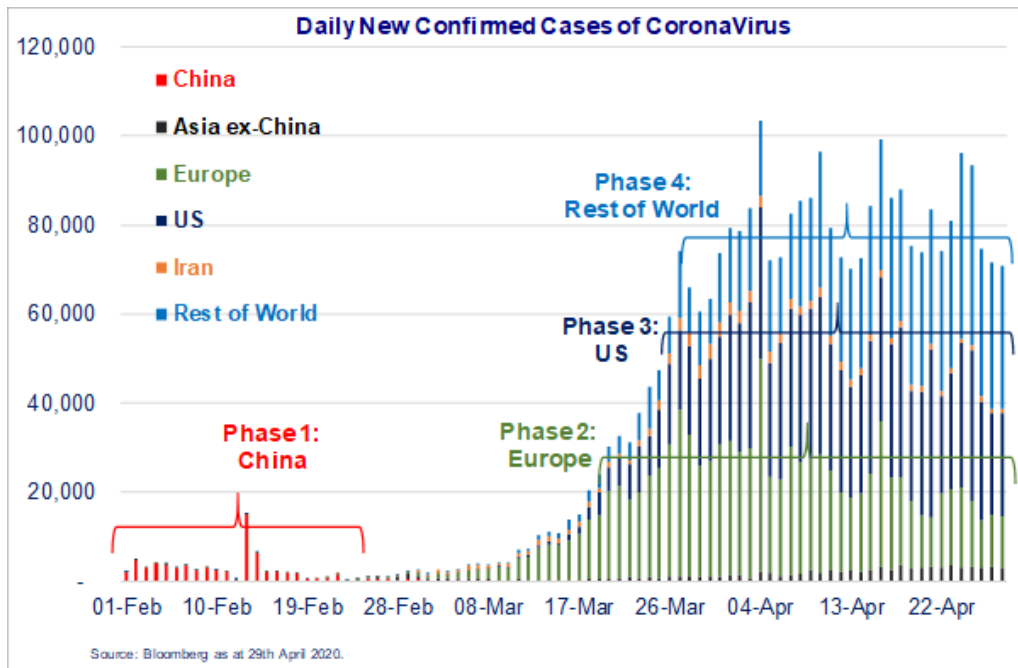


- We break the infections into four groups – the US, Europe, China and ‘others’ and the rest of the world outside the G3 economies (+32.0k to 1.06 million) now has the most cases followed by the US (+23.1k to 1.01 million) and Europe (+11.7k to 992k) but the latter two daily increases, both number and percentages, are trending lower which shows that social isolation works to reduce the spread of the virus, even though it comes at an enormous economic cost.

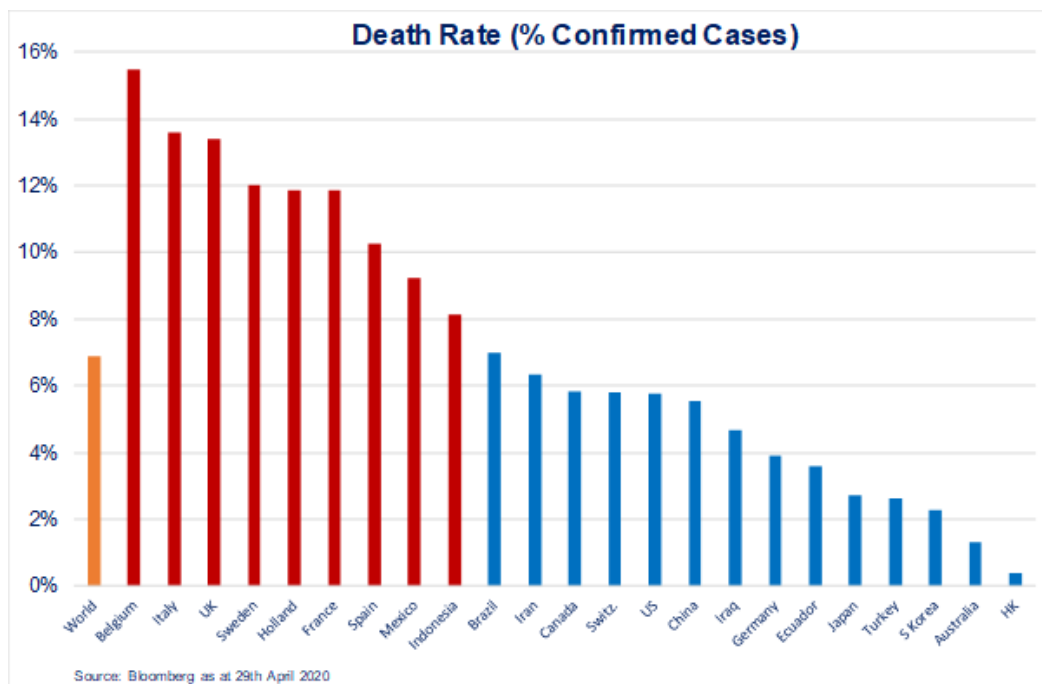


- Among countries, the most cases are in the US (+23.1k to 1.01 million), Spain (+2.7k to 232.1k), Italy (+2.1k to 201.5k), France (+3.7k to 169.1k), the United Kingdom (+4.0k to 162.4k), Germany (+673 to 159.7k), Turkey (+2.4k to 114.7k), Russia (+6.4k to 93.6k), Iran (+1.1k to 92.6k) and China (steady at 83.9k). Australia confirmed cases rose to 6,733 yesterday which placed us 42nd in terms of total infections.

Elsewhere, Singapore recorded +528 new cases (13-day low to 15.0k) 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 (+415 (4-day high) to 9.5k) and the Philippines (+181 to 8.0k). Note final numbers for yesterday at not in yet so these numbers can rise.



- The global death rate increased to +6.9% (first rise in three days, only its 47th rise in the past 51 days) with another +5.7k fatalities overnight bringing the global total to 216.9k. The US has the most deaths at +58.4k, with the Italy (27.4k), Spain (23.8k) and the UK (21.7k) all over +20k. The death rate is highest in European countries where the health systems have collapsed led by Belgium (+0.1% to 15.5%), Italy (+0.1% to 13.6%), the UK (steady at 13.4%), Sweden (steady at 12.0%), France (steady at 11.9%), the Netherlands (+0.1% to 11.9%), and Spain (steady at 10.3%). However, several emerging markets are now on the leader board including Mexico (steady at 9.2%), Indonesia (-0.3% to 8.1%) and Brazil (+0.2% to 7.0%).



Yours sincerely,



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