

Morning Meeting

24 March 2020

	Index	+/-	% change
FTSE 100	4993.9	-196.9	-3.8
FTSE All-Share	2727.9	-109.2	-3.8
DJ Industrial Average	18591.9	-582.0	-3.0
S&P 500	2237.4	-67.5	-2.9
NASDAQ Composite Index	6860.7	-18.8	-0.3
Nikkei Japan 1000 Index	1535.5	9.5	0.6
Hang Seng Index	21696.1	-1108.9	-4.9
EURO STOXX 50 (EUR)	2485.5	-63.0	-2.5
Switzerland SMI (PR)	8160.8	-463.1	-5.4
France CAC 40	3914.3	-134.5	-3.3
Germany DAX (TR)	8741.2	-187.8	-2.1

Matrix Winners	Price	+/-	% change
Kingfisher Plc	143.4	17.3	13.7
Royal Dutch Shell Plc Class A	1127.4	65.2	6.1
Genus plc	2856.0	162.0	6.0
Renishaw plc	2548.0	120.0	4.9
Hunting PLC	180.0	7.2	4.2

Matrix Losers	Price	+/-	% change
Micro Focus International plc	329.0	-92.8	-22.0
Hammerson plc	82.2	-20.78	-20.2
Hargreaves Lansdown plc	1158.0	-238.5	-17.1
Marks and Spencer Group plc	91.7	-16.1	-14.9
easyJet plc	521.4	-78.6	-13.1

Stocks Hitting Relative High
Sophos Group Plc
AstraZeneca PLC
Dechra Pharmaceuticals PLC
Fresnillo PLC
HSBC Holdings Plc
London Stock Exchange Group plc
-
-
-
-
-

Currencies		+/-	12 month range	
£:\$	1.149	-0.03	1.15	1.33
Y:\$	111.355	0.01	102.55	112.09
E:£	1.068	-0.03	1.07	1.20
E:\$	1.076	0.01	1.07	1.14
10 Yr Bond	Yld %	+/-	-3 months	-12 months
UK	0.42	-0.12	0.77	1.06
US	0.76	-0.20	1.93	2.45
Germany	-0.38	-0.07	-0.24	-0.01
	Price (p)	+/-	12 month range	
Investec plc	128.8	-9.85	128.8	518.6

Sector Winners	% change	Mkt Wt
FTSE All-Share / Leisure Goods - SEC	6.7	0.1
FTSE All-Share / Oil & Gas Producers - SEC	3.72	9.0
FTSE All-Share / Technology Hardware & Equipment - SEC	3.46	9.0
FTSE All-Share / Mobile Telecommunications - SEC	-2.0	2.0
FTSE All-Share / Construction & Materials - SEC	-2.1	1.3

Sector Losers	% change	Mkt Wt
FTSE All-Share / Electronic & Electrical Equipment - SEC	-8.7	0.8
FTSE All-Share / Beverages - SEC	-8.3	3.7
FTSE All-Share / Gas, Water & Multiutilities - SEC	-8.2	2.9
FTSE All-Share / Industrial Metals & Mining - SEC	-7.4	0.1
FTSE All-Share / Oil Equipment, Services & Distribution - SEC	-7.1	0.1

Stocks Hitting Relative Low
Ascential Plc
Aviva plc
Burberry Group plc
Glencore plc
Hammerson plc
Legal & General Group Plc
Lloyds Banking Group plc
Melrose Industries PLC
Rolls-Royce Holdings plc
RSA Insurance Group plc
Weir Group PLC

