BROOKS MACDONALD

COVID-19: Weekly Round-Up

27 April - 1 May 2020

IN BRIEF

- Global equities close out April with the best monthly performance in decades, as markets look beyond the near-term corporate and economic news flow.
- As lock-down exit plans from Italy and others give encouragement, Eurozone tensions re-emerge, as European Central Bank disappoints markets' hopes for additional stimulus,
- Risk appetite is buoyed on both sides of the Atlantic as US drug company Gilead Sciences announces positive success in the early trials of Remdesivir.

OUR VIEW

Monday

Risk sentiment ended last week on a more positive note. The decision by the credit rating agency S&P to keep Italy's investment grade credit rating static and not downgrade the coronavirus-stricken economy gave some much needed breathing room to European assets and boosted US equities late in the session. This decision undoubtedly aided risk sentiment, however, it put EU and Eurozone leaders under less pressure to coordinate support which may be a more substantial negative in the longer term.

Tuesday

Global equities rallied on Monday despite relatively little corporate or economic news flow. The focus was on expectations that US states could reopen sooner rather than later as well as a recognition that many major European economies, such as France and Spain, start to lay out their strategies for a staggered return to work. West Texas Intermediate (WTI) Oil slumped on Monday highlighting that the supply and demand imbalances that laid the ground for last week's volatility had not been removed. However, despite the oil price volatility, markets were content to concentrate on the overall path of lockdown easing rather than the continued supply/demand imbalances in WTI Oil.

Wednesday

European markets performed strongly yesterday as more and more countries, including France, unveiled their plans to reopen their economies. The US market was unable to hold on to these gains however, and indices slipped ahead of the close as mixed earnings weighed on investor risk appetite. As more companies report Q1 earnings, weaker results from Ford was balanced by better numbers from Alphabet (Google). The continued relative stronger performance of Technology supports the sector as one of our two preferred themes, alongside healthcare.

Thursday

Risk appetite was buoyed on both sides of the Atlantic yesterday as Gilead Sciences announced positive success in the early trials of Remdesivir. A sign that drugs can have some effect on coronavirus is undoubtedly helping the market push higher. Turning to central banks, the US Federal Reserve (Fed) also confirmed that it would keep interest rates at the zero bound until the economic risks of coronavirus had passed. However, given the scale of the monetary intervention so far, it will be harder for the Fed to positively surprise from here. Increasingly the policy baton is being passed to governments as markets seek fiscal 'right-now' plans.

Friday

US equities in April have had their strongest month since 1987, that said the market ended the month yesterday with more of a whimper. A key factor driving this is the ECB meeting, whilst no major stimulus was expected, the decision to reduce financing costs for banks doesn't help deal with the elephant in the room which is the sovereign cost of coronavirus. This is a concern for markets as there's ongoing doubt that we will see a large-scale EU wide Recovery Fund providing non-repayable grants to member states. If we don't see coordinated fiscal burden sharing across the EU, this raises the risk that the Eurozone might underperform other regions globally in the post pandemic economy recovery.

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