

Monthly Market Summary



April 2020

Summary: Stimulus and easing of lockdowns support markets

Global stock markets and credit rebounded strongly in April with stocks registering their best monthly return since 1987, +10.7% (in USD). Key events included:

- Improved investor sentiment triggering a risk-on rally;
- Central banks pledging large scale government bond buying;
- A first glimpse at a post-lockdown reality as countries eases restrictions.

Positive investor sentiment returned to global markets in April, following a multi-decade downturn in March, and volatility (the VIX Index) more than halved from its March peak. With Covid-19 infection rates slowing in some Western and most major Asian countries, economies are starting to gradually reopen. Leading central banks and governments introduced further stimulus packages to help shield economies from a looming lockdown-induced recession. Credit spreads narrowed, after widening significantly in March as liquidity improved and the Fed committed to buy recent 'fallen angel' bonds. Meanwhile, oil slumped with near-term WTI futures falling below zero for the first time, impacted by a sharp fall in demand and local oversupply. Gold continued its upward trajectory, gaining some 7% over the month.

US: Q1 GDP contracts, Fed pledges large-scale bond buying

The US economy contracted at an annualised pace of 4.8% in Q1, the steepest pace of contraction since Q4 2008. Jobless claims surged further, taking the total reported since the Covid-19 outbreak to over 30 million. Manufacturing activity (ISM PMI) at 41.5 reflected the lowest level in 11 years, while retail sales fell 8.4% from a month earlier. However, the swift and deep response from the Fed supported markets as the central bank pledged large-scale government bond buying, including those companies recently downgraded from investment grade ('fallen angels'). Helping sentiment, state governors outlined plans for a phased reopening of business whilst antiviral drug *remdesivir* was granted emergency authorisation after (limited) favourable results for Covid-19 patients.

Europe: Grim data, Easing lockdowns, Italy downgraded

After harsh lockdown measures, many European countries have begun to ease the measures undertaken to contain Covid-19 as contagion rates have slowed. Eurozone GDP was reported to have contracted dramatically in Q1, by 3.8% on a non-annualised basis, with (as in the US) further falls anticipated in Q2 even as normal activity starts to bottom out. Italy, one of the countries hardest hit by the pandemic, saw its debt downgraded to BBB-. Eurozone manufacturing PMIs fell to the lowest levels since 1997 (at 33.4), with the ECB saying it would relax its collateral rules to accept 'fallen angel' bonds to maintain banks' availability to liquidity, leaving rates unchanged. Measuring the level of optimism in the next 6 months, the Eurozone ZEW sentiment increased to 25.2 (from -49.5 in March).

Asia: China rebound sounds a more optimistic note

Economic activity in China rebounded strongly after its first quarter GDP declined 6.8% (YoY) as the economy reopened without a second wave of infections to date. Manufacturing PMI registered levels above 50, (50.8) for a second month since the sharpest contraction on record in February (35.7). Consumer confidence and spending improved as retail sales increased 0.24% (MoM), having dropped -13% and -3.6% MoM in the 2 months prior. The Bank of Japan meanwhile provided further stimulus, pledging to purchase government bonds and to quadruple its purchases of corporate debt as the viral contagion remains precarious.

Market summary (total return in local currency)

Fixed Income	Yield	1M %	1 Yr %
US 10 Yr	0.64%	0.6%	17.4%
UK 10 Yr	0.23%	0.8%	8.4%
Swiss 10 Yr	-0.52%	1.3%	1.2%
German 10 Yr	-0.59%	0.8%	4.0%
Global IG (hdg \$)	2.34%	4.7%	7.3%
Global HY (hdg \$)	9.43%	4.4%	-6.1%
Equity Index	Level	1M %	1 Yr %
S&P 500	2'912	12.8%	0.9%
MSCI UK	9'772	3.4%	-18.1%
SMI	9'629	4.8%	2.2%
Eurostoxx 50	2'928	5.4%	-14.0%
Nikkei	20'194	6.7%	-7.3%
Hang Seng	24'644	4.4%	-14.2%
MSCI World (lcl)	238	10.3%	-4.2%
MSCI World (\$)	246	10.7%	-5.0%
Currencies (trade-weighted, nominal)			
US Dollar		-0.3%	6.3%
Euro		-1.2%	1.7%
Yen		0.8%	8.1%
Pound Sterling		1.2%	-0.3%
Swiss Franc		-0.5%	8.9%
Chinese Yuan		-0.3%	-2.1%
Other	Level		
VIX	34.2	-36.2%	160%
Brent (\$/b)	25.3	-4.1%	-59.1%
Gold (\$/oz)	1'687	6.9%	31.4%

Manufacturing PMI "heatmap"

	2020			
	J	F	M	A
United States	52	51	49	36
United Kingdom	50	52	48	33
Eurozone	48	49	45	34
France	51	50	43	32
Germany	45	48	45	34
China	50	36	52	51

Source: Bloomberg, Rothschild & Co
 1. Manufacturing PMIs are economic indicators derived from monthly surveys of companies (>50=expansive, <50=contractionary).



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