



CIO OFFICE MORNING MARKET WRAP – Sunday 3rd of May, 2020. ALSO AVAILABLE ON ALEXA.

With many major economic numbers being released, last week provided more details on the COVID19 impact. The global GDP contracted at an annualized rate of around -12% in the first quarter alone. On this measure, China was close to -35%, the Euro area -14% and the US -5%, depending on the timing of the virus outbreak. China and South-Korea started rebounding in March, but their own April PMI numbers show the limits of their stand-alone recovery, without the West. At the same time, last week was positive on global markets, led by Emerging stocks, adding 4%, and Oil prices sharply up, with the Brent crude oil crossing \$25. Gold, the star of 2020 so far, gently consolidated last week to just \$1700.

Last week was also the conclusion of an extremely positive month of April. Overall, every single asset class was in the green in April, with stocks posting double digit returns. No doubt, markets have been extremely quick to look through the crisis. Equity multiples have been turbo-charged by the action of

central banks, who crushed rates, inundated markets with liquidity and backstopped public and private sector bonds. At the same time, the Q1 earnings season, now well advanced, shows a terrible contraction and the evaporation across the board of any form of forecast and guidance from companies. Markets are paying high multiple in the dark.

Of course, it's right to take into account the massive liquidity boost and to expect a recovery, based on what happens in Asia. The virus will be defeated and many restrictions are starting to be lifted in May. However, high valuations create vulnerability and any uncertainty on the shape of the recovery, any doubt on its timing, could have an immediate impact, especially as most of the policy announcements are now behind us. We wouldn't be surprised to see some consolidation ahead in May, even if our level of confidence is not high enough to actually position our portfolios for it, after having successfully acted around the two legs of one of the sharpest V-shaped pattern ever in risk assets.

On the virus front, global cases approach 3.5 million and over 240,000 deaths. We still can't affirm that the peak has been reached in the West. Last week's numbers in the US were not that encouraging, prompting the governor of New York to order police to enforce social distancing. Looking East, the Philippines halted all commercial flights in and out of the country, starting Sunday. But Singapore eases restrictions on some businesses and schools, and Japan will lay out its plan for reopening the economy on Monday. The US gave Gilead an emergency use authorization for its experimental drug Remdesivir, after some positive results from a US study, and despite negative results from a Chinese study. Tensions are mounting between the two superpowers as Mr Trump openly blames China for the virus outbreak. At the same time, China's ally and traditional side warrior in their disputes with the US, Kim Jong Un, made a public appearance at the opening of a factory on Friday, ending speculations of his death. In the week ahead, earnings season will continue and we will closely watch the US monthly job report on Friday which could show an unemployment rate in the US between 15 and 20%.

Stay safe.

MAURICE GRAVIER
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