Heartwood – Morning Market Update – 15.05.2020

This is your Early Morning Update email with the latest thoughts from the Investment team

What's happening?

- Markets continued the softer tone in recent trading days with stock markets in Europe down between 1.5%-2%, while safe havens like gold and government bonds rallied in the face of the weaker sentiment. Somewhat encouragingly, we saw a material comeback in US shares during the session, having opened down -1.3%, but finishing up 1.15%, with 21 out of the 24 S&P 500 industry sectors finishing in the green. Since the first historic spike of the weekly US jobless claims numbers on the 19 March, seven out of the nine Thursdays have seen the S&P 500 rally in the face of the massive unemployment numbers. Does anyone else need any more evidence that the macro data is not driving stock markets at the moment…

- Virus update - Swiss multinational healthcare company Roche Holding AG's coronavirus antibody test was cleared by Public Health England, a clear boost to Boris Johnson as he seeks to get the economy going again as quickly as possible.

- The Fed continued to sound cautionary about the economic impact of the virus and urged the fiscal side to keep stepping up. Chairman Powell also batted down suggestions, from Trump among others, that the central bank should adopt negative rates. The evidence of the policy's effectiveness "is very mixed." The market disagrees with Fed fund futures pricing in negative rates by Jan 2021.

- The new Bank of England chief also sided with the Fed on not wanting to go negative on rates, so any more policy responses from the Bank will likely to take the form of further asset purchasing. Watch this space.

- Sticking with the Fed, we commented last week how effective their policy had been in helping to bring down corporate spreads; they have also been very effective in bringing down short-term money market rates for interbank lending with 3-month Libor falling from 100bp in five weeks. Well done the Fed as this is key for the financial plumbing of markets to function in an orderly fashion.

- The Fed's cautionary tone on the economy was backed up by the data yesterday as jobless claims totalled 2.98 million, following 3.18 million the previous week. The positive is the number has fallen for the sixth straight week, the negative was the number didn't fall as much as expected.

- In Germany, the Finance Ministry projected that tax revenue will be €100bn less for 2020 than expected, as a result of the virus. Given the fiscal prudence that Germany is renowned for, will this influence how big the Germans go in their fiscal response to COVID?

- It may seem to have gone quiet on Brexit, but that most certainly is not the case. There are few signs of progress being made ahead of a key deadline next month with the UK refusing to compromise in important areas around a trade deal, but also on fisheries and on the role of the EU courts in this country. This goes some way to explaining the fall of around 3% in GBP/USD this month, as well as the Bank of England continuing to talk in a dovish tone.

- The war of words between the US and China continues with Trump's quote "We just made a great Trade Deal, the ink was barely dry, and the World was hit by the Plague from China. 100 Trade Deals wouldn't make up the difference - and all those innocent lives lost!" This was followed by China Global Times headlines saying that China is "extremely dissatisfied" with the possibility of the US sanctioning or otherwise punishing China over the coronavirus epidemic and would look to retaliate and were "mulling punitive countermeasures on US individuals, entities and state officials like Missouri's attorney general, who filed lawsuits against China in seeking damages over the coronavirus pandemic." This was all prior to a Bloomberg report saying that the Federal Retirement Thrift Investment Board in the US, a savings plan for federal employees, would not be allocating roughly $50 billion of its international fund to track an MSCI All Country World Index, capturing China. The move was reportedly backed by the President's administration and some members of Congress.

- All of this is clearly unhelpful for short-term investor sentiment and this story looks like it has further to run.

- Lloyd's of London estimates the insurance industry will suffer around $203bn in losses from the coronavirus pandemic this year. The projected losses include about $107bn from underwriting claims, with the rest from insurers' investment portfolios. The claims costs are on a par with some of the most catastrophic hurricanes of recent years. While triggering a deluge of claims related to cancelled events, business interruption and other costs, the outbreak has threatened a global recession that's put the payment of many household and business insurance premiums at risk.

- Over the last two days we have been gradually executing some of the portfolio changes that we highlighted at this week's Tactical meeting and will continue to do so over the next few trading days.

- Say what? South African stores can only sell shoes if they are 'closed toe', and short-sleeved shirts if they are promoted or displayed to be worn under jackets or jerseys, according to the latest list of government rules that spell out what's allowed during a nationwide lockdown. As an avid slider wearer, I am glad I don't live in South Africa….