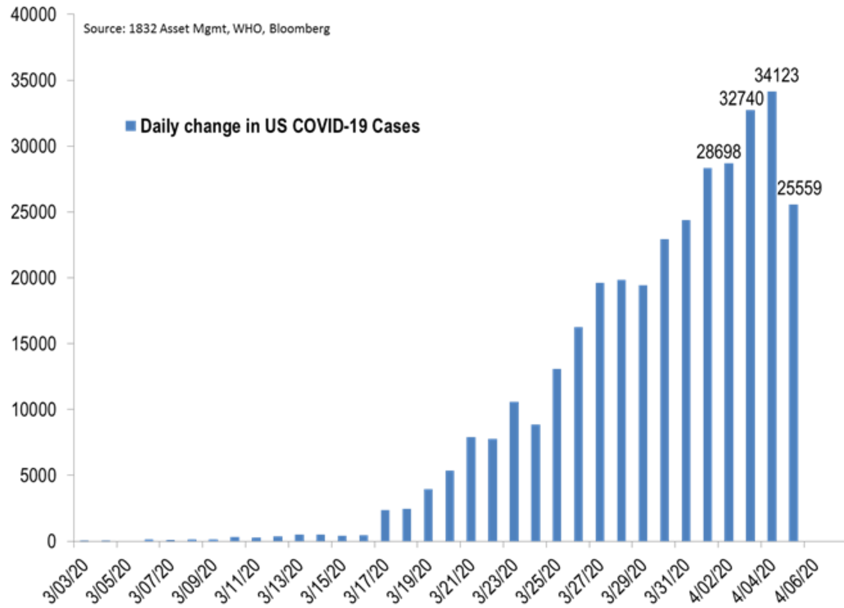
Insights on recent market events

Market Update: A green light to start the week

The week got off to another volatile start, but this time it was upside volatility that dominated the day. Most major equity markets rose by 3-8% on Monday, with corporate credit posting returns of roughly 2%. Government bonds suffered 'minor' losses, at least relative to the downside moves seen over the prior month and a half. The day's action still leaves government bond indexes near their all-time high, with credit indexes ~9% below and global equities facing an even greater ~23% shortfall relative to the levels recorded in mid-February.

The week's start was helped by a number of new developments. President Trump kicked it off on Sunday by saying that the coronavirus pandemic will peak in the United States within the next few days. His statement to the press immediately followed the latest data showing a fresh decline in new daily cases from 34,123 to 25,559. While that was good news, Dr. Anthony Fauci, head of the Institute of Allergy and Infectious Diseases, tried to offer some perspective. "I'm not saying we have it under control" he said on Sunday. "That would be a false statement. We are struggling to get it under control". But, the cat was already out of the bag with equity futures climbing rapidly into Sunday evening's Asian trading session.



The news out of the U.S. was joined by a positively toned message from Germany. According to media reports, the country's lockdown which started on March 22 is now scheduled to end in phases beginning on April 19. A Reuters report said the government had drawn up a list of steps, including mandatory mask wearing and limits on public gatherings, to help enable the slow return to normal life. At the time of writing, Germany had recorded 101,000 cumulative cases, the fourth highest official reading in the world. They might have been encouraged to draw up these guidelines after having received their third consecutive daily decline in the number of new infections.

Optimism out of America and Germany only magnified the good feelings emanating from the ongoing declines in new cases reported by other hard hit countries like Italy and Spain. With some of the large economies experiencing better news, markets are starting to behave as if the worst for the globe is behind us. Were that the case, then we would also expect to see the hardest hit equity sectors lead us out of the bottom over the next 3-6 months. Keep your eyes on Energy, Consumer Discretionary, Financials and Materials. Consumer Staples and Health Care would probably lag the performance of the broad market since they have held up so much better than the averages during the downturn. From a style perspective, "quality growth" has been the biggest outperformer while value has been hit the hardest, by far, through the sell off. On a positive turn in the market indexes, we'd also expect the relationship to reverse in favor of value.

But to be clear, none of this is to say that the equity market has hit its ultimate bottom. We are simply highlighting a plausible scenario that could be just entering into an early inning. Adding some exposure to equities right here seems to make sense. Going "all in" is an altogether different story. To make a more aggressive strategic push into the equity market, we would like to see more than 1-3 days of declining caseloads in places like the U.S. and Germany. More importantly, we are watching for a positive turn in the high periodicity (e.g., weekly U.S. unemployment insurance claims) and more timely leading (e.g., Global Purchasing Managers Indexes) economic data points. So far, an economic turn for the better rests more with hope than fact.

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