LCP LAKEVIEW CAPITAL PARTNERS

Week in Review

June 15, 2020

LAST WEEK IN REVIEW

Last week stocks suffered their worst weekly decline in almost three months, as investors appeared to harvest recent gains and respond to a worsening of the pandemic in parts of the country. Slower-growing value stocks surrendered their new market leadership and recorded the steepest drops, and smaller-cap shares also underperformed. Relatedly, two prominent value sectors—energy and financials—fared worst within the S&P 500 Index, while the fast-growing information technology sector held up best. Reflecting renewed virus fears, Amazon.com, Netflix, and other "stay at home" stocks easily outperformed airlines and other shares reliant on the reopening of the economy.

The week saw a dramatic reversal in sentiment, with retail- and travel-oriented shares getting off to a strong start Monday, as investors appeared to welcome reopening steps in hard-hit New York and elsewhere. Traders I spoke with noted that sentiment also got a lift from White House Senior Advisor Kevin Hassett, who placed the odds of another fiscal stimulus package at near 100%. The gains boosted the S&P 500 into positive territory for the year to date, while the technology-focused Nasdaq Composite Index established new record highs.

US - MARKETS & ECONOMY

The market's momentum began to fade at midweek, with investors seemingly spending much of their time trying to predict what Federal Reserve Chair Jerome Powell would say after the central bank's scheduled policy meeting concluded on Wednesday afternoon. The meeting brought few surprises, according to traders, with the policymakers predicting an extended period of low-interest rates but not announcing any new immediate stimulus measures. At his post-meeting press conference, Powell may have surprised some investors with a relatively bleak assessment of the pace of the recovery in the coming months, predicting the unemployment rate would end 2020 at 9.3% and warning of permanent job losses.

Powell's outlook may have been one factor in Thursday's sell-off—the worst daily decline for the S&P 500 since March 16—but a larger one appeared to be growing fears of a resurgence of coronavirus infections as Americans made their way back to offices, stores, and restaurants. Investors appeared to be reacting to recent reports of increasing numbers of cases—and more tellingly, hospitalizations and higher positivity rates—in Arizona, Texas, and several other states.

No single data point on the virus on Wednesday evening or Thursday seemed to spark the sell-off, however, leading to speculation that profit-taking after the recent rally may also have been at work. Indeed, Thursday also brought news of some encouraging progress in developing possible vaccines and treatments for the coronavirus, including an announcement from Regeneron that its antibody cocktail for both preventing and treating infection might be available as early as the fall.

The week's economic calendar was relatively light and brought few surprises. Weekly jobless claims remained elevated (1.54 million) but fell for the 11th consecutive week and were in line with expectations. Continuing claims fell less than expected, but the University of Michigan's preliminary gauge of consumer expectations in June surprised somewhat on the upside.

US STOCKS – As of close Friday, June 12, 2020

Index	Friday's Close	Week's Change	% Change YTD
DJIA	25,605.54	-1505.44	-10.28%
S&P 500	3041.31	-152.62	-5.86%
Nasdaq Composite	9588.81	-225.27	6.87%
S&P MidCap 400	1752.38	-156.77	-15.06%
Russell 2000	1387.68	-119.47	-16.83%

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 risk-off response to renewed pandemic fears sent the yield on the benchmark 10-year Treasury note sharply lower, reversing most of the previous week's surge. The broad municipal bond market posted positive returns through most of the week but underperformed the rally in Treasuries. Demand for new issues was strong, and traders noted meaningful improvement in demand for higher-yielding debt. According to the most recent industrywide flow figures from the Investment Company Institute, municipal bond mutual funds experienced inflows of USD 2.3 billion for the week ended June 3—the most significant weekly inflow since late February.

Credit spreads in the investment-grade corporate bond market widened as investors demanded more yield to compensate for risk, especially late in the week amid increased volatility. In a reversal of the recent performance trend, riskier market segments lagged higher-quality industries and experienced greater spread widening. The primary calendar was relatively active with total issuance at the low end of expectations, and the majority of new deals were well received, according to the firm's traders.

Continued robust inflows provided technical support and helped the high yield market absorb steady new issuance. However, increased volatility late in the week prompted some investors to harvest gains in names that performed well over the past three weeks. The previous weekend's announcement of OPEC's decision to reduce output through July aided the energy segment, which has a relatively substantial weighting in high yield indexes.

