

# Brooks Macdonald – Daily Investment Bulletin 01/04/2020

## What has happened

US markets dipped yesterday, causing a poor start to the European session today, closing out a volatile first quarter for equities. Risk appetite was impacted by the coordinated announcement by British banks that they would suspend their dividends following conversations with the UK banking regulator. Overnight the Caixin PMI was published showing better than expected stabilisation in China, backing up the official figures. The broader Asia region trailed China reflecting the economic lag to other countries as China restarts economic activity in earnest.

## Fiscal stimulus 2.0

Donald Trump's warning of a difficult few weeks ahead set the tone for a weaker end to US markets as the US's top public health official pointed to new projections of 200,000 US deaths during the outbreak. Alongside this the US president also suggested that a large infrastructure bill could progress to Congress. Large scale infrastructure spending may be supported by Congressional Democrats but it may prove too much for Republicans already worried by the size of last week's package. If we were to see a phase four bill come to fruition so soon after last week's stimulus this will undoubtedly help sentiment. Japan's ruling party has proposed a \$555bn package to help combat the economic impact of coronavirus on citizens and businesses. The stimulus would represent 10% of GDP and a sizeable increase in the scale of support from an economy already accustomed to blockbuster stimulus over the last decade.

## The Federal Reserve continues to provide support

The Federal Reserve announced that it would establish a temporary repurchase agreement facility for foreign and international monetary authorities yesterday. This will help ease the dollar shortage that we have seen over the last few weeks and represents the central bank's eagerness to support the wider global financial system. Post the financial crisis there was criticism that the Fed was using US taxpayer funds to support non-US markets however financial stability appears to be winning the argument again in the current crisis. This facility will allow foreign central banks to deposit Treasuries with the Fed in return for dollars that they can use in their domestic financial system

## What does Brooks Macdonald think

It looks likely that the lockdown in some of Europe's worst affected countries will last until the middle of May which suggests a timescale of the end of May for some restrictions being lifted in the UK. We are likely to enter a Dark Age shortly where we have little incoming information as companies defer issuing earnings and dire economic data is looked through given how poor expectations are. Markets are therefore more likely to be exposed to comments such as those from Donald Trump yesterday. Should we see European nations continue to move towards removal of the lockdown, markets can start to extrapolate an end to restrictions more globally which is a key question for earnings. If we do see further fiscal support from the US and Japan we expect markets to become more patient and volatility to continue to fall.