

# Not out of the woods yet

April 2020

## The World in five bullet points

- ▶ As the number of new Covid-19 cases around the world began to flatten and lockdown procedures began to loosen, **global equities** bounced back in April with some of the stronger markets erasing anything from half to two-thirds of the losses they'd seen in March. A modest "risk-on" atmosphere prevailed for most of the month despite dire economic figures and a collapse in crude oil prices as monetary accommodation programmes and fiscal stimuli programmes worth more than US\$14tn flooded the market with cheap money, and ultimately giving the basis for future economic recovery.
- ▶ Global **monetary policy** accommodation worth \$7tn included 11 emerging market central banks cutting rates in April and the US Fed pledging to "do what it could" to support the domestic economy – and seeing its balance sheet rising \$2.4tn in just two months to pay for it. **Fiscal programmes** included four major stimulus packages the passed by the US Congress to add to a vast array of global fiscal stimuli, which among other consequences, caused EM currencies to rally against the US dollar, providing another layer of support for equities. On the negative side, bond yields globally stayed stubbornly low with the US Treasury yield ending a smidge lower at 0.64%.
- ▶ The near **collapse in oil prices** reminded investors they were not out of the woods when it comes to global economic recovery. WTI crude, the blend commonly used in the US, collapsed at one point to -\$37.63/bbl when record oversupply and storage in the main US inventory-reserve town of Cushing came close to capacity as demand for oil fell off a cliff. All this despite an OPEC agreement at the beginning of the month to curtail production. Brent, the blend more commonly used in Europe and Asia, also fell very sharply but just held onto \$20/bbl by the end of the month.
- ▶ As well as the economic catalysts, another driver behind the equity rally was the encouraging results on a **potential treatment for Covid-19** from remdesivir, an existing antiviral drug made by Gilead Sciences in the US. The trial showed 50% of patients treated with the drug for five days showed a notable improvement and was enough to propel Gilead stock 15% higher over the month. Meanwhile, anti-malaria drug hydroxychloroquine showed [poor results](#) in a clinical trial.
- ▶ In other news, elections in **Korea** saw the ruling Democratic Party winning an absolute majority in parliamentary elections. **Trade tensions** between the US and China ratcheted up again when the White House blamed China for spreading Covid-19 and hinted of new trade sanctions in retaliation. **Political tensions in Brazil** rose when President Bolsonaro fired his Health Minister after weeks of clashes between the two over the country's Covid-19 response, then the popular Justice Minister also later resigned.

Figure 1. MSCI AC World Index

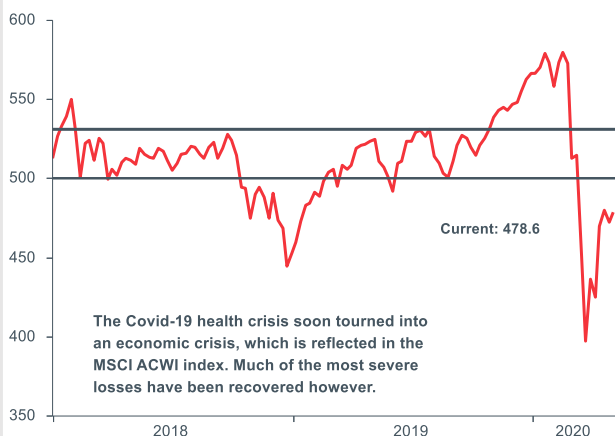
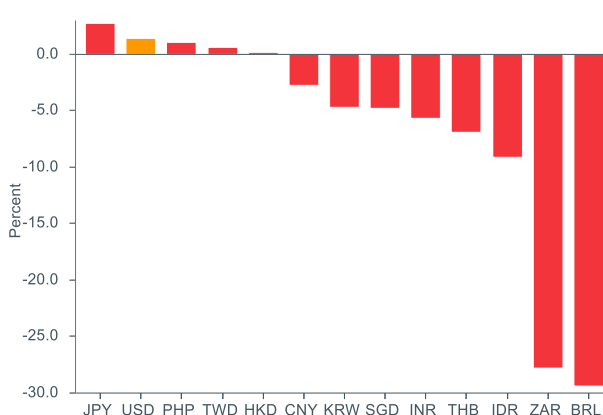


