

THOUGHTS ON THE MARKET

3rd April 2020

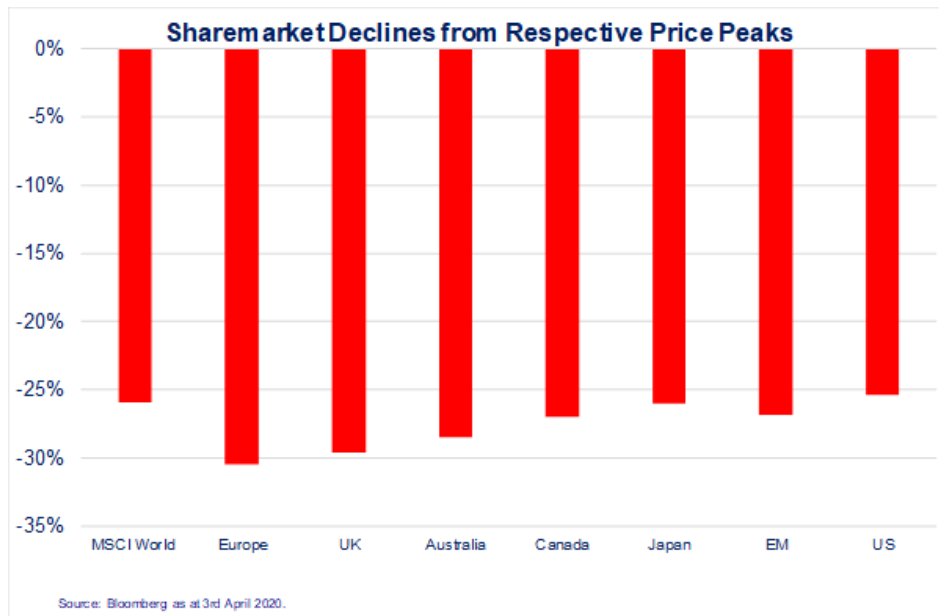
SUMMARY

- It was a mixed night on risk markets with gains in equities offset by a second, albeit modest, rise in credit spreads. In equities, energy rose strongly as the crude price bounced +22% after President Trump spoke with Saudi Arabia and Russia and announced on Twitter that they would cut production by 10 million barrels per day, but crude price came well off its daily peak as both sides watered down expectations of such a deal. In other markets the US Dollar was stronger against the Euro (+0.6% d/d), the Yen (+0.4% d/d) and the AUD (+0.5% d/d), gold rallied +1.3% to USD1615 per ounce and 10-year US bonds rose 1 basis point to 0.60%.
- Economic data was modest in volume, but US initial jobless claims (6.65 million) in the week to March 28th shattered last week's record (3.3 million), with claims focused in accommodation and food services. With further job losses ahead, in our estimation, there is enough dislocation in the US labour market to have unemployment rise above 10% by end-April (report out first week of May) and it is likely to rise to between 12% and 15% in the months after that. However, the survey taken for the March non-farm payrolls was too early to have much of an impact tonight, but it will still be enough to break the US economy's record nine year run of continuous jobs growth with employment losses of around -100k likely to unemployment move up to about 3.7%
- Meanwhile, economists continue to ratchet down their growth numbers with BoAML cutting global growth this year by -3% to -2.7% which is considerably worse than the 2008/09 GFC. In the end, policy makers and the public have not learned the lesson from Asia which has demonstrated in several countries (notably China and South Korea) that the most effective strategy for containing the spread of COVID-19 is a quick and comprehensive lockdown involving very limited people movement. Delaying these policies by a week adds potential more than a week to the end of the shutdown and this creates a deeper downturn in activity and confidence and raises the risk of exposing stress points in the economy and financial system.

