

# Flash

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## 22 June 2020

### What happened?

- Amid fears of a resurgence in cases in some US states and in Beijing, equity markets held up and managed to post gains over the past week. The S&P500 was up ~1% and the Stoxx50 up ~4%. This morning, futures are mixed.
- We believe that fears of a second wave are overblown as in any cases this is still a first wave, as the jump in numbers has been localised and due to specific situations and because we do not believe renewed broad lockdowns are likely. We continue to watch hospitalisation to ensure any rise in cases is manageable for our healthcare systems but do not expect this to derail the nascent recovery.
- Economic data in the US showed additional signs of improvement in May, with a record jump in retail sales – even if year-over-year they remain negative – and industrial production up modestly. Homebuilder confidence rose as building permits jumped, suggesting the housing market should continue to improve. Sentiment indicators were also up in the US in May, and the German Zew index of growth expectations rose sharply. However, US initial jobless claims remained around 1.5 million and continuing claims above 20 million, showing the labour market could prove slower to recover.
- The Federal Reserve announced that it will buy individual corporate bonds and not just ETFs. While it doesn't change the math in the short term, it was received well by markets as, together with the Main Street Lending Program, purchases of corporate debt could be significant.
- Sovereign yields climbed at the start of the week before retreating again to end the week close to where they started it, with the US 10-year Treasury yield at 0.69% this morning and the German 10-year yields at -0.42%. Credit spreads tightened over the week thanks to central bank support, with US IG at 146bp, EU IG at 148bp, US HY at 578bp and EU HY at 519bp. Italian spreads over Germany continue to narrow, ending the week at 178bp.
- Oil prices recovered as inventories fell after the previous week's record, though they remain below recent highs. WTI climbed to USD39 per barrel and Brent to USD42 per barrel. Gold rallied into the weekend and early this morning, rising to USD1751, while the US dollar recovered later in the week.
- We continue to believe that the downside had become more limited given a still-bearish consensus, high cash levels, and a broadening rally. Nonetheless, corrections and periods of consolidation are likely and we are not becoming too aggressive in our portfolios for now. We look to build longer-term positions over the coming months.

### What we are watching

- We look at high frequency data to see if reopening is translating into re-growing. And we keep an eye on deaths and intensive care unit cases to ensure the virus remains contained as we gradually reopen. In Europe in Asia, so far so good.
- We continue to watch for bankruptcies and defaults, though the Fed in particular is doing everything in its power – and beyond – to limit risks of contagion.
- We will look at earnings estimates as they continue to be revised down. After a sharp drop in earnings in Q1, expectations for Q2 are even worse and could weigh on sentiment.
- We keep an eye on credit and funding markets to see if massive central bank measures, both in the US and Europe, help ease the recent stress. For now, we believe that central banks will succeed in keeping systemic risks low to prevent a credit crisis.

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