MARKET UPDATE

MAY 2020 MPU

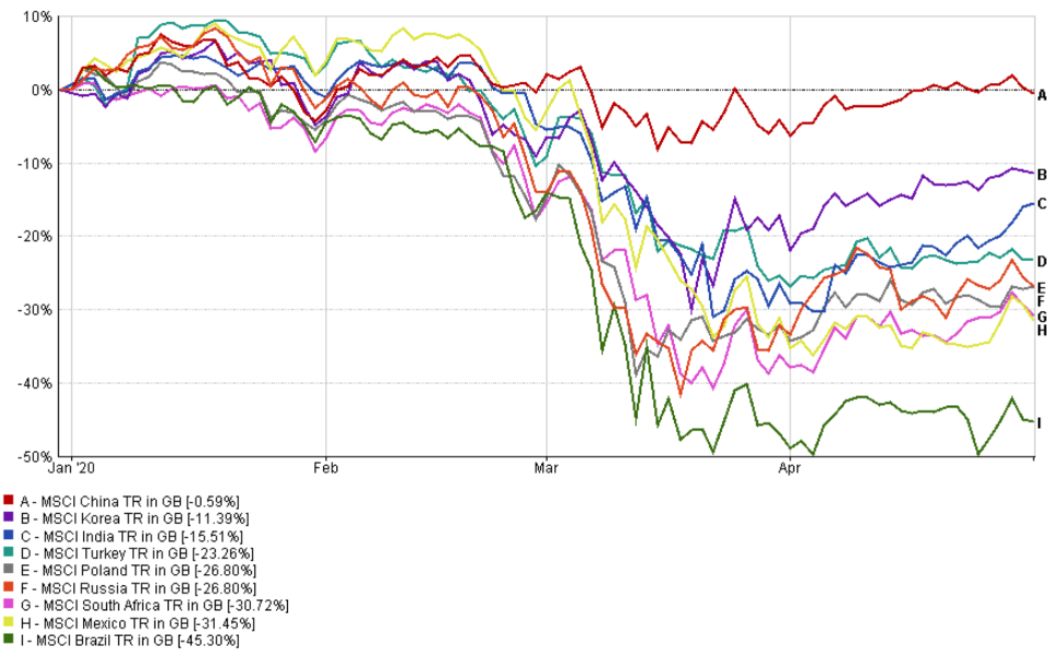
Wall Street isn't Main Street, at least not yet

Pretty much every global equity market saw a strong bounce in April as some of the absolute worst-case Covid-19 scenarios appeared less likely. The trifecta of better news on the virus, massive central bank stimulus, and most governments' commitment to do whatever it takes fiscally, was enough to support a considerable rebound from the lows. As is often the case, in times of extreme economic pressure we see the lines of division exposed which in better days are easier to hide from view. The WHO has come under considerable criticism for their acceptance of Chinese data and reluctance to announce the pandemic until it was obvious to anybody anyway. In the US, Trump is sparring continuously with some state governors as he tries to demonstrate he has the situation under control. Many states are doing it their way regardless of White house directives but cooperation, if possible, would be the policy for the people who must deal with the reality of the situation. Likewise, the long-running issue of debt mutualization is at the centre of a contentious EU debate and, as with every time it has come up before, there is no appetite for it in Germany, so that's the end of that again for now.

Dispersion of Returns

There have been some exceptions and it is worth pointing out Brazil as an example of a country that is not benefitting from better virus news or massive stimulus. They have one of the worst active case trends in the world. This is obviously a tragedy for Brazilians in itself but the population has reacted furiously to President Bolsonaro's comments; when asked about the spiralling death rate, he responded with "So what? I'm sorry… what do you want me to do?". The MSCI Brazil index is currently down 45% year to date. It is often emerging markets where, at various times in history, the best opportunities and greatest dangers lie for investors. It looks inevitable that the pandemic will lead to a considerable dispersion of returns amongst the developing nations, and the coming months may well make or break the careers of the managers who invest in these markets.

Global Emerging Markets Year to Date



31/12/2019 - 01/05/2020 Data from FE fundinfo2020

The US - from euphoria to despair and back again

The euphoric equity relief rally, which has already accounted for a circa 16% uplift in US stocks and 8% for the rest of the world, has at least temporarily stopped. US tech giant's, such as Apple and Amazon, earnings figures, and more importantly their more guarded outlooks, have brought a degree of caution. This reality check combined with the abysmal economic data from the US and Europe may have re-set the mood; something needed to, because this pandemic will have a severe and lasting effect on most of the world's leading economies and economic concerns cannot be shrugged off that quickly, even by the US.

Oil – this time is...

Nothing should surprise us in the current financial era but seeing the US oil futures price trade negatively for the first time in history is surely still worthy of comment. Regardless of the ongoing rutting stag routine of Saudi Arabia and Russia, there is not actually that much they can do about the price collapse. They may well have helped the demise of the oil price with their bluster but now it is the total capitulation in demand and lack of storage that is driving down prices. Needless to say, this backdrop is not helping oil stocks and in particular our FTSE 100, where Shell and BP are down circa 40% year to date. This is no normal recession where demand can be modelled based on previous downturns. We have to say it; this time is different.

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