

The Noise, the Numbers & the Nuance

Weekly Market Update | 24 April 2020

Welcome to our weekly newsletter, where we summarise the key market developments over the last seven days.



The Noise

- The price of oil moved negative on Monday for the first time in history. The price of a barrel of West Texas Intermediate (WTI), the benchmark for US oil, fell as low as minus \$37.63 a barrel. The severe drop was largely driven by a technicality of the global oil market, explained in the Nuance section below.
- The UK government have announced that the adoption of a large-scale contact tracing strategy will be a key step forward in allowing it to relax the most extreme social-distancing measures and hopefully a move towards ending the lockdown. In the press release, Health Secretary Matt Hancock also declared that all essential workers and their households are now eligible for Coronavirus tests.
- The US House of Representatives passed a nearly \$500bn Coronavirus relief package yesterday, pushing the total spending to address the crisis up to nearly \$3tn. The relief bill was passed almost unanimously and will be used primarily to fund small businesses and hospitals.



The Numbers

GBP Performance to 23/04/20	1 Week	YTD
Equity GBP Total Return (MSCI)		
UK (MSCI UK)	3.7%	-22.1%
Europe (MSCI Europe)	3.0%	-16.7%
US (MSCI USA)	0.7%	-6.6%
Japan (MSCI Japan)	0.8%	-8.9%
Emerging Markets (MSCI Emerging)	1.5%	-13.7%
Fixed Income GBP Total Return		
UK Government (Barclays Sterling Gilts Index)	0.8%	9.8%
Investment Grade Hedged (Barclays Global Aggregate Corporate Bond Index)	0.1%	-0.5%
High Yield Bonds Hedged (Barclays Global High Yield Index)	-1.0%	-12.2%
Currency moves		
GBP vs USD	-0.9%	-6.9%
GBP vs EUR	-0.3%	-3.1%
GBP vs JPY	-1.2%	-7.8%
Commodities GBP return		
Gold (in £)	1.6%	22.5%
Oil (in \$)	-35.0%	-70.2%

Source: Bloomberg, data as at 23/04/2020



The Nuance

So why did the price of oil go negative and what does that mean? When investors “buy oil”, they are actually buying obligations (called futures) to purchase oil at a price agreed today but to be delivered on a specific date in the future. When many of these contracts were due to expire on Tuesday, traders found they weren’t able to sell them as they usually would, due to the large supply glut caused by a severe drop in recent demand. As such, traders were so desperate to avoid the oil turning up on their doorsteps that they were paying to have the contracts taken away from them.

In equity markets, we’re starting to see some return to normality. In the initial phase of this crisis, stock prices dropped in synchrony as panic swept through markets. Investors sold assets without much bias towards particular sectors or companies; everyone was a loser. Company reporting is now picking up again – they’ve had time to analyse their businesses and have begun to update markets on exactly how they’ve been affected. This is allowing the market to differentiate between winners and losers.

As investors learn how well positioned various companies are relative to one another, portfolios are starting to behave more like portfolios; when the market moves, some companies move with it and others against it. Without a crystal ball, we can’t be sure what these market movements may look like in the coming weeks. However, as the disparity in performance widens, stock selection is becoming vital and having winners rather than losers in portfolios becomes a necessity.

Our diligent focus on stock selection is invaluable in such times. We trimmed Johnson & Johnson this week as we are wary that its price has performed extremely strongly given the short term earnings revision it will undoubtedly have experienced. We also sold Lloyds Banking Group this week; as the banking system has stepped in to lend money to struggling companies, one question we still don’t know the answer to is: how many of these loans will be repaid? By concentrating client assets in strong companies whose valuations have room to grow, we are filling portfolios with winners and sifting out the losers.



Quote of the week

“I’m not a doctor. But I’m, like, a person that has a good you-know-what.” President Donald Trump.

This was Trump’s justification for suggesting research into whether Coronavirus might be treated by injecting disinfectant directly into the body. During Thursday’s White House Coronavirus task force briefing, he also proposed irradiating patients’ bodies with UV light. These comments came very shortly after one of his officials had said moments earlier that sunlight and disinfectant were known to kill the virus... *outside* the body. Trump said “I see the disinfectant where it knocks it out in a minute. One minute. And is there a way we can do something like that, by injection inside or almost a cleaning?” If you’re wondering whether there is anything to these suggestions, one doctor said “it’s a totally ridiculous concept”. So probably not.

Source: bbc.co.uk

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