US TREASURY MARKETS AND WEEKLY YIELD CHANGE – As of close Friday, June 12, 2020

3 Mth: +0.1 bps to 0.15%

2-yr: -0.3 bps to 0.18%

5-yr: -0.13 bps to 0.33%

10-yr: -0.20 bps to 0.70%

30-yr: -0.21 bps to 1.46%

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

INTERESTING NEWS OVERSEAS

Equities in Europe fell—snapping four weeks of gains—on fears of a resurgence of coronavirus infections and delayed economic recovery. The pan-European STOXX Europe 600 Index ended the week 4.99% lower. Among European markets, Germany's Xetra DAX Index fell 6.13%, France's CAC 40 Index declined 6.05%, and Italy's FTSE MIB Index dropped 5.77%. The UK's FTSE 100 Index slid 4.89%.

Gross domestic product (GDP) in the UK shrank by a record of 20.4% in April from March as the country spent the month in a coronavirus lockdown, official data showed. The economy contracted by 24.5% year on year. Currently, the UK economy in April was the same size as it was in 2002.

Bank of England (BoE) Governor Andrew Bailey said that there were some signs of an economic pickup as the lockdown restrictions began lifting in May, but he warned that there was still likely to be long-term economic damage. The BoE was expected to expand its bond-buying program the following week.

The European Systemic Risk Board, which is hosted by the European Central Bank (ECB), recommended that the ban on dividend payments, bonuses, and share buybacks by banks in the European Union should be extended by another three months, which would be at least until the end of 2020. The ban is designed to help banks build buffers to withstand the coronavirus-induced economic slump (at the expense of the shareholder).

Stocks in Japan declined for the week. The Nikkei 225 Stock Average fell 558 points (2.4%) and closed at 22,305.48. The widely watched benchmark has returned -5.7% for the year-to-date period. The large-cap TOPIX Index and the TOPIX Small Index, broader measures of Japanese stock market performance, recorded similar-sized weekly losses. The yen strengthened versus the US dollar and traded near JPY 107 per US dollar on Friday.

On Wednesday, the Organization for Economic Cooperation and Development (OECD) said the coronavirus has contributed to the worst economic crisis since World War II. The organization expects the global GDP to contract 6.0% in 2020 versus the year-ago period based on the assumption that the pandemic will continue to recede and remain under control. The latest forecast is significantly worse than the March projection of a 2.4% decline in global growth. The OECD concurrently reduced its growth forecast for Japan. The group now believes Japan's GDP will contract 6.0% in 2020 versus the March forecast for 0.2% growth. Stocks in China declined amid disappointing credit data and weaker global sentiment. The domestic large-cap CSI 300 Index was unchanged from the previous week, while the benchmark Shanghai Composite Index slipped 0.4%. China's sovereign 10-year bond yield declined as inflation continued to slow and stayed below the government's full-year target.

China's broad credit growth, as measured by total social financing, rose to 12.5% year on year in May compared with 10.7% last December, though a surge in a net issuance of government debt appeared to drive the increase.

Over the past month, the People's Bank of China (PBOC) allowed interbank rates to rise by around 30 basis points. Meanwhile, a one-month rolling average of the overnight repo rate rose to 1.3% at the start of June from around 1% in early May. Among longer-dated securities, the yield on five-year government bonds increased by 70 basis points, while the yield on the 10-year sovereign bond rose 30 basis points.

The PBOC's tolerance of the upward trend in interest rates contrasts with its stance earlier this year when policymakers consistently guided rates lower. Many analysts have charged the central bank with failing to do enough to spur economic growth, mainly as China's annual inflation rate fell for the fourth straight month in May. Though some analysts believe that the recent tightening reflects Beijing's concerns about currency weakness, the upshot has been to send mixed signals to the market.

THE WEEK AHEAD

Investors will continue to monitor the spread and impact of the pandemic on the global economy amid growing concerns that the second wave of infections in the US could lead to additional lockdown measures. Elsewhere, US Fed Powell's testimony to Congress and a European Council meeting will be keenly watched. Data includes the US and China retail trade and industrial output; UK jobs report, retail sales and inflation data; Germany investor morale; Japan trade and inflation; and Australia employment figures. Monetary policy action will be taken by central banks in the UK, Japan, Brazil, Russia, Switzerland, Indonesia, and Taiwan, while minutes from prior meetings will be published in Japan and Australia.

Call us at LCP if you have any questions. Have a great week!

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