LAKEVIEW CAPITAL PARTNERS – April 6, 2020

LAST WEEK IN REVIEW

The major indexes closed lower last week and rounded out their worst monthly and quarterly performances since 2008. The smaller-cap benchmarks trailed by a large margin, with the small-cap Russell 2000 Index falling by around 7% in a sell-off on Wednesday.

Energy shares handily outperformed within the S&P 500 Index. Oil prices surged following a Thursday tweet from President Donald Trump that he expects Saudi Arabia and Russia to cut production. Investors also reacted to reports that the Saudis had called an emergency OPEC meeting, while China was moving forward with plans to buy oil for its emergency reserves. A renewed decline in longer-term bond yields (see below) weighed heavily on interest rate-sensitive sectors, including financials and real estate shares. Consumer discretionary stocks were also especially weak, with shares of cruise line operators tumbling to new multiyear or even multi-decade lows.

The week got off to a positive start, with the major indexes recording their first Monday gains in four weeks. Expectations for a rotation into equities by multi-asset investors such as pension funds, although they also noted that volumes were exceptionally light relative to recent sessions. The upswing continued into Tuesday morning, helped by a tweet from President Trump calling for a “phase four” round of stimulus based on a $2 trillion infrastructure bill. Democratic leaders appeared receptive to the idea, though some Republicans stated that new spending initiatives should wait until recently passed legislation is implemented and areas of economic need become clearer. Better-than-expected economic data out of China also seemed to bolster sentiment.

Deepening worries about the severity and duration of the coronavirus pandemic soon sent stocks back lower; however, traders I spoke with observed that disappointing virus statistics out of New York and California appeared to undo Tuesday’s rally. Shares then fell sharply on Wednesday morning, as investors reacted to the previous evening’s White House briefing, where officials warned of the possibility of up to 240,000 deaths in the US, even with mitigation efforts in place. Reports of possible delays in emergency lending to small businesses passed as part of the $2.2 trillion CARES Act stimulus package also seemed to weigh on sentiment.

US - MARKETS & ECONOMY

Stocks recovered some momentum on Thursday, helped by the rebound in oil prices, but fell back as the week's economic data reflected the deepening imprint of the coronavirus crisis, particularly on the labor market. Jobless claims roughly doubled from the previous week, with over 6.6 million Americans applying for benefits, well above even pessimistic consensus expectations. Nonfarm payrolls, reported Friday morning by the Labor Department, fell by 701,000 in March, about seven times worse than consensus. The decline brought an end to a record stretch of 113 consecutive months of job growth and lifted the unemployment rate to 4.4%, its highest level since 2017. Friday's bleak jobs data may have been compensated for somewhat by the Institute for Supply Management's index of nonmanufacturing activity, which showed continued expansion in March, defying widespread expectations for a sharp contraction.

US STOCKS

Index	Friday's Close	Week's Change	% Change YTD
DJIA	21,052.53	-584.25	-26.23%
S&P 500	2488.65	-52.82	-22.97%
Nasdaq Composite	7373.08	-129.30	-17.83%
S&P MidCap 400	1337.35	-82.93	-35.18%
Russell 2000	1052.06	-79.87	-36.94%

SOURCE: BLOOMBERG. THIS CHART IS FOR ILLUSTRATIVE PURPOSES ONLY AND DOES NOT REPRESENT THE PERFORMANCE OF ANY SPECIFIC SECURITY. ***PAST PERFORMANCE CANNOT GUARANTEE FUTURE RESULTS.***

US YIELDS & BONDS

The yield on the benchmark 10-year Treasury note fell back to its lowest level in almost a month, driven by Federal Reserve purchases and concerning economic data. Yields modestly increased for Treasury bills with maturities under one year, however, as the federal government increased bill issuance to finance fiscal stimulus spending. The broad municipal market struggled amid renewed liquidity strains and underperformed the rally in Treasuries. According to Lipper data, however, municipal bond mutual funds experienced $749 million of net outflows for the week ended April 1, a far more modest figure compared with prior weeks.

The investment-grade market saw heavy new issuance, with financials—especially domestic banks—among the top performers. In credit-related news, GE spreads widened significantly after the company announced that it was laying off 50% of the engine manufacturing staff in its aviation unit.

The high yield bond market saw several new deals following a three-week issuance drought. Traders reported that, for the first time in recent weeks, high yield investors seemed to be somewhat influenced by company-specific news stories rather than coronavirus-related headlines. In credit-specific news, T-Mobile reported the completion of its merger with Sprint. The combined company will operate under the T-Mobile name and is developing a 5G network.

YIELD CHECK - US TREASURY MARKETS

3 Mth: 10 bps to 0.06%
2-yr: - 1 bps to 0.23%
5-yr: - 1 bps to 0.38%
10-yr: - 8 bps to 0.59%
30-yr: - 5 bps to 1.21%

SOURCE: BLOOMBERG. YIELDS ARE FOR ILLUSTRATIVE PURPOSES ONLY AND DOES NOT REPRESENT THE PERFORMANCE OF ANY SPECIFIC SECURITY. ***PAST PERFORMANCE CANNOT GUARANTEE FUTURE RESULTS.***

INTERESTING NEWS OVERSEAS

Stocks in Europe lost momentum over the week, ending little changed as data indicated that the economy would suffer a severe recession this year triggered by the coronavirus. The STOXX Europe 600 Index ended 0.45% lower. Germany's Xetra DAX Index declined 1%, France's CAC 40 Index fell 4.26%, and Italy's FTSE MIB slipped 1.75%. The UK's FTSE 100 Index weakened 1.3%, partly due to a stronger UK pound, which weighs on exporters, a significant part of the benchmark.

