April 2020

Market Review

Global Market Strategy @ Natixis Investment Managers Solutions

Economic & Political news

Following the March sell-off, markets rebounded strongly in April, despite dismal economic data, as large fiscal and monetary stimulus helped lift sentiment. First quarter GDP growth releases showed the US declined at an annualised rate of 4.8% –its worst decline since 2008 – and the Eurozone an even worse drop of 3.8% QoQ (not annualised). France dropped 5.8% QoQ (technically entering into recession), Italy 4.7% QoQ and Spain 5.2% QoQ. Chinese growth dropped 6.8% YoY –its first ever decline since the series started in 1992. Economic data releases hit multi-year lows: US initial jobless claims totalled over 20 million over April; retail sales fell 8.7% in March and industrial production slipped 5.4%. Europe saw business confidence slump to 2009 levels, as Germany's Ifo and Gfk surveys posted their lowest levels on record. However, the country's ZEW Economic Sentiment index jumped in its largest monthly increase on record as investors started "to see a light at the end of a very long tunnel", even though they do not expect growth until late 2020. Chinese data suggests a very gradual recovery, as PMI surveys rebounded and the Urban Survey Unemployment rate decreased from 6.2% to 5.9%.

Policymakers around the globe continued to announce unprecedented support programs. The Federal Reserve, European Central Bank and Bank of Japan have all announced virtually unlimited bonds purchase programs. The Fed has also committed to buying IG and HY ("fallen angels") bonds as well as some corporate ETFs. Likewise, the ECB expanded the eligibility on collateral requirements to include HY securities and relaxed its country specific constraints on sovereign debt purchases to support those countries hardest hit by the virus. The Eurogroup launched an emergency support program of EUR540 billion and the European Council took steps towards setting up a recovery fund, though talks are ongoing. Congress passed phase 3.5 of its stimulus measures, bringing the total to nearly USD2.8 trillion in fiscal support.

Equities

Equity markets rebounded in April thanks to massive stimulus by central banks and governments. The S&P500 has recovered 31% since its initial 34% slump in March, and the Stoxx600 has bounced back 24%, in what many are referring to as a "bear market rally". Over the month, the S&P500 increased 11.8% and the NASDAQ increased 15.5%, both outperforming the MSCI World. Volatility retreated (to about 34) from March's extreme levels. Overall, developed markets (+11%) outperformed emerging markets (+9%) and growth stocks (+13%) outperformed value stocks (+9%). The Stoxx600 rose by 6.7%, the Dax by 9.3%, the CAC40 by 4% and the FTSE MIB by 3.8%. All major developed market equity indices were positive, the IBEX35 being worst performer with an increase of just 2.5%. The best sectors were Consumer Discretionary (+17%), Energy (+16.2%) and Materials (+13.8%). The worst performing sectors were Utilities (+3.2%), Consumer Staples (+6.1%) and Financials (+7.5%). Q1 earnings season has been mixed so far, even though lockdown measures only took place later in the quarter. Unsurprisingly, many companies are withdrawing their full year guidance and cutting, if not stopping, dividends.

Fixed Income

Sovereign bonds rallied, supported by significant balance sheet expansion by global central banks. For instance, the Fed's balance sheet increased by USD1.3 in April alone, and it currently amounts to USD6.6 trillion (32% of US GDP). In addition, all major central banks have introduced a myriad of facilities in order to enable a swift transmission throughout their economies. As central banks expanded the size and scope of their asset purchase programs, credit outperformed government bonds. US and EU IG spreads narrowed 59 and 52 bps respectively, and US and EU HY spreads narrowed 136 and 137 bps respectively. The US 10-year Treasury yield fell 3bps to 0.64%, German Bunds fell 12bps to -0.58%, French OATs fell 10bps to -0.11%, UK Gilts fell 13bps to 0.23%, while Italian BTPs increased 24bps to 1.76%.

Emerging Markets

Since lifting the Wuhan lockdown on 8 April, China has been trying to ramp up activity to pre-coronavirus levels. However, economic data indicates that this may be a slow process, as domestic demand remains weak and the Caixin Manufacturing PMI fell below 50 again after having rebounded from record lows. Moreover, the countries' balance of trade signals weak global demand and exports continued to fall in March as China's main buyers remained in lockdown. The People's Bank of China eased further, cutting 1-year loan prime rate, its key policy rate, for the second time this year, by 20 bps to 3.85%. More broadly, a number of emerging markets, many of which entered the crisis already burdened with high debt and deficit levels, now have to cope with the historic slump in oil prices. Nonetheless, emerging markets followed developed market higher in April, with the MCSI EM Index up 9.2%. The best performing emerging markets (in local currency) were the Argentinian Merval Index (+34.3%), the Thai SET Index (+16.9%) and the Pakistani KSE-100 Index (+16.7%).The worst performing emerging markets were the Russian MOEX Index (+5.7), the Malaysian FTSE (+4.9%) and the Jakarta Index (+ 4.3%).

FX & Commodities

The US dollar index was flat around 100 in April. However, we saw diverging performances across global currencies. USD strengthened 0.7% vs EUR, 1.4% vs GBP, 0.4% vs CHF, 5.6% vs TRY, 5.4% vs BRL and 3.7% vs ARS. Conversely, USD weakened 0.3% vs JPY, 0.3% vs CNY, 2.3% vs CLP, 6.2% vs AUD and 5.2% vs CLP. Gold hit USD1730 per ounce (+9.7%) – its highest level since 2012; but ended the month up 7%. OPEC+ reached a deal to cut oil production by 9.7mbd in May and June in order to offset the loss in demand of about 19mbd on average for the same period. However, as demand slumped on the global lockdown, May WTI contracts briefly dropped below zero (USD -37 per barrel) as storage concerns grew near the expiry date. Brent increased about USD3 dollars per barrel over the month (~11%) and WTI fell 8% over the month. Copper increased 5.7% and Coffee dropped -11.7%.

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