FINANCIAL MARKETS

• EQUITIES

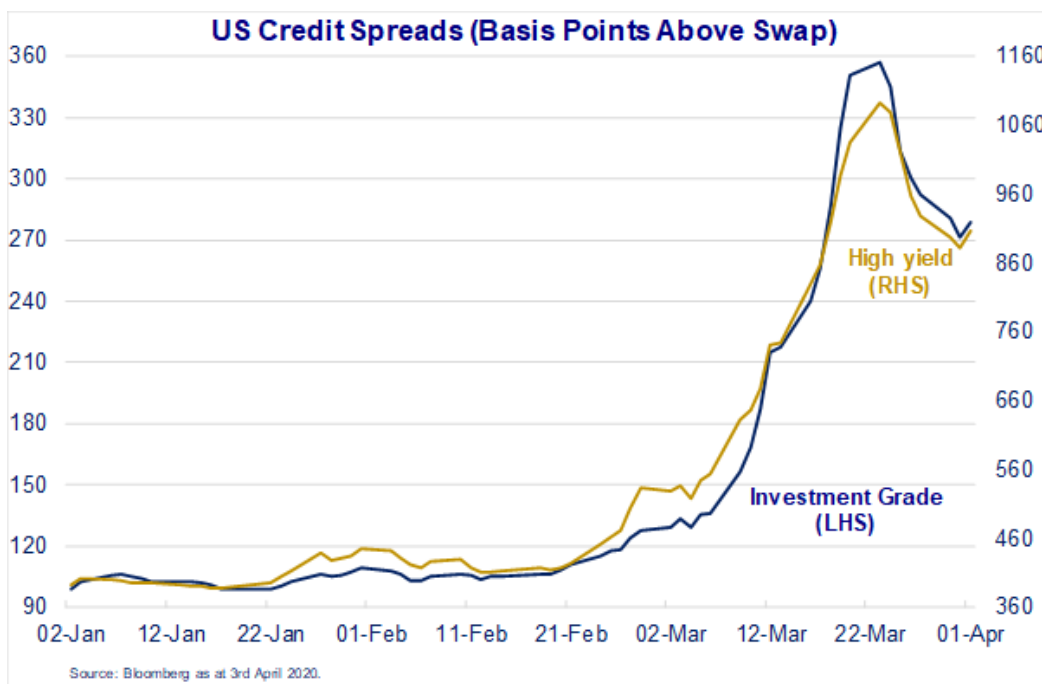
- Equities posted solid gains overnight led by the US (+2.3%) but it was a wild ride with the market opening strongly, then giving all gains back with 90 minutes left to go, and then rallying into the close to close around its best levels for the day. Gains were led by energy (+9.1%) given talk by President Trump that Saudi Arabia and Russia will cut production by -10 million barrels per day although both sides hosed down those expectations. Elsewhere, defensive sectors rallied led by utilities (+3.1% d/d), consumer staples (+2.9% d/d) and healthcare (+2.8% d/d) but the initial jobless claims saw consumer discretionary (+0.3% d/d) lag the field.
- In Europe, bourses rose (+0.3% d/d) but gains were more lacklustre with increases in Italy (+1.8% d/d) and Germany and France (both +0.3% d/d), but it was rats and fleas after than with Spain (-0.1% d/d) bringing up the rear of the field. Despite the overnight gain, Europe remains the only market with peak-to-now losses of over -30% with all other markets sitting within a tight -5% range below that (see chart).
- Meanwhile, Asian markets yesterday recorded gains in China (+1.6% d/d) and Hong Kong (+0.8% d/d) but losses in Japan (-1.4% d/d) and Australia (-2.0% d/d) both closed well off their trough today and futures markets are suggesting a positive start when the bell rings today.



• **CREDIT**

- Despite the positive lead from equities, credit markets recorded a second day of spread widening, even though to rises were very small. US IG and HY spreads rose 3 and 12 points to 282 and 919 bpts, respectively, with increases in all sectors even energy (+0.3 to 540 bpts in IG and +6 to 2077 in HY).

In Europe, IG rose 1 to 181 bpts with minor spread increases in all sectors other than financial sub debt (-5 to 317 bpts) but HY decreased 3 points to 742 with energy (-26 to 1016 bpts) the only notable decline as oil rose to USD26 per barrel in the European session.



THE GLOBAL ECONOMY

- Initial US jobless claims surged to 6,648K in the week of March 28th which broke last week’s record jobless surge of 3.3 million, with gains led by New York (tourism and consumer goods), California, Michigan (manufacturing),

Florida and Texas (oil) with many states noting that claims were focused in accommodations and food service. This certainly will not be the end of the rise and continuing claims rose +1.2 million to 3.0 million (see table).

	New regular claims (000s)		Continuing claims 000s
	Wkly	4-wk avg	
02/15/20	215	208	1693
02/22/20	220	210	1720
02/29/20	217	214	1699
03/07/20	211	216	1702
03/14/20	282	233	1784
03/21/20	3307	1004	3029
03/28/20	6648	2612	

Around 10 million new jobless claims over the last two weeks, with another two weeks to go before the April non-farm payrolls survey, will be enough to send US unemployment above 10% given the labour force size of 165 million. (every million of claims is likely to lift unemployment about +0.6% assuming no change in the labour force size).