Deaths from COVID-19, the disease caused by the novel coronavirus, accelerated in Italy, France, Spain, Germany, and the UK, exceeding 30,000 across the region. However, the number of new cases in Italy and intensive care admissions in Spain and France slowed (as Jay-Z would say "Can I get a what what!"), as almost complete country lockdowns began to show signs of containing the virus. Germany extended its lockdown until April 19, and Italy prolonged its lockdown until April 13, although local newspapers said it could be continued until early May. In the UK, Deputy Chief Medical Officer Jenny Harries said that lockdown measures could last for up to six months.

Insurance and banking stocks fell as the Bank of England and the European Insurance and Occupational Pensions Authority asked banks, insurers, and reinsurers to suspend dividends and share buybacks temporarily to ride out the hit from the coronavirus crisis. Banks suffered more than insurers because the risk from loans to small and medium-sized enterprises is more strongly represented on their balance sheets.

It should come as no surprise that the final purchasing managers' data showed that the eurozone composite output index posted its biggest monthly fall in business activity in March, a record low due to the coronavirus, according to IHS Markit. Both this index and the services activity indexes were notably weaker than the flash estimates. The four largest nations covered by the survey all registered record declines in activity, with Italy and Spain experiencing the sharpest reductions. Manufacturing signals were similarly dire. Confidence in the future reached its lowest ebb since the series began in July 2012. IHS Markit's Chief Business Economist Chris Williamson said the data indicate that the eurozone economy is already contracting at an annualized rate of about 10%.

In Japan, stocks fell for the week. The Nikkei 225 Stock Average declined 1,569 points (8.1%) and closed at 17,820.19, down 24.7% for the year-to-date period. The large-cap TOPIX Index and the TOPIX Small Index also posted steep losses for the week and are down 23.0% and 28.2%, respectively, in 2020. The yen was modestly stronger for the week and traded in a range near ¥108 per US dollar on Friday.

The quarterly Bank of Japan (BOJ) Tankan index of large manufacturers' business conditions showed a broad deterioration in sentiment. The results were not as bad as expected, perhaps because many (approximately 70%) survey respondents replied to the survey in the first half of March before the significant escalation of coronavirus cases were reported in the US, Europe, and Japan. The Tankan index stands at its lowest level since 2013 and has recorded its longest streak of negative readings (five quarters) since the Lehman Brothers collapse in 2008.

In shocking news (insert sarcasm here), most analysts believe that the index will fall further in the next quarter as the actual impact of the pandemic unfolds. However, on a positive note, the March large-company nonmanufacturing index reading of +8 was above the +6 forecast. Some observers think this suggests that fiscal 2020 capital expenditure plans remain intact and that companies believe the coronavirus situation will be resolved shortly, with minimal impairment to their annual investment plans.

Lastly, in the country where this whole mess started, equity markets in China were relatively stable over the week. This was supported by the above-consensus March purchasing managers' index (PMI) data and by further policy announcements, including both a rate cut and a reduction in the required reserve ratio from the People's Bank of China (PBoC). The Shanghai Composite Index and the CSI 300 Index of large-cap stocks both eased back on Friday by 0.6% to end the week broadly flat.

Markets appeared to draw comfort from the statement that followed the weekly Politburo meeting of China's leaders on March 27. Without giving details, it called for more fiscal stimulus to help stabilize the economy, signaling a willingness to adopt a larger budget deficit for 2020. If the delayed National People's Congress goes ahead in April, fiscal policy measures are likely to be announced then. On the coronavirus health front, a county in Henan province was expected to undergo a second lockdown due to a small number of reported infectious cases.

THE WEEK AHEAD

In the US, investor focus turns to the FOMC minutes due Wednesday on hopes it might clarify policymakers' views ("go to zero") on the monetary policy path as the pandemic caused by the novel coronavirus continues to spread. Confirmed US cases surpassed 256,000 on Friday, with more than 6,500 deaths, most of them in New York City. The Federal Reserve has already slashed interest rates to near zero and announced more QE measures and corporate bond-buying to help support the flow of credit to households and businesses. On the economic data front, the consumer price inflation is seen slowing to the lowest since June last year, while the preliminary reading of Michigan consumer sentiment is expected to point to a sharp deterioration in consumer morale during April as many Americans are in lockdown and non-essential businesses were forced to close. Other notable publications are producer prices, JOLTs job openings, IBD/TIPP Economic Optimism, and the government's budget statement.

I know it is hard staying at home and not being able to interact, but hopefully, it's for the best. Please stay safe and be well. Call us at LCP if you have any questions.

Stephen Colavito, Jr.
Managing Director
Chief Market Strategist

Lakeview Capital Partners, LLC
1201 Peachtree Street NE
Suite 1850
Atlanta, GA 30361

(404) 418-7776 (office)
(404) 313-1388 (mobile)