Figure 2. EM Currencies since 20 January



## Equity Markets

- ▶ **Global Equity** markets bounced back in April to record a 10.8% gain, its best monthly performance in more than eight years. Developed Markets, and especially the US, outperformed Emerging Markets reflecting both a severe drawdown in March in DMs, and the scale of stimuli programmes in the US. The MSCI Developed Markets index added 11%, the US 13.2% and EMs rose 9.2%. However, for the year to date, many major global markets – ex the US, China and Taiwan – are still down double-digit percentage points.
- ▶ For the **three months of the Covid crisis** (February to April), the US is down just 7.7% versus Europe down 17.5% and Asia ex Japan which has fallen 5.9%. The colossal stimuli plan and tentative steps by some US states to reopen their economies are largely behind the outperformance while Europe has underwhelmed as the EU disappointed some on its economic response.
- ▶ **Europe’s** lacklustre country performance also reflects its struggles in opening its economies, with a notable outperformance in Austria (+10.6%) that is so far the only country to free up restrictions in any meaningful way. Italy (+1.9%) and Spain (+1.5%) epitomised this while France (+4.4%) underperformed Germany (+9.8%). The UK found support from its large-cap dollar earners but still only rose 5.1% gain as Brits remained at home.
- ▶ In contrast, Emerging Markets had their best month in four years. **China** saw a 6.3% gain for April and for the year-to-date is down just 4.5% – the best performing market globally. **Korea** gained 8.2% for a second month of gains with utilities and materials outperforming on the collapsing oil price. **Taiwan** added 14.4% as its large tech stocks gained from a recovery of smartphone demand and China’s aggressive 5G ramp up, and while **Indonesia** shone in ASEAN as its currency recovered, **Thailand** gained 16.1% gain on a well-received stimuli package.
- ▶ **Latin America** saw a 6.3% advance but still underperformed, dragged by another weak performance in Brazil (+5.4%) after the resignation of its Justice Minister raised its political instability. Mexico gained just 4.3% as the peso remained under pressure. The **EMEA** region rose 11%, after a 13.2% gain in South Africa as a lockdown easing plan was announced and a stimulus package launched, and after an 11.5% bounce in Russia on a stronger rouble and interest rate cut.
- ▶ In other markets, **Australia** surged back with a 15.3% gain as some states looked to reopen and the stimulus packages began to bite. **India** recorded a 16.1% rise to regain almost two-thirds of its losses in March and after the RBI gave a “do whatever it takes” message. **Japan** underperformed other DMs to put on just 5.4% as it struggled with new Covid-19 cases numbers.

Figure 3. Regional Equity Indices

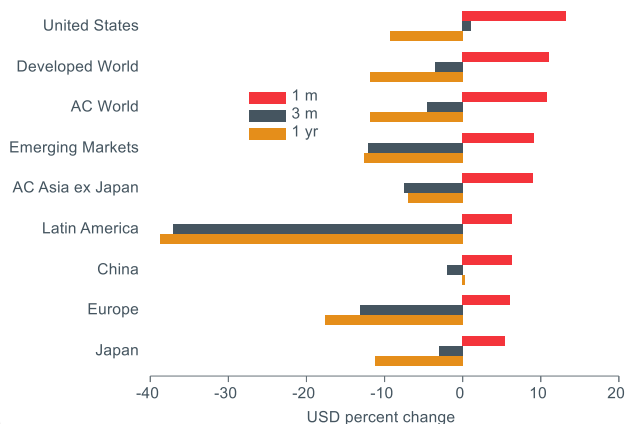
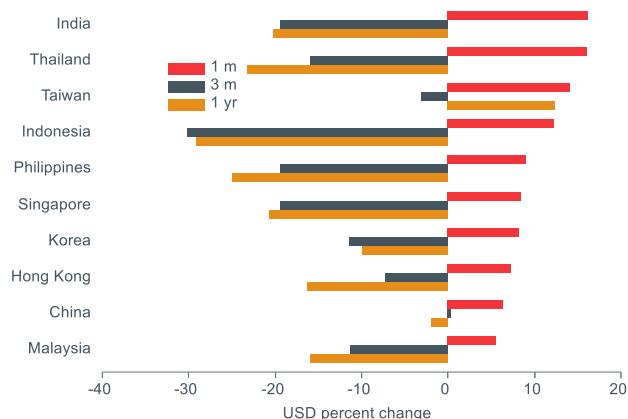


