Markets in a Minute

5 May 2020

Global shares had their best month in nearly a decade in April, led by the US where the S&P500 rebounded

- **The FTSE100 index gained a healthy 4% in April; its second-best month in 10 years.**
- **The S&P gained 12.7% in April, its best performance since 1987.**
- **The tech-heavy Nasdaq rose 15.5% in April, its best month since 2000.**
- **Japan's Nikkei rose by 6.7%, its best month since 2017.**
- **The MSCI World Index rose by 10.8% its best month since the index was created in 1986.**

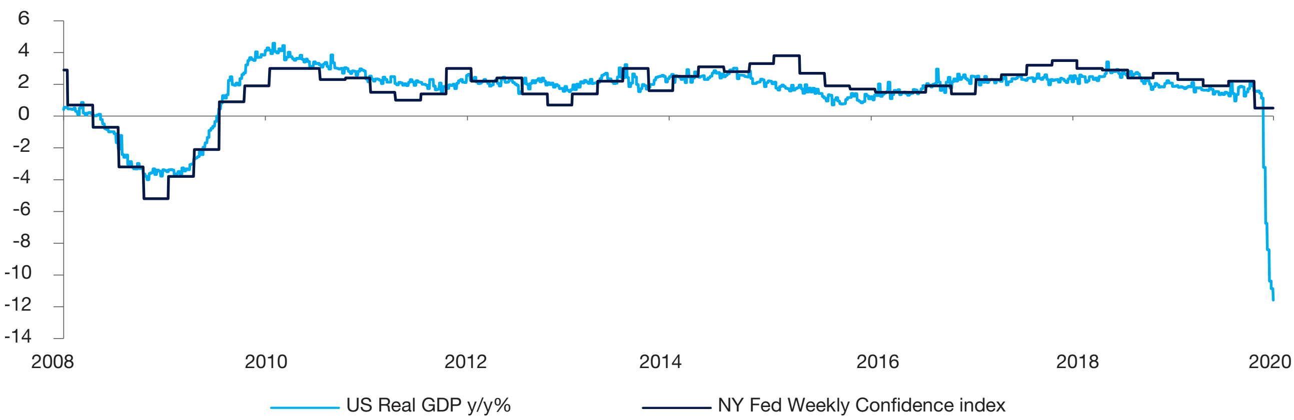
The rebound was driven by a combination of expanding stimulus programmes, hopes of progress on vaccines and therapeutics, and news of economies easing their lockdowns. Gilead Science's drug Remdesivir was given fast-track approval in the US and will be given to patients as early as this week.

Brace for some shock

While April's rally reflected investors' optimism, the falls late last week and yesterday showed that sentiment is still delicate. History also tells us that markets rarely recover in a straight line. It is more common for shares to rebound after a crash, then fall back again to retest their lows, before embarking on a more sustained recovery.

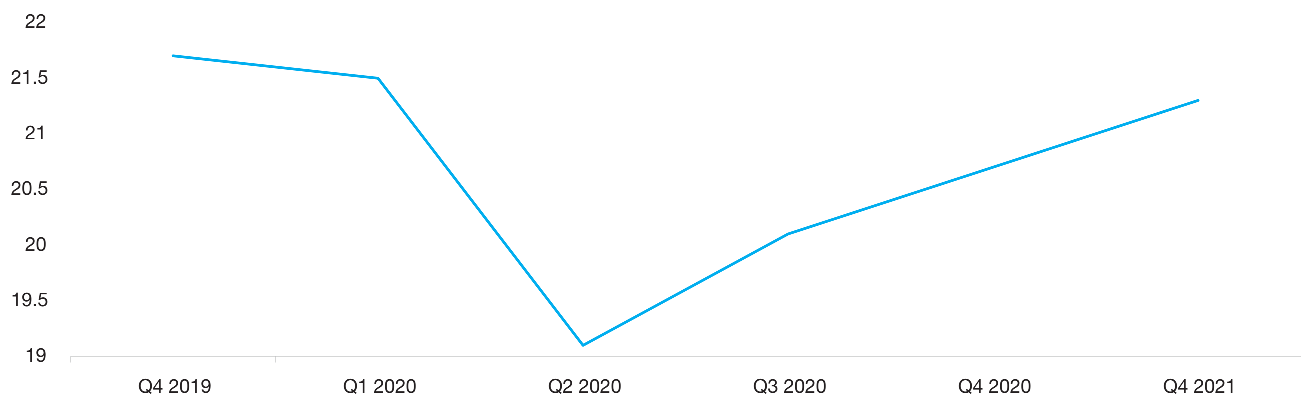
This time it's the same

The next couple of months could be a bumpy ride for investors. We think the second quarter will see a nadir in economic data and it will be grim. It will reflect the full impact of the lockdowns on economic activity. We compiled the chart below using all weekly data making it one of the only up-to-date economic indicators. Now, bear in mind that the convention is to show quarterly changes in US GDP on an annualised basis, meaning the slump in the second quarter will be measured against the second quarter of 2019 when economic activity was relatively robust. That means the data is likely to show that the US economy shrank by 40% or more. Even though we can see it coming it may still test investors' nerves.



Source: Refinitiv Datastream

US Real GDP (trillion USD)



Source: CBO April 24 2020

Nobody disputes the severity of the decline in economic activity. What matters more now is when and how fast the recovery comes. Commonly this is expressed in terms such as V-shaped, U-shaped or even L-shaped. This representation of the path of US real GDP from the US Congressional Budget Office is a reasonable reflection of what most forecasters expect. It shows a sharp recovery in the second half of 2020, followed by a slower recovery during 2021 without quite recapturing the previous level of output.

Trump back on tariffs

There are numerous risks that make this chart look overly optimistic. A second wave of infections and consequent lockdown is perhaps the most worrying. But the last couple of days has seen old concerns come back to the fore. President Trump has raised the prospect of new tariffs on China as "punishment" for its role in the Covid pandemic. His comments last Friday sent markets down around the world.

Friday falls as Trump threatens China

S&P500: -2.8%

Nikkei: -2.84%

FTSE100: -2.34%

Euro Stoxx 600: - 0.8%

Trump is planning for the forthcoming US election and a Gallup poll at the end of April showed his approval rating for his handling of the Covid crisis dropped by 10 percentage points. He may see the distraction of a trade war and ability to blame China for America's woes as his best hope for re-election. Against that, his desire for the stock market to perform well might temper his appetite for further economic damage.

Brexit bites

The weekend media was full of reports about the lack of progress in Brexit negotiations and the prospect of a no-deal departure at the end of the year. The government has so far refused to extend the deadline for securing a Brexit deal beyond the end of 2020. Indeed, in February, the UK government said it could walk away from the talks as early as June unless sufficient progress had been made. It's difficult to imagine walking away next month given the distraction of the pandemic, and Johnson's own two-week stay in hospital. But as we look towards an easing of the lockdown in the UK, concerns will inevitably shift towards Brexit and will represent yet another headwind, for UK shares in particular.