

Monthly Market Summary



May 2020

Summary: Markets continue to climb as lockdown eases

Global equities continued to rally in May (+4.8% in USD terms), regaining two-thirds of their March drawdown, whilst global government bonds were broadly flat. Key events include:

- Contagion rates slowing and lockdown measures easing;
- Business surveys suggesting April may have marked the low point;
- Renewed US-China political tensions.

Buoyed by the prospect of additional economic stimulus and easing lockdown measures, markets extended their April gains with US equities closing 10% off their February peak. Further downward revisions to earnings estimates pushed the S&P 500 forward P/E multiple to its highest level in 20 years; while the weighting of the five largest stocks increased to over a fifth of the index. Meanwhile, oil continues its rebound from near zero levels in April, with Brent rallying 40% - its strongest monthly increase on record.

US: Gloomy data, Congress' stimulus, US-China tensions

Dramatically weak US economic data persisted, with both demand (retail spending) and output (industrial production) recording their largest ever monthly falls in April, alongside the highest unemployment rate (14.7%) since the Great Depression. Meanwhile, the steep fall in core consumer prices (-0.4% m/m), suggests the deflationary forces of a low oil price and weak demand are prevailing over supply-side constraints. However, recent business surveys suggest April may have marked the low point. Policy remains supportive; the Fed has signalled its commitment to intervene further, while Congress actively debates the possibility of an additional \$3tn stimulus package. The revival in US-China tensions, alongside US civil unrest and a looming electoral cycle suggest geopolitical risks are mounting once again.

Europe: German recession, EU Recovery Fund, Brexit resumes

Germany entered a technical recession after first quarter GDP contracted by 2.2% (q/q %), whilst Eurozone's industrial production recorded its sharpest monthly fall on record in April (-11.3% m/m). Yet, a modest rebound in the PMI surveys suggest the 'hard' data may start to improve from May. European stocks closed higher in the month following the European Commission's unveiling of a €750bn European Recovery fund (c5.4% of EU GDP) – in response to the Franco-German initiative. In addition, the ECB purchased over €125bn in government and corporate bonds in May, with an increase to the pandemic purchase programme expected at its June meeting. In the UK, renewed concerns of a hard Brexit moved back into focus once again with negotiators due to resume time-sensitive discussions in early June. Meanwhile, the BoE considers expanding its policy toolkit to include negative rates.

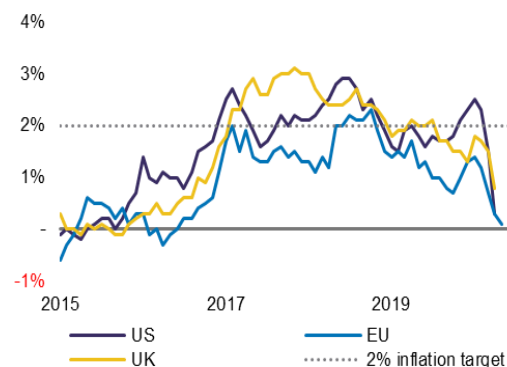
RoW: China rebounds, Japan's stimulus, Hong Kong's autonomy

China continues to lead the recovery following a rebound in its activity data, notably industrial production (+3.9% y/y), while the Caixin PMIs moved back into expansion. Both Korean and Japanese industrial production fell sharply in May (-9.1% and -6% m/m, respectively). Meanwhile, Japan entered a recession for the first time since 2015, as Q1 GDP contracted 3.4% for the second consecutive quarter: a further fiscal stimulus package was announced, bringing the total to \$2.2trn. Australia also draws closer to recessionary territory – the first time in nearly three decades – driven by a weaker services sector. Meanwhile Hong Kong's autonomy is called into question after China introduces new legislation curtailing the rights of HK citizens.

Market summary (total return in local currency)

Fixed Income	Yield	1M %	1 Yr %
US 10 Yr	0.65%	0.2%	14.2%
UK 10 Yr	0.18%	0.6%	6.7%
Swiss 10 Yr	-0.46%	-0.5%	-0.7%
German 10 Yr	-0.45%	-1.1%	1.3%
Global IG (hdg \$)	2.12%	1.2%	7.5%
Global HY (hdg \$)	7.42%	4.9%	-0.7%
Equity Index	Level	1M %	1 Yr %
S&P 500	3,044	4.8%	12.8%
MSCI UK	10,075	3.1%	-13.2%
SMI	9,831	2.5%	6.7%
Eurostoxx 50	3,050	4.9%	-4.9%
Nikkei	21,878	8.4%	8.5%
Hang Seng	22,961	-6.3%	-12.2%
MSCI World (lcl)	248	4.2%	6.0%
MSCI World (\$)	3,044	4.8%	12.8%
Currencies (trade-weighted, nominal)			
US Dollar		-1.3%	2.1%
Euro		1.2%	0.9%
Yen		-0.8%	2.5%
Pound Sterling		-2.7%	-0.5%
Swiss Franc		0.1%	4.2%
Chinese Yuan		-1.3%	1.5%
Other	Level		
VIX	27.5	-19.4%	47.0%
Brent (\$/b)	35.3	39.8%	-45.2%
Gold (\$/oz)	1,730	2.6%	32.5%

Headline inflation (CPI y/y %)



Source: Bloomberg, Rothschild & Co



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