Figure 4. Asia Equity Indices



## Fixed Income

- Core **government bond yields** trended lower in April, as pandemic-related fears lingered and the unexpected plunge in US oil futures into negative territory drove unsettled investors towards safe-haven assets. Providing some counterbalance were tentative signs that the number of virus infections and deaths were stabilising, fuelling hopes that some US states and European countries could start easing their social distancing measures. This sparked brief periods of improved risk appetite that limited downside to bond yields.
- Bond **market sentiment** was bolstered by the fiscal and monetary stimulus measures as economic data disappointed and global growth outlooks were slashed. In the US, March data showed signs of weakness in the labour market: a record plunge in retail sales and manufacturing output falling by the most in 74 years. Industry bellwethers also delayed earnings forecasts and suspended dividend payments. Against this backdrop, the Federal Reserve (Fed) announced it was injecting another US\$2.3tn into the economy. US Treasury (UST) yields mostly fell, with the benchmark 10-year yield dipping 3 bps to end at 0.64%. Government bond yields in Germany and the UK also declined.
- In **Asia**, local-currency government bond yields were lower, boosting markets' total returns. With forecasts for weaker economic

growth and even contraction this year, governments including those in South Korea, Singapore and Hong Kong continued to roll out further stimulus. Monetary policy also eased further. **China's** PBoC led, reducing its main one-year loan prime and five-year loan prime rates, as well as the rates on its medium-term lending facilities. It also lowered the amount of cash banks must hold as reserves. The **Philippines** trimmed its key rates earlier than anticipated. **Indonesia** kept rates unchanged but announced cuts to the amount of IDR domestic banks must hold. On a total return basis, **Philippine** local rates led the rally in Asia helped by improved risk sentiment, while Malaysia and Singapore also outperformed. South Korean, Taiwan and Hong Kong local rates underperformed.

- Emerging market USD **credit markets** rebounded as indiscriminate selling in the prior month had opened value in some segments of the market. In addition, investors were encouraged by news that the additional stimulus the Fed planned to inject into the US economy (US\$500bn) would be via its purchase of high yield corporate debt for the first time. This boosted US high yield corporate bonds that also benefited their Asian high yield counterparts. Indeed, Asian high yield corporates outperformed all other segments in April on the back of spread narrowing of around 100 bps. Conversely, investment grade bonds underperformed.

Figure 5. Bond Indices Performance in USD

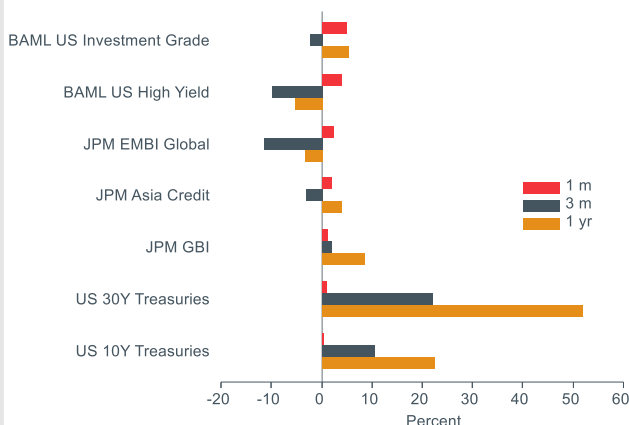
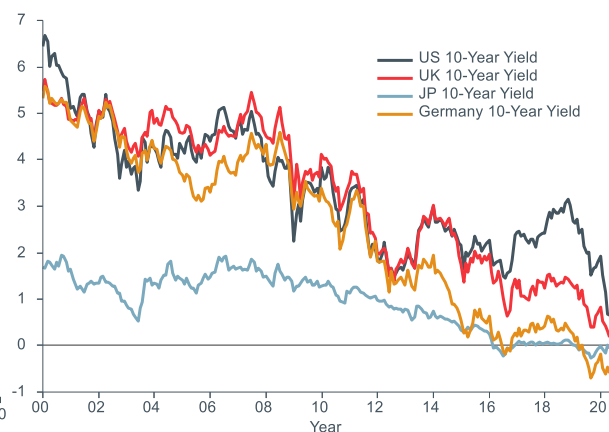