- Good morning and welcome to “Lockdown UK”. Although the UK is by no means the first country to impose such strong restrictions on movement, it certainly helps to reinforce the sense that we are living through an extraordinary period of history.
- Financial markets, though, remain open for business, despite some concerns circulating yesterday that the UK stock market was about to be closed. This emanated from speculative (scare-mongering?) articles in the Sunday Times and Times newspapers, and was related to the FCA’s request to companies to hold back the reporting of preliminary results. We believe that the FCA is only trying to manage the tide of news during a logistically difficult period and has no intention of halting trading. In fact, halting trading would send out the worst possible signals about the health of the economy and financial systems.
- In terms of yesterday’s news highlights, the undoubted main event was the US Federal Reserve’s early announcement of an effectively unlimited Quantitative Easing programme for Treasuries, with new facilities for the purchase of new bonds and loans as well as a first venture into the secondary market for corporate credit. This was initially well received, but the good work was undone by the fact that Congress continued to stall on approving a package of support for the economy. The proposals range as high as \$2.5 trillion dollars, and would be extremely welcome in light of the extreme slowdown that we are about to witness. The Democrats are said to be holding out for more funds to support the unemployed as well as more generous healthcare provisions. They also want tighter conditions imposed on companies that are offered some sort of financial support, especially in the Airline and Energy sectors. We continue to believe that, as with TARP in 2008, both sides will shortly reach an agreement for the greater good of the economy.
- If one is struggling to explain the interaction between central bank and government stimulus, one might think of it as follows. Central banks provide the oil to the engine that allows it to function smoothly. It is governments’ job to fill the petrol tank. Without the petrol the engine won’t start at all. Without the oil it will seize up. We need both in liberal amounts right now.
- Markets in Asia are certainly taking the view that sufficient stimulus will be applied, with gains across the board overnight. Australia, Hong Kong and India were all up in the 4-5% range. China was a laggard, rising around 2%, but Japan led the pack with the Nikkei rising 7.1%. The latter was bolstered by news of asset sales by Softbank, which relieves some the financial pressure on the company. Korea also responded positively to a new government stimulus package.
- Further good news was delivered when Chinese authorities announced that Hubei province and the city of Wuhan would see a rolling back of lockdown on 8th April. Remember that Wuhan’s lockdown began on January 23rd, so we are talking a total of 76 days. If today is T+0 for the UK, that would take us to June 8th. Just a thought...
- European markets are following the positive trend this morning, pretty much reversing yesterday’s falls of around 4%, with a similar outlook for US equity markets.
- We are still early in the cycle for accurate economic data, and so initially relying on PMI surveys, of which several are due out today. Already we have seen data from Japan and Australia, both of which reported sharp drops in the Services indices, to 32.7 (from 46.8) and 39.8 (from 49.0) respectively, while Manufacturing held up at better at 44.8 (vs 47.8) and 50.1 (vs 50.2). More big falls to come in these series.

UK PMI Data – Comment from Capital Economics

- “The plunge in the composite PMI, from 53.0 in February to 37.1 in March, left it at its lowest level since the index started in 1998 (the previous low was 38.1 recorded in November 2008). The weakness was predominantly in the services sector, where the PMI fell from 53.2 to 35.7. The manufacturing sector has been less affected so far, with the sector’s PMI only falling from 51.7 to 48.0. For what it’s worth, the average of the PMI survey in Q1 suggests GDP growth was -0.4% q/q. But the March reading is consistent with quarterly GDP of up to minus 2%.”

Euro Area PMI data just out – comment from Investec Bank

- “March’s Composite PMI collapsed from 51.6 to a record low 31.4 in March in the face of disruptions from the COVID-19 crisis. As seen in the French and German PMIs released earlier this morning the service sector was the worst hit, with euro area activity in the sector falling a mammoth 24.2pts to 28.4. Manufacturing held up slightly better falling to 44.8 from 49.2 in February, although the output index fell more considerably to 39.5. The detail of the report was equally gloomy with new business falling at the fastest rate on record and expectations of future output also falling to an all-time low. Today’s release marks the first piece of economic data covering March, with the initial figures pointing to an economic shock comparable or even in excess of the 2008/09 financial crisis. Markit suggests that March’s figure is equivalent to a 2% (q/q) fall in Q1 GDP.”
- Deutsche Bank runs a series in which it maps equity market performance year-on-year vs Manufacturing PMI data. While stressing that the exercise is as much art as science, it might help to provide some idea of where equity markets could bottom out, at least in trend terms. (The uncertainty is increased by the fact that Services, the dominant element of most economies, will be impacted far more in this downturn, and also by the fact that the trough is likely to be short and sharp).

Figure 1: YoY Equity Performance given various drops in global PMI levels

	Actual Equity Implied PMI	YoY Equity Performance	Regressed Equity Performance for given PMI level			
			25	30	35	40
US ISM	41.6	-18%	-57%	-45%	-34%	-22%
US MKIT	43.5	-18%	-72%	-57%	-43%	-28%
Eurozone	41.7	-25%	-75%	-60%	-45%	-30%
Germany	39.7	-23%	-60%	-48%	-35%	-22%
France	40.8	-25%	-70%	-55%	-41%	-27%
Italy	41.8	-26%	-77%	-62%	-47%	-32%
UK	34.7	-29%	-47%	-38%	-28%	-19%
Japan	42.6	-23%	-85%	-67%	-50%	-32%

Source : Deutsche Bank, Haver, Bloomberg Finance L.P.