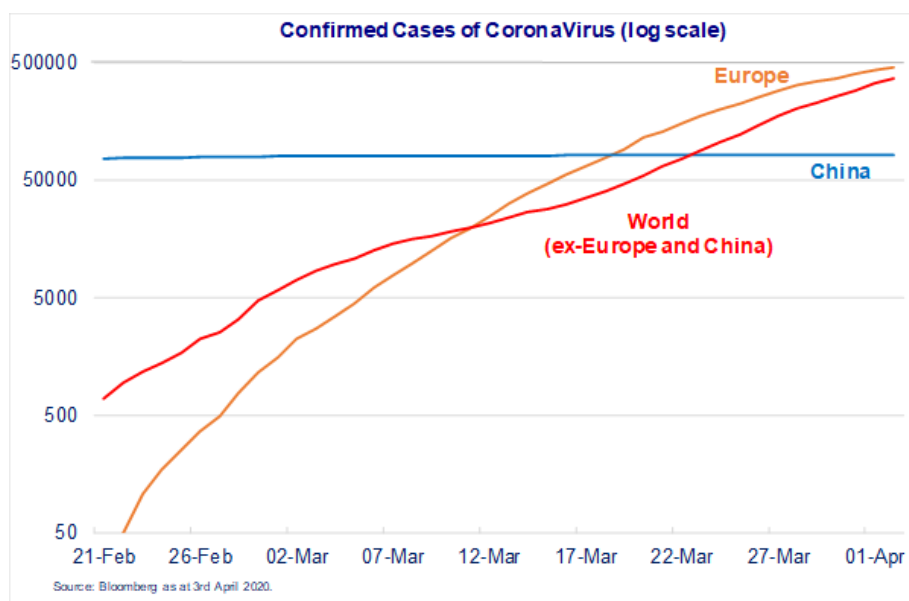
But this will not be evident in tonight's labour market report (which was taken on March 12th) given timing mismatches which could see unemployment for March move up to about 3.7% and not much more. But claims next week are expected to remain elevated given the delays in processing filing and constraints at government offices, and thus is hard to say if overnight's 6.6 million is the peak level.

POLICY

- There were no major policy announcements overnight.

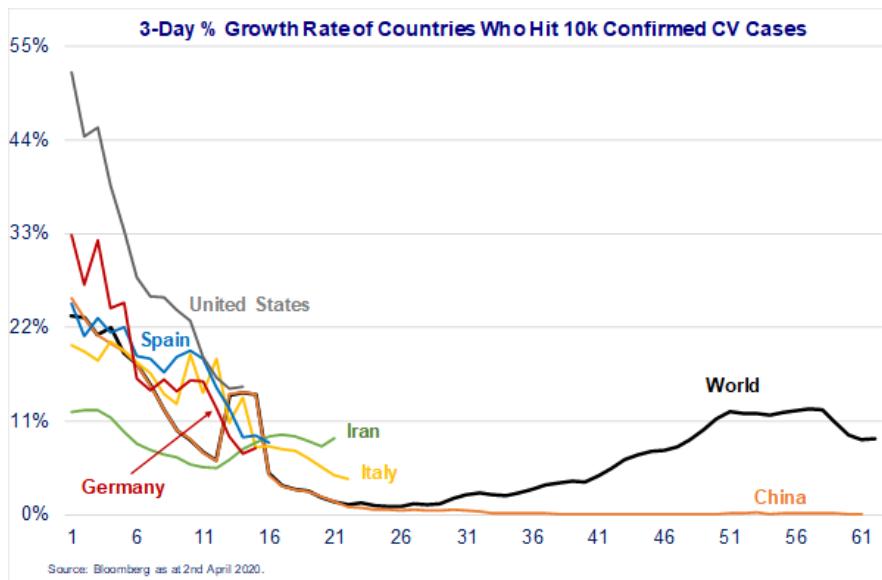
VIRUS UPDATE

- Even though the percentage of daily confirmed COVID-19 cases continues to decline, the number of daily increases is rising at a rapid rate with another record +82k of cases counted overnight which took the global total to 1.01 million. Meanwhile, deaths rose a record +5072 to 52.8k and the death rate rose to 5.2% (23rd rise in the past 26 days despite surging case numbers).