Figure 6. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Refinitiv Datastream as of as of 30 April 2020. For representative indices and acronym details please refer to notes in the appendix. For representative indices and acronym details please refer to notes in the appendix.

## Currencies

- ▶ The **US dollar Index** (DXY) had a relatively quiet month compared against recent history and ended the month almost flat from its starting point, allowing many of the beaten-up Emerging Market currencies to regain some ground. Continuing supportive messages from the Fed countered weaker bond yields to give the dollar a more balanced month following the “dash-for-cash” in March, while the unprecedented macro policies and some lockdown exit plans began supporting riskier assets at the expense of the dollar.
- ▶ The **Japanese** yen also had a quieter month after the BoJ announced new supportive measures focused on corporate financing, giving banks and the yen a boost. **Sterling** gained to recoup almost all of its losses in March to trade around the same levels as when the pandemic began. The **euro** fell slightly against the dollar as the Eurozone’s fiscal stimuli package failed to inspire. The **Australian** dollar surged reflecting solid equity index gains, domestic stimulus programmes, and the restart of some Asian economies. The AUD was the best performing DM currencies against the USD during the month.
- ▶ **Emerging Market** currencies were mixed but overall fell again slightly against the dollar with low-yielding currencies generally outperforming high-yielders. **Latin America** and **EMEA** saw further pressure with Mexico’s peso leading the losses in Latam after

Moody’s downgraded its sovereign debt to Baa1 from A, and following negative comments from other agencies earlier in the year. The Brazilian real came under more pressure with the falling crude price and growing political instability. Other Latam currencies found support and gained slightly with Chile outstanding on an improving macro and political environment.

- ▶ **EMEA** saw the South Africa rand come under more pressure after a rating agency downgraded its debt rating to “junk” status and Russia’s rouble gained almost 6% despite the collapse in crude after the government announced further stimulus measures to counter the economic contraction.
- ▶ **Asia** currencies were stronger against the dollar across the board but the gains were modest except for Indonesia’s rupiah. Currencies more aligned with the renminbi strengthened a little with Korea’s won up 1.7% and the Taiwan dollar gaining 1.7%. India’s rupee rose 0.7% as crude collapsed and the RBI gave a supportive communication on economic stimuli. Meanwhile, the tightly controlled renminbi held steady at around Rmb7/US\$1. The **Indonesian** rupiah, meanwhile, gained 9.6% to offset some of the 21% depreciation in Q1 as the central bank reached an agreement with the Fed for a \$60bn repurchase facility and on a general sentiment improvement on riskier EM assets.

