Market Snapshot

Equity Snapshot

United States US equities rose 12.8% in April as measured by the S&P 500, bringing the total recovery from the March lows to 30%. By mid-April, various forms of lockdowns have been implemented in the country. The slowing COVID-19 infection growth rates reassured investors that these measures were effective. However, the start of the first-quarter earnings season revealed the toll these measures had on US companies. The government continued to try limiting the economic impact by adding a USD484 billion relief package to its earlier USD 2.2 trillion stimulus. All sectors rallied over April.

Although the US only started lockdown measures in March, the economy shrank on an annualised 4.8% in the first quarter. The COVID-19 crisis has already taken its toll on the US economy, with 30 million people registering for unemployment benefits over the six weeks leading to 30 April 2020. The sharp rise in unemployment impacted consumer spending. Retail sales fell 8.7% in March while the University of Michigan's index of consumer sentiment fell to 71.8 in April. The Federal Reserve kept the Fed funds rate near zero but announced it would provide USD 2.2 trillion in loans to smaller businesses and municipalities. It also expanded its asset-purchase programme to include exchange traded funds that track the performance of the sub-investment-grade bond market. Fed Chair Jerome Powell indicated that there was little chance of a quick economic rebound in the second half of the year.

Europe European equities recovered 6.7% (Stoxx 600) in April after the sharp sell-off in March. With the number of daily COVID-19 infections and fatalities in decline, governments started to consider how to ease lockdown measures without causing a second wave of infections. However, economic news highlighted how the measures to control the virus had impacted growth. The Euro-zone economy shrunk 3.8% in the first quarter with France, Spain and Italy contracting by 5.8%, 5.2% and 4.7%, respectively. In response, the European Central Bank said it would lend money to banks at rates as low as minus 1% through a planned programme and also launched a separate round of fresh lending. The Germany government stated that it now expects its economy to contract by 6.3% in 2020 compared to its January forecast of 1.1%. The IFO Institute's index of German business sentiment fell to 74.3 in April compared to 96.0 in February.

Euro-zone finance ministers agreed on a EUR 500 billion support package aimed at supporting businesses and workers throughout the COVID-19 crisis. The package is mostly reliant on loans that would add to some countries' already large debt burdens. There was also a consensus that the European Commission should create a recovery fund but disagreement arose over how it should be financed. France pushed for the issuance of debt with a common guarantee to finance member states according to need rather than the size of economies. Germany insisted that any funding borrowed on the markets must ultimately be paid back. Italy and Spain, two of COVID-19's hardest hit countries, wanted significant transfers of cash rather than loans.

UK shares rose 4.28% as measured by the FTSE 100 but lagged behind many Euro-zone markets. With the peak in COVID-19 infections and fatalities lagging behind continental Europe by two weeks, the UK remained under strict social distancing measures. The Bank of England warned the UK's largest banks to cancel dividends, which weighed on the relative performance of UK shares. The UK market's sizeable weighing to oil companies further weighed on returns.

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Asia

Equity markets in Asia rallied strongly in April, with many markets rebounding by about 20% from their troughs in March. Sentiment was lifted as the number of new COVID-19 cases across the region has fallen, and with many countries planning to ease lockdown measures. Chinese stocks advanced along with other countries in the region, as authorities continued to ease policy. Elsewhere in the region, most of the more developed markets posted strong gains, with Taiwan leading double-digit returns as the situation in China, its key trading partner, has eased. ASEAN markets performed well, with Thailand recording its best month since December 2003 due to a strong stimulus package following the virus outbreak.

Bond

In April, global government bonds traded in a narrow range. The 10-year US Treasury yield initially rose modestly as risk sentiments rebounded, attributed to early signs of Coronavirus containment. Entering the second half of April, the Treasury yield declined on the back of weaker-than-expected US data and sharp plunge in oil price, closing the month almost unchanged versus the end of March at 0.64%. The policy response to the crisis has been unprecedented in terms of the size and the degree of coordination between the Fed and the fiscal authorities. Congress has enacted roughly 3 trillion USD of stimulus measures and the Fed has aggressively employed its entire policy tool kit to support lending to households and business. To households, Congress is providing bridge financing through the Paycheck Protection Program and related Treasury-backed measures from the Fed. In addition, there are explicit bailouts of key industries at the epicentre of the crisis and funding for State and local authorities. It also expanded its asset-purchase programme to include exchange traded funds that track the performance of the sub-investment-grade bond market. As a result, the corporate bond market rallied in April, outperforming Treasuries significantly as credit spreads tightened sharply. High-yield bond inflows returned following the Fed's strong commitment to support the corporate sector. On the economic front, the US economy shrank 4.8% YoY in the first quarter, its first quarterly contraction since 2014 and the largest in more than a decade. The COVID-19 crisis has eroded all US job gains since the 2008 financial crisis, with 30 million people registering for unemployment benefits over the six weeks leading to 30 April 2020. The sharp rise in unemployment impacted consumer spending. Retail sales plunged 8.7% in March, the biggest monthly decline on record, while the University of Michigan's index of consumer sentiment fell to 71.8 in April, a record drop of 18.3 points over the month, which took the index back to levels last seen in 2011.

The Euro-zone government bond market moved in tandem with the US Treasury market. Yields in the core markets traded in a narrow range, with the 10-year German Bund yield closing the month 11 bps lower at -0.59%. Italian bond yields briefly broke 2.0% towards the end of the month amid fears that Italy would lose its investment-grade credit rating following the Fitch downgrade. Euro-zone finance ministers agreed on a EUR 500 billion support package aimed at supporting businesses and workers throughout the COVID-19. Economic news highlighted how the measures to control the virus had impacted growth, with the Euro-zone economy shrinking 3.8% in the first quarter, the steepest quarterly decline since records began in 1995. Growth in France, Spain and Italy, three of the worst affected Euro-zone countries, contracted by 5.8%, 5.2% and 4.7 %, respectively, during the first three months of the year. In response, the European Central Bank said it would lend money to banks at rates as low as minus 1% through a planned programme and also launched a separate round of fresh lending.

Outlook

We are tactically positive on equities as we view the market as oversold and as COVID-19 cases reach an inflection point. However, we will closely monitor the economic impact from COVID-19.

We continue to hold a positive outlook on US equities. Large-scale monetary and fiscal stimulus may help cushion the economic and market impact from the virus shock. The fund has taken advantage of the fall in share prices as well as the normalisation of liquidity to increase our exposure to the region. However, we expect volatility to persist given the economy uncertainty.

In Asia, we have a positive view across the region. In HK/China, there has been progress in the resumption of production capacity and normalisation of work. We expect China's growth to accelerate in 2Q20, assuming that the country can effectively control the imported and asymptomatic infection cases. In the rest of Asia, markets should benefit from a weaker USD due to the Fed balance sheet expansion in the coming weeks. The recent collapse of oil is a positive tailwind for most Asian economies, given that they are net oil importers. The improving Chinese demand for iron ore should also support markets such as Australia.

In Japan, we maintain our negative outlook. The country's macroeconomic data continue to show weakness. Furthermore, with the policy rate already negative, there is limited monetary and fiscal policy firepower to support growth.

We also continue to hold a negative stance towards European equities. Growth was weak even prior to the outbreak of COVID-19. The virus will exert further downward pressure on economies in the region, which may suffer from limited monetary firepower and fiscal coordination.

Sources: 1 Eurostat 2 Bloomberg 3 Office for National Statistics

All data are sourced from Allianz Global Investors as at March 2018 unless otherwise stated.