

Flash

By Esty Dwek, Head of Global Market Strategy, Natixis Investment Managers Solutions

25 May 2020

What happened?

- Equity markets eased into the end of the week, though they just managed a performance in the green on Friday, ahead of the long weekend in the US and the UK. The S&P500 was up 0.24% while the Stoxx50 was up 0.02%, as rising US-China tensions weigh on sentiment. In addition, plans by Beijing to tighten China's grip on Hong Kong with its Security Law led to widespread protests and opposition, and weighed on markets across the region. Flows continue to come out of equities, into bonds and, for the first time since February, just out of money markets.
- Sovereign yields fell throughout the end of the week, with the 10-year Treasury yield at 0.65% and the 10-year Bund yield at -0.49%. Credit spreads were flat, with US IG at 186bp, EU IG at 188bp, US HY at 680bp and EU HY at 637bp. Spreads between Italian and German debt remain stable around 210bp since the Franco-German Recovery Fund proposal. Oil prices have also stabilised, with WTI at USD33 per barrel and Brent at USD35 per barrel. Gold prices retreated to and the week at USD1730 per ounce, and the US dollar is finding some support this morning after softness last week.
- Flash PMIs for May showed a rebound, though the surveys remain well below 50, indicating a slower level of decline rather than a return into expansion territory. The US bounced more than Europe. US initial jobless claims showed another 2.4 million new jobseekers, and 25 million continuing claimants. UK retail sales were down 15.2% month-on-month in April. And China announced it was abandoning a growth target for this year given the uncertainty surrounding the pandemic. Flash inflation data for Europe is coming this week, as well as US consumer spending and German retail sales for April.
- Talk of negative interest rates continue, with the UK 'contemplating' the move, even as Federal Reserve members and Chairman Powell have taken a much stronger "not happening" stance.
- In earnings, Nvidia gave a revenue forecast for Q2 in line with expectations, bringing a boost to the sector, especially as HP revenue dropped 16% for this quarter last year and the company announced a cost-cutting plan and IBM announced job cuts across the US. Expedia revenue dropped 15% and Footlocker posted a bigger-than-expected quarterly loss.
- Investors remain caught between better virus news and stimulus versus the earnings and economic reality, as well as rising China-US tensions. Sentiment has become more fragile compared to the optimism of April. Given the strength of the rebound so far, and the fact that expectations for a second leg down is consensus, we may not re-test the lows. Nonetheless, disappointment risk remains and we choose to remain prudent.

What we are watching

- We are looking at reopening plans across different regions, countries and industries, as the recovery cannot just be switched on. We look to see if the number of deaths remain contained with softer confinement measures to see if the path can be smooth. We also look to see if recent encouraging news on treatments materialises.
- We keep an eye on how stimulus is deployed to avoid waves of bankruptcies and defaults, and at how defaults can be ring-fenced if/when they happen. Indeed, it is still too early to tell if these measures will be enough to avoid second-round negative consequences from the outbreak, though the Fed in particular is doing everything in its power – and beyond – to limit these risks.
- We will look closely at earnings estimates as they are revised down. Markets may not be factoring enough adjustment yet, especially as valuations would not look as attractive with a much lower "E".
- 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.

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

Please read the prospectus and Key Investor Information carefully before investing, available, if registered in your jurisdiction, from Natixis Investment Managers' offices (im.natixis.com) and the following Paying Agents/Representatives: France: CACEIS Bank France, 1-3, Place Valhubert, 75013 Paris. Germany: Rheinland-Pfalz Bank, Große Bleiche 54-56, D-55098 Mainz. Italy: State Street Bank SpA, Via Ferrante Aporti, 10, 20125, Milano. Switzerland: RBC Investor Services Bank S.A., Esch-sur-Alzette, Zurich Branch, Bleicherweg 7, CH-8027 Zurich.

In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. **Italy:** Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via San Clemente 1, 20122 Milan, Italy. **Germany:** Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. **Netherlands:** Natixis Investment Managers, Netherlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. **Sweden:** Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 Str, Stockholm 111 35, Sweden. **Spain:** Natixis Investment Managers, Sucursal en España. Serrano n°90, 6th Floor, 28006 Madrid, Spain. **Belgium:** Natixis Investment Managers S.A., Belgian Branch, Louizalaan 120 Avenue Louise, 1000 Brussel/Bruxelles, Belgium.

In France: Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris. **In Switzerland:** Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich. **In the British Isles:** Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: in the United Kingdom: this material is intended to be communicated to and/or directed at investment professionals and professional investors only; in Ireland: this material is intended to be communicated to and/or directed at professional investors only; in Guernsey: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; in Jersey: this material is intended to be communicated to and/or directed at professional investors only; **in the Isle of Man:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008.

In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Office 23, Level 15, The Gate Building, East Wing, DIFC, PO Box 506752, Dubai, United Arab Emirates.

In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2018 FSC SICE No. 024, Tel. +886 2 8789 2788. **In Singapore:** Provided by Natixis Investment Managers Singapore (name registration no. 53102724D) to distributors and institutional investors for informational purposes only. Natixis Investment Managers Singapore is a division of Ostrum Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 5 Shenton Way, #2205 UIC Building, Singapore 068808. **In Hong Kong:** Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only. **In Australia:** Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only. **In New Zealand:** This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

In Latin America: Provided by Natixis Investment Managers S.A. **In Uruguay:** Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguay law 18,627. **In Colombia:** Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors. **In Mexico:** Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores). Any use of the expression or reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of the investment management subsidiaries of Natixis Investment Managers, which are also not authorized by or registered with the CNBV or any other Mexican authority to operate within Mexico as investment managers.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law. The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. Past performance information presented is not indicative of future performance. Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.

All amounts shown are expressed in USD unless otherwise indicated.

NATIXIS INVESTMENT MANAGERS

RCS Paris 453 952 681 - Capital : €178 251 690
43, avenue Pierre Mendès-France, 75013 Paris
www.im.natixis.com

NATIXIS INVESTMENT MANAGERS INTERNATIONAL

Limited company with a share capital of 51 371 060.28 euros
Trade register n° 329 450 738 Paris Authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009.
Registered office: 43, avenue Pierre Mendès-France - 75013 Paris
www.im.natixis.com