Figure 7. Currencies Performance vs USD

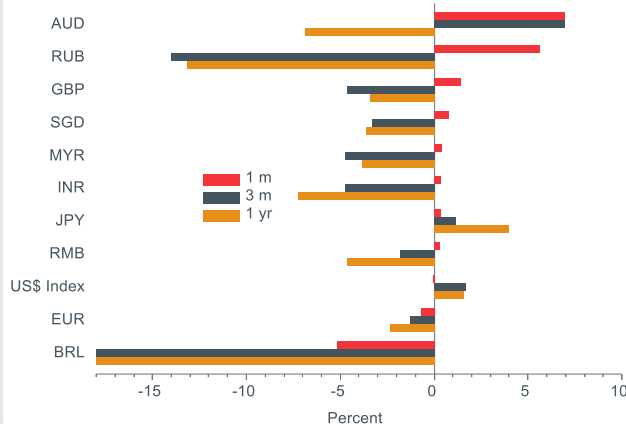
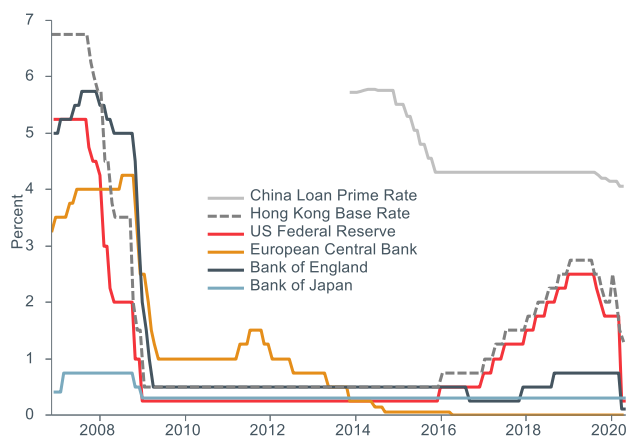


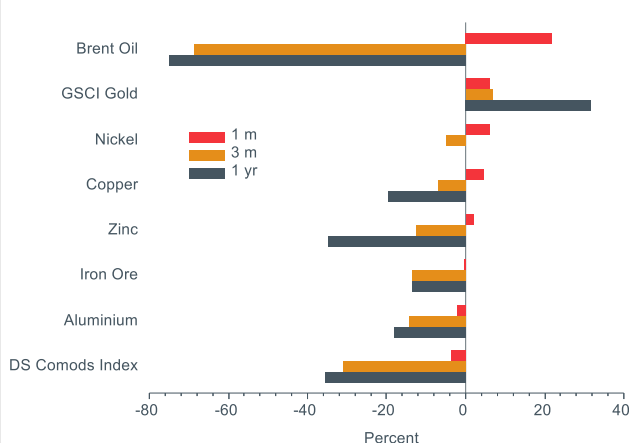
Figure 8. Central Banks Interest Rates



## Commodities

- ▶ **Oil** prices plummeted in April with the US-based WTI falling to negative \$37.63/bbl at one point as the May futures contract expired, and traders worked to avoid physical delivery at a time when storage tanks in the US were filling up fast. June contracts also fell sharply and ended the month at \$12.30, while Brent also fell to finish at \$20.50. Better storage data gave support at month-end but otherwise it was the worst ever month for crude.
- ▶ **Gold** prices rose again as it benefitted from the global stimulus programmes and begins to act as a hedge against inflation and currency debasement as the economic stimulus kicks in. This kept momentum for much of the month as the dollar stayed flat although it eased back somewhat in the final week as economies eased restrictions.
- ▶ Metals had a quieter month with **copper** gaining some footing as the China economy opened further. **Iron ore** was flat although is still outperforming for the year and, while the overall Commodities index dipped for the third month in a row because of oil, the S&P Industrial metals index gained 1.4% on some better industrial news from China.
- ▶ **Coal** prices finally fell after holding their elevated prices as soft demand in India and China sent Asian coal prices to multi-year lows, and almost 30% down from their 2020 highs. Asia **LNG** prices also fell sharply in April and are now down over 70% YTD.

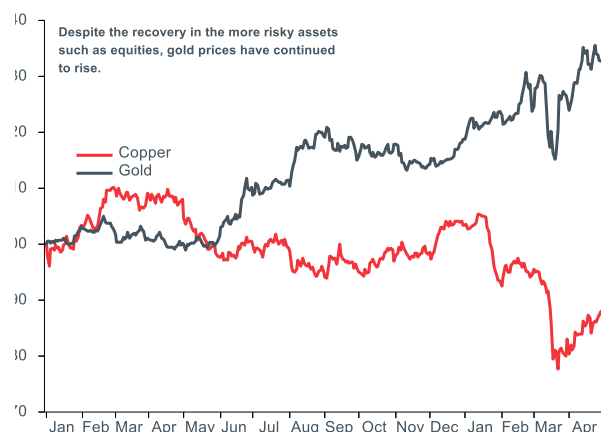
Figure 9. Commodities Performance in USD



