



Weekly Bulletin: Market optimism despite stark economic data

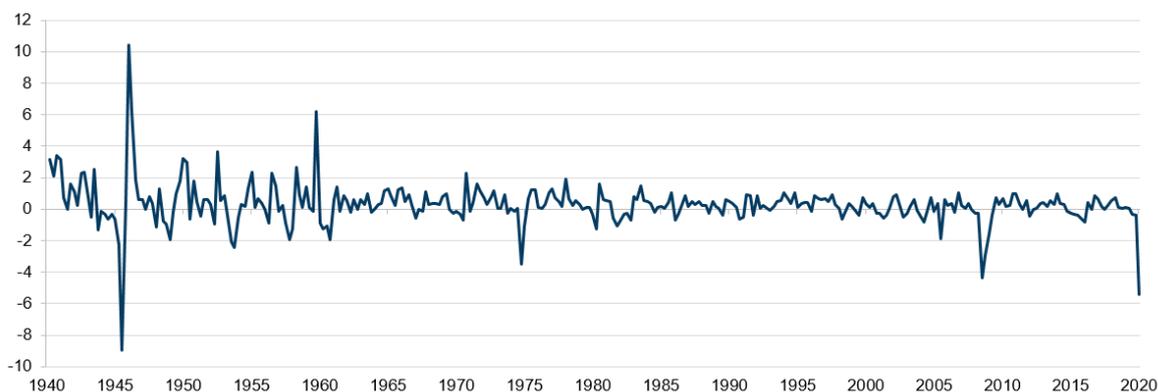
Another positive week for financial markets, and the second consecutive week for global share price gains. This came in spite of sobering economic data from around the world, confirming the impact of the ongoing crisis. In 'locked down' nations, thoughts are increasingly fixated on the prospect of an exit from these conditions.

- Despite still rising new cases of COVID-19 (or coronavirus), talk across the globe is increasingly turning to 'exit strategies' from lockdown conditions. In the US, President Trump is pressurising states to reopen for business as soon as possible, though state Governors are more cautious. In the UK, where confirmed new cases remain on the rise, lockdown has been extended for a further three weeks, but economies in other parts of Europe have begun the process of reopening. The eyes of the world will be watching these nations, looking for any signs of a 'second wave' of the outbreak as social and business activity picks up.
- Last week also provided some of the first real data showing the economic impact of COVID-19. In China, economic growth in the first three months of the year was at its lowest since records began, falling from +6% in the final quarter of 2019 to -7% in the first quarter of 2020. In the US, factory output in March fell close to historical lows (see our 'chart of the week' below), and retail clothing sales dropped sharply.
- The corporate reporting season covering the first quarter of the year is well underway, and so far, the earnings growth reported by businesses is (understandably) markedly lower. Financial companies have been particularly hard hit, with uncertainty in the banking sector around how many customer loans will need to be written off.
- Despite stark economic statistics and earnings reports, financial markets had a buoyant week, perhaps bolstered by the ongoing efforts of governments and central banks to mitigate the impact of the COVID-19 crisis. The levels of liquidity injected into the financial system by global policymakers in recent weeks has dwarfed the reaction to the global financial crisis in 2008, with support levels likely to outlast the outbreak itself.

Chart of the week

- The recent drop in US factory output is second only to 1946, when most factories closed to retool for a civilian (rather than military) economy.

Output in the US manufacturing sector has dropped dramatically
US industrial production, month-on-month (% change)



Source: Bloomberg

What to look out for this week

- Brexit talks are set to resume, with an open conference line between London and Brussels throughout the week.
- On Thursday, EU leaders will meet via video conferencing, in order to discuss the potential for jointly issued bonds in the near future. The summit will likely also cover how the region could help the embattled Italian nation, which has suffered a long period of crisis under COVID-19.
- Also on Thursday, the weekly figure for new jobless claims made in the US will provide more colour on the immediate impact of COVID-19 on US employment.

	Index Levels	Last Week	Month-to-date	Year-to-date
Equity				
MSCI United Kingdom	1,646.3	-0.9%	1.4%	-22.9%
MSCI United Kingdom Mid Cap	949.9	-1.4%	4.1%	-27.9%
MSCI United Kingdom Small Cap	323.6	-3.1%	5.3%	-28.6%
MSCI World (GBP)	1,556.5	2.1%	8.1%	-8.7%
S&P 500 (GBP)	2,874.6	2.8%	10.4%	-5.2%
MSCI Japan (GBP)	874.9	2.5%	2.8%	-8.4%
MSCI Europe ex-UK (GBP)	1,175.3	0.0%	2.7%	-15.1%
MSCI Pacific ex-Japan (GBP)	1,386.6	1.7%	8.7%	-15.9%
MSCI Emerging Markets (GBP)	52,701.4	1.3%	5.4%	-13.9%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,424.5	-0.1%	1.9%	8.8%
BoA Merrill Lynch Index-Linked Gilts	599.0	-0.2%	4.1%	5.9%
BoA Merrill Lynch £ Corporate	442.3	0.9%	4.5%	-0.3%
Commodities				
Oil (West Texas Intermediate, GBP)	\$18.1	-21.1%	-12.4%	-68.6%
Gold (GBP)	\$1692.6	0.4%	4.3%	18.4%
S&P / GSCI (GBP)	1,480.9	-5.3%	-1.7%	-39.5%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.