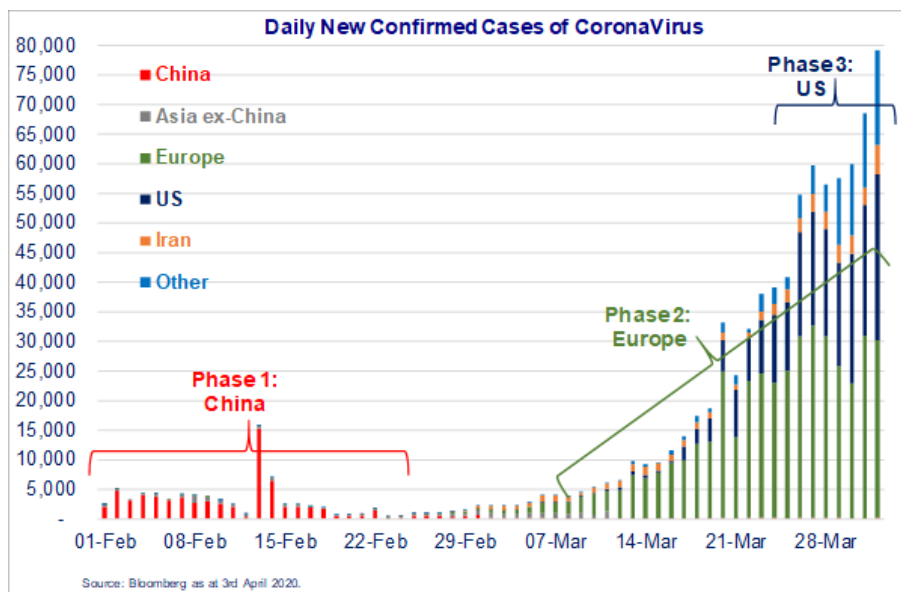


- Europe (+29k to 458k) continues to lead the world in terms of total cases but its daily increase (number, not percentage) is flattening out from its elevated base and the next stage is to have this decline like China's number has apparently. It does show that social isolation works to reduce the spread of the virus, even though it comes at an enormous economic cost.

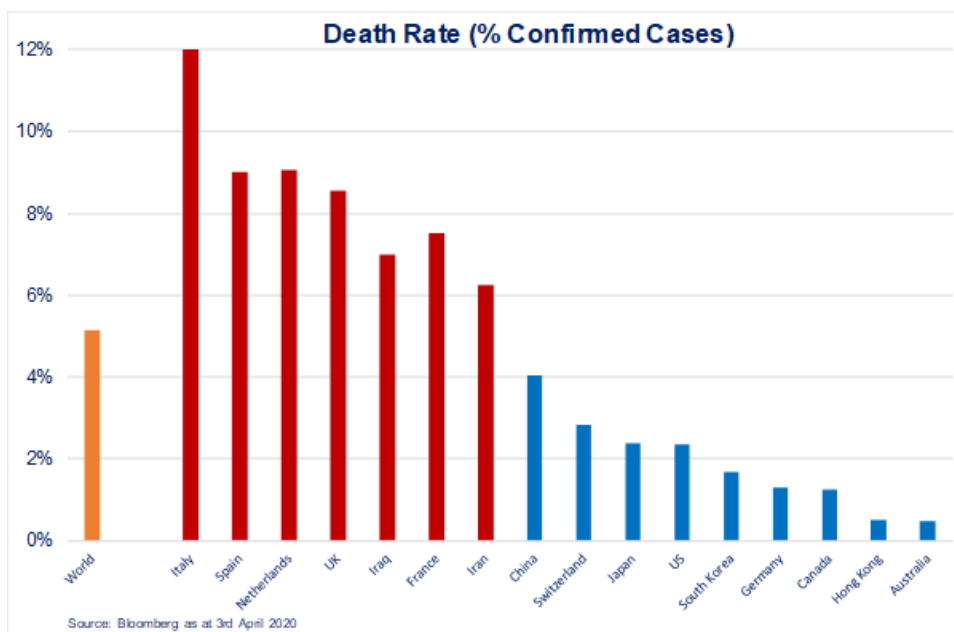
In contrast, the US had its large increase of new daily cases (+29.7k to 239k) and its the 3-day US compound growth rate is now in line with the global and China averages 16 days after they reached 10,000 cases, but they are working from a much higher base. The slow and piecemeal lockdown of the US meant that its base grew so quickly that the daily percentage change may give the wrong interpretation of the pressure on the US health system, especially in New York.



- Among countries, the most cases are in the US (+29.7k to 239k), Italy (+4.7k to 115.2k and whose growth in daily case numbers continues to moderate), China (+71 to 82.4k), Spain (who had their worst day of increases which rose +10k to 112.1k), Germany (which recorded its third highest daily increase of +6.8k to 84.6k), France (+2.2k to 57.8k) and Iran (+1k to 51.0k). Australia confirmed cases has increased (+254) to 5,116 which placed us 21st in terms of total infections.



- The global death rate has risen to +5.2% (having doubled in the past 6 weeks) with another record rise of +6.4k fatalities overnight bringing the global total to 52.8k. The death rate is highest in Italy (+0.2% to 12.1%) and Spain (+0.1% to 9.0%) where the health systems have collapsed, and above the global average levels in the Netherlands (+0.5% to 9.1%), the UK (+0.6% to 8.5%), Iraq (-0.1% to 7.0%), France (+0.5% to 7.5%), and Iran (+0.2% to 6.3%).



Yours sincerely,



MATT SHERWOOD
Head of Investment
Strategy, Multi Asset



MICHAEL O'DEA
Head of Multi Asset

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Perpetual Investments 1800 062 725
Email investments@perpetual.com.au
www.perpetual.com.au/investments