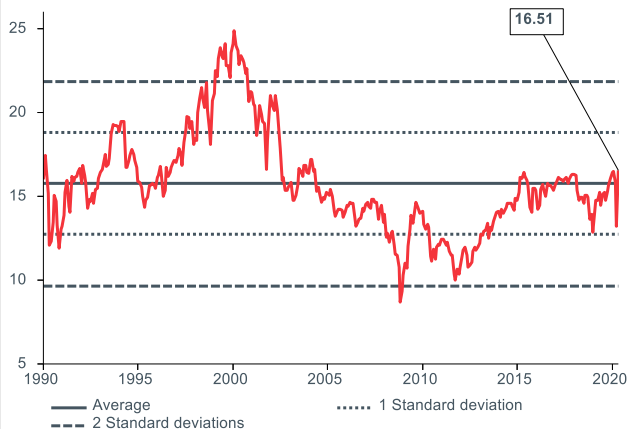
## Economics

- ▶ **US GDP** fell at an annualised rate of 4.8% in Q1 with one of the main drivers the record contraction in services consumption that fell 10% yoy in Q1 and which fell again in April, signaling another sharp GDP decline in Q2. Unemployment reached more than 30m, a number dwarfing any other recession in US history. Consumer confidence also fell the most ever while retail sales also collapsed.
- ▶ US GDP fell at an annualised rate of 4.8% in Q1 as unemployment reached more than 30 million, dwarfing any other recession in US history. Driving the drop in GDP was the record contraction in services consumption which fell 10% and which fell again in April, signaling another sharp Q2 GDP decline. Consumer confidence also fell the most ever.
- ▶ The **ECB** and the **BoJ** were among the central banks pledging to purchase as many government bonds as needed in order to stimulate their economies. Meanwhile, data from Europe showed manufacturing and services PMI levels falling to record lows, indicating a big contraction in European GDP.
- ▶ **China's** GDP contracted by 6.8% in Q1 and, while April indicators pointed to a recovery, they did hint at problems ahead; April PMI fell to 50.8 signaling the economy may be struggling to grow as the rest of the world remained in lockdown and as exports fell again. Manufacturing PMI fell slightly but the services element rose again.

