

# Market Review

Global Market Strategy @ Natixis Investment Managers Solutions

## Economic & Political news

February started with mixed data, stronger than expected in the US, weaker in the Eurozone and disappointing in Japan. The US labour market added 225K new jobs in January and the ISM Manufacturing PMI jumped back into expansionary territory. Q4 Eurozone growth was the slowest since the Global Financial Crisis (GFC). In addition, Germany's economic sentiment dropped sharply given the looming consequences on exports due to the outbreak. Japan's GDP shrank at an annualized 6.3% rate during Q4 following the VAT hike. Asian markets were the worst hit, however, markets rapidly recovered helped by a 10bps rate cut by the PBoC on its loan prime rate and by the expectation that the coronavirus would be contained within China. In this sense, factory shutdowns and city lockdowns were expected to be brief and investors were leaning towards a "V-shaped" market recovery. Meanwhile, US markets remained at high levels, shrugging off concerns about the virus, supported by better-than-expected US Q4 earnings season, which showed a 0.9% growth on earnings over the quarter year over year – the first positive figure since Q4 2018 (with 95% of the S&P500 having reported). The turning point came when the virus hit Italy and ten towns had to be quarantined, big events were cancelled and manufacturing was disrupted. Europe's consumer discretionary sector posted their worst performance since 9/11. Sovereign bonds rallied and the 10yr US Treasury yield hit record lows well under 1.2% as markets started to price in that central banks around the world would provide further monetary easing. Moreover, the UK and the EU published their respective directives for their trade negotiations and, US Democratic candidate Bernie Sanders took the lead during February, ahead from Joe Biden.

## Equities

During the first three weeks of February, equity markets continued to advance but turned hectic after the Italian outbreak on March 23, when developed markets collapsed. This led to the worst week for global stocks since GFC, the S&P500 fell more than 10% in a few days, in the markets' fastest correction ever, and the VIX spiked to 40 – its highest level since 2015. Overall, developed markets underperformed emerging markets. The EuroStoxx 600 declined 8.5%, the Dax fell 8.4%, the CAC40 lost over 8.6% and the FTSE MIB followed the continent's trend falling 5.4%. All major developed market equity indices were negative, the FTSE 100 being the worst performer with a 9.7% decline. The worst performing sectors were Energy (-14.6%), Materials (-10.1%) and Financials (-10.1%). The best sectors were Communication Services (-6.5%), Health Care (-7%) and Real Estate (-7.3%).

## Fixed Income

Sovereign bonds rallied, as investors sought safety. US 10yr Treasury yields plummeted 36bps to 1.14%, Bunds 17bps to -0.61% and Gilts 8bps to 0.44%. As the virus continued to weigh on the 2020 outlook major central banks speech turned more dovish, ceasing their "on hold" stance, and markets started to price several rate cuts throughout the year. More broadly, we saw similar moves across all major yield curves throughout the month – US 2s10s spread fell 7bps to 16bps, UK's slid 41bps to 13bps, Italy's spread, although volatile, ended the month unchanged at 114bps, while Germany's fell 7bps to 16bps and France's fell 17bps to 96bps.

## Emerging Markets

Emerging markets experienced a very rocky February, although the MCSI EM Index was up 4.5% at one point, it ended down 5.4%. The Chinese government quickly cut rates, injecting liquidity, granting VAT waivers and social contributions to ease financial conditions especially for smaller companies. China's official manufacturing PMI fell to a record low of 35.7 (from 50 in January), well below its GFC level. However, the official services PMI came at 29.6 (from 54.1 in

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January). The best performing emerging markets in February were the Chinese CSI 300 Index (+6.8%), the Shanghai's SE Composite (4.9%) and the Indian Sensex Index (-6%). The worst performing emerging markets were the Argentinian Merval Index (-12.8%), and the Turkish Bist 100 Index (-11%) and the Chilean Ipsa Index (-9.8%). It is interesting to point out that the MSCI EM ex Asia Index was also significantly dragged down by the global de-risking process (-12.2%).

## FX & Commodities

The US dollar spot index increased 0.76%, strengthening almost against every other currency: 0.6% vs EUR, 2.9% vs GBP, 2.6% vs the AUD, 2.5% vs CLP and 4.4% vs the BRL. The Japanese yen also strengthened on safe haven demand and the Chinese yuan bounced around 7RMB per US dollars. As US Treasury yields dropped, concerned investors also jumped into gold pushing prices all the up to 1660 US dollars per ounce – its highest level since 2013. Adding to this situation the current oil supply glut and the disagreement among OPEC+ countries to commit to further production cuts, oil prices sold off: both Brent and WTI fell 13.1%.

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