Figure 1 shows that as of Friday night's close, equity markets are generally pricing in PMIs in the high 30s/low 40s. If we see PMIs at 25, equity markets on average have around -30 to -50% to fall from here to be broadly in line with the historical regression. At 30, this reduces to -20% to -40% and, at 35, we have -20% to -10% left to fall, though some markets like the UK are already priced to that level. We should note that these aren't predictions relative to where tomorrow's numbers print, but are a basic analytical framework to base views around.

Source: Deutsche Bank

- Finally, please note the strong performance of Gold, up 5% yesterday and another 3.5% overnight. Now at \$1,621 vs below \$1,500 when we went home for the weekend. It would seem that liquidity-related selling has abated for now, and also that investors are appreciating the safe haven status of gold as a real asset in times of debt monetisation, which is where we are headed. Furthermore, signs that the \$ is peaking out following the Fed’s intervention in Repo markets, and also a rise in US inflation breakevens are also helping Gold. It’s worth looking at what happened to Gold in 2008. It performed well during the first wave of the financial crisis before being caught up in the rush for liquidity surrounding the bankruptcy of Lehman Brothers. It then rallied into the year-end before embarking on a strong 3-year bull run.

Events Calendar

Date	Company	Event
23-Mar-20	Medica Group Plc	Q4 2019 Earnings Release
24-Mar-20	Kingfisher plc	Q4 2020 Earnings Release
24-Mar-20	NIKE, Inc.	Q3 2020 Earnings Release
25-Mar-20	United Utilities Group Plc	Q4 2020 Sales and Revenue Release - Trading Update
30-Mar-20	Pennon Group Plc	Q3 2020 Sales and Revenue Release - Trading Statement
31-Mar-20	Keywords Studios Plc	Q4 2019 Earnings Release
31-Mar-20	Smiths Group Plc	Q2 2020 Earnings Release
08-Apr-20	Dunelm Group Plc	Q3 2020 Sales and Revenue Release - Trading Update
08-Apr-20	Tesco Plc	Q4 2020 Earnings Release
08-Apr-20	Costco Wholesale Corp.	March 2020 Sales and Revenue Release
14 April 2020	Wells Fargo & Co.	Q1 2020 Earnings Release
14 April 2020	Johnson & Johnson	Q1 2020 Earnings Release
14 April 2020	JPMorgan Chase & Co.	Q1 2020 Earnings Release
15 April 2020	ASML Holding NV	Q1 2020 Earnings Release
15 April 2020	The Charles Schwab Corp.	Q1 2020 Earnings Release
15 April 2020	UnitedHealth Group, Inc.	Q1 2020 Earnings Release
15 April 2020	The PNC Financial Services Group, Inc.	Q1 2020 Earnings Release
15 April 2020	U.S. Bancorp	Q1 2020 Earnings Release
15 April 2020	Citigroup, Inc.	Q1 2020 Earnings Release
16 April 2020	Hays plc	Q3 2020 Sales and Revenue Release - Trading Update
16 April 2020	Philip Morris International, Inc.	Q1 2020 Earnings Release
16 April 2020	L'Or (R)al SA	Q1 2020 Sales and Revenue Release
16 April 2020	Intuitive Surgical, Inc.	Q1 2020 Earnings Release
16 April 2020	Rio Tinto Plc	Q1 2020 Sales and Revenue Release - Operational Review
17 April 2020	Schlumberger NV	Q1 2020 Earnings Release

	Monday 23rd March	Tuesday 24th March	Wednesday 25th March	Thursday 26th March	Friday 27th March
UK		CIPS Manufacturing PMI SA (Preliminary) CBI Industrial Trends Total Orders NSA M/M	CPI Core NSA Y/Y CPI EU Harmonized NSA Y/Y PPI Output NSA Y/Y CBI Distributive Trades Survey Realized NSA	Retail Sales SA Y/Y BoE Official Bank Rate Bank of England Interest Rate Announcement, MPC Minutes Publication and Inflation Report	
US		Markit PMI Manufacturing SA (Preliminary) Markit PMI Services SA (Preliminary) New Home Sales SAAR	Durable Orders SA M/M (Preliminary) FHFA Home Price Index	GDP Chain Price SAAR Q/Q (Final) GDP SAAR Q/Q (Final) Initial Claims SA Wholesale Inventories SA M/M (Preliminary)	Personal Consumption Expenditure SA M/M Personal Income SA M/M Michigan Sentiment NSA (Final)
RoW	EU - Consumer Confidence Indicator (Flash)	EU - Markit PMI Composite SA (Preliminary) EU - Markit PMI Manufacturing SA (Preliminary) EU - Markit PMI Services SA (Preliminary)		EU - M3 SA Y/Y	

Central Bank Meetings

Bank of England

26th March 2020

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