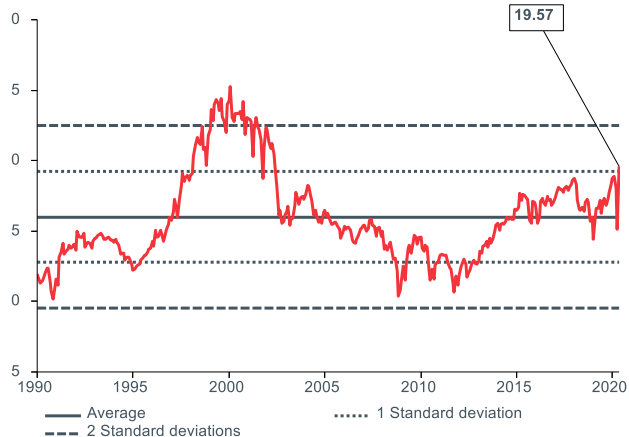
Figure 10: Commodity Prices, 2019-20



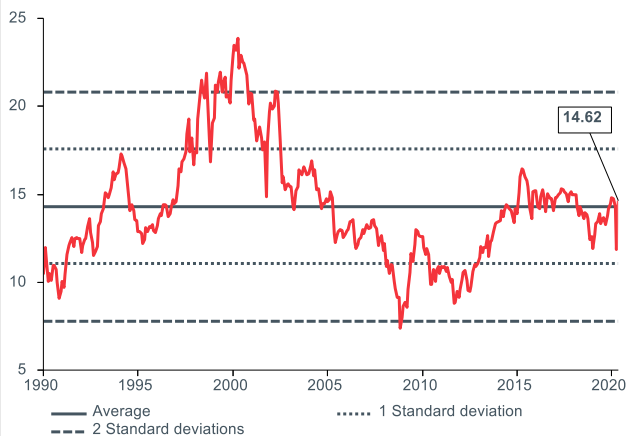
**MSCI AC World 12M Forward PE**



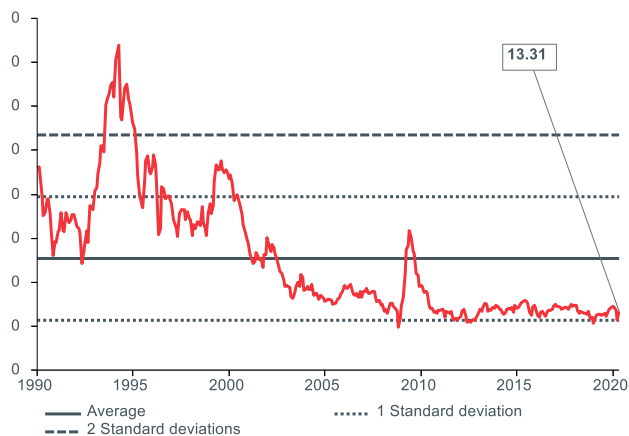
**MSCI USA 12M Forward PE**



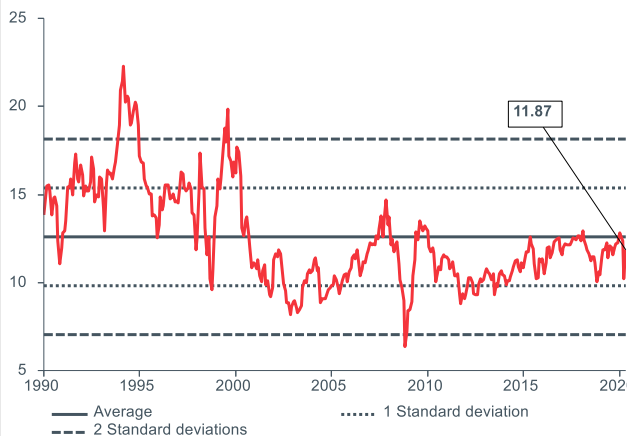
**MSCI Europe 12M Forward PE**



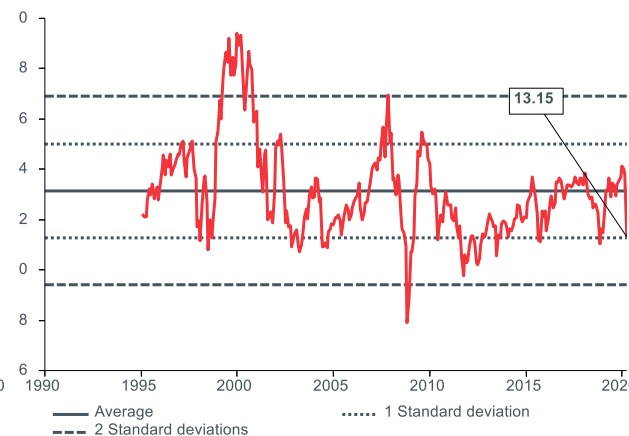
**MSCI Japan 12m Forward PE**



**MSCI Emerging Markets 12M Forward PE**



**MSCI Asia Pac ex Japan 12M Forward PE**



# MSCI monthly, quarterly and year-to-date data

	Apr-20	Mar-20	Feb-20	Jan-20	YTD	-12m	2019	2018
World	10.8	-13.4	-8.0	-1.1	-12.8	-4.4	12.3	-8.9
Developed World	11.0	-13.2	-8.4	-0.6	-12.3	-3.5	12.6	-8.2
United States	13.2	-12.7	-8.2	0.2	-9.1	1.0	13.9	-4.5
Europe	6.1	-14.4	-9.3	-2.5	-19.6	-13.0	11.0	-14.3
Japan	5.4	-7.0	-9.1	-1.4	-12.1	-2.6	6.8	-12.6
Emerging Markets	9.2	-15.4	-5.3	-4.7	-16.6	-11.7	10.0	-14.2
Asia Pac Ex Japan	9.8	-14.0	-4.2	-3.7	-12.9	-8.3	11.5	-13.7
Asia Ex Japan	9.0	-12.0	-2.9	-4.4	-11.0	-7.2	11.4	-14.1
Latin America	6.3	-34.5	-12.0	-5.6	-42.1	-37.1	7.9	-6.2
Brazil	5.4	-38.2	-13.0	-7.5	-47.5	-38.1	8.2	-0.2
EMEA	11.0	-21.1	-12.0	-4.8	-26.7	-23.3	5.6	-15.5

	Apr-20	Mar-20	Feb-20	Jan-20	YTD	-12m	2019	2018
Australia	15.3	-25.1	-11.0	0.1	-23.0	-15.9	11.4	-11.8
New Zealand	10.5	-11.2	-5.1	-0.7	-7.6	9.0	16.9	-3.5
Hong Kong	7.3	-12.2	-1.4	-4.5	-11.3	-16.3	15.6	-7.8
China	6.3	-6.6	1.0	-4.8	-4.5	-1.9	17.7	-18.7
Korea	8.2	-11.5	-7.4	-5.3	-16.1	-9.9	5.0	-20.5
Taiwan	14.1	-13.4	-1.9	-4.7	-7.6	12.3	9.0	-8.2
Thailand	16.1	-17.4	-12.2	-8.6	-23.0	-22.9	7.5	-5.3
Malaysia	5.5	-10.2	-6.4	-3.9	-14.7	-15.9	0.3	-6.0
Singapore	8.4	-19.9	-7.1	-3.5	-22.2	-20.7	6.2	-9.4
Indonesia	12.2	-29.3	-11.9	-2.7	-32.0	-29.1	4.3	-8.7
India	16.1	-25.1	-7.3	-0.8	-20.0	-20.1	7.2	-7.3
Philippines	9.0	-21.4	-5.9	-8.0	-25.8	-24.9	8.0	-16.1

	Apr-20	Mar-20	Feb-20	Jan-20	YTD	-12m	2019	2018
Mexico	4.3	-29.2	-10.0	1.4	-32.6	-32.2	5.6	-15.3
Chile	16.2	-17.8	-12.3	-7.6	-22.6	-36.5	4.4	-18.9
Hungary	6.6	-26.5	-7.0	-10.7	-35.0	-27.7	6.0	-6.1
Poland	9.2	-19.9	-15.7	-5.9	-30.6	-34.8	-0.6	-12.5
Czech Republic	11.2	-27.5	-11.9	-3.7	-31.6	-29.0	3.8	-2.2
Russia	11.5	-23.3	-14.4	-3.0	-29.0	-6.9	12.2	0.5
Turkey	4.5	-19.0	-14.8	1.5	-26.8	-12.6	-3.0	-41.1
South Africa	13.2	-24.8	-12.9	-8.8	-32.4	-33.8	4.6	-24.3
Qatar	4.9	-10.8	-6.7	-0.5	-13.2	-15.4	-3.5	29.8
Saudi Arabia	10.6	-13.7	-8.1	-3.0	-14.9	-24.9	14.9	19.2
United Kingdom	5.1	-16.0	-11.9	-3.8	-25.1	-20.8	11.9	-14.1
Germany	9.8	-17.0	-9.2	-3.1	-19.8	-14.7	7.0	-21.6
France	4.4	-17.6	-8.9	-3.4	-24.3	-17.2	10.8	-11.9
Netherlands	8.7	-11.2	-7.9	-3.0	-13.7	-4.9	13.6	-12.8
Austria	10.6	-28.0	-10.2	-4.5	-31.7	-29.9	8.6	-23.2
Italy	1.9	-22.5	-6.7	-2.1	-27.9	-20.8	14.7	-17.0
Spain	1.5	-22.1	-7.3	-2.7	-28.7	-28.1	7.1	-15.7
Greece	9.0	-26.0	-22.1	-4.9	-40.2	-28.3	12.8	-36.7
Portugal	1.4	-11.0	-6.8	4.7	-11.9	-1.6	10.2	-10.1
Switzerland	5.2	-4.2	-7.9	0.8	-6.5	7.9	13.5	-8.2

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