LCP | LAKEVIEW CAPITAL PARTNERS

LAKEVIEW CAPITAL PARTNERS – May 4, 2020

LAST WEEK IN REVIEW

Stocks ended mixed last week, as investors weighed some hopeful developments in the battle against the coronavirus pandemic against poor economic news and a possible restart to the U.S.-China trade war. Small- and mid-caps outperformed for the week, as the major indexes rounded out their best monthly performance since 1987. Energy shares outperformed within the S&P 500 Index by a wide margin, helped by signs that crude oil consumption was recovering in some countries. Cruise line shares were also notable standouts, surging early in the week on growing optimism that they had the financial resources to survive the current no-sail orders. Health care and utility shares lagged.

The week began on a positive note, with investors seemingly encouraged by the partial lifting of lockdown orders in some states and the gradual reopening of major economies overseas (see Europe section below). Coronavirus infection and hospitalization trends also appeared to be encouraging in some areas, although the overall rate of new cases in the US seemed to be plateauing rather than falling.

News of a possible treatment for patients ill with the virus helped spark another leg up for markets on Wednesday. Gilead Sciences announced that its drug remdesivir had performed well in a large trial in reducing the severity of the disease in patients suffering from COVID-19, the disease caused by the coronavirus. Dr. Anthony Fauci, the head of the National Institute of Allergy and Infectious Diseases, stated at the White House that remdesivir had a "clear-cut, significant, positive effect in diminishing the time to recovery." Progress on a vaccine remained much slower, but investors also seemed to be encouraged by reports that an Oxford University team might have one available as early as September.

Last week were the first signs that an exit from the pandemic appeared to in the future; unfortunately, the toll that the crisis has taken on the economy seemed to be pretty bleak. Stocks pulled back again Thursday after the Labor Department reported that another 3.84 million Americans had filed for unemployment, more than expected, and bringing the six-week tally to over 30 million, or approximately 18% of the US working population. March's personal incomes also fell back more than expected, while personal spending tumbled 7.5%, the largest drop since records began over six decades ago. President Donald Trump appeared to further unsettle markets Thursday evening by stating he was considering imposing new trade sanctions on China in retaliation for its lack of cooperation early in the pandemic.

US - MARKETS & ECONOMY

Last week was the market's busiest week of earnings season, with roughly one-third of S&P 500 companies expected to report first-quarter results, according to Refinitiv. Two of the most heavily weighted firms in the index, Facebook and Amazon.com, reported after the close of trading Thursday and beat consensus revenue expectations. Amazon's earnings fell as the company spent heavily to keep up with booming demand. Then shares dropped sharply on Friday on news that the House Judiciary Committee had asked CEO Jeff Bezos to testify about allegations that the company had earlier misled Congress on how it interacted with third-party sellers on its site.

US STOCKS

Index	Friday's Close Week Ending 5/1/2020	Week's Change Week Ending 5/1/2020	% Change YTD Week Ending 5/1/2020
DJIA	23,723.69	-51.58	-16.87%
S&P 500	2830.71	-6.03	-12.38%
Nasdaq Composite	8604.95	-29.57	-4.10%
S&P MidCap 400	1586.51	36.14	-23.10%
Russell 2000	1257.39	24.34	-24.64%

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

Longer-term bond yields moved slightly higher for the week. (Bond prices and yields move in opposite directions.) The Federal Reserve's policy committee met during the week but left the federal funds target rate unchanged, as expected. Fed Chair Jerome Powell stated that the committee would hold its policy rate near 0% until the economy is on track to meet the Fed's employment and inflation goals.

According to fixed income traders, the investment-grade corporate bond's primary calendar was in the spotlight ahead of the month-end. Heavy issuance on Thursday caused the week's total to be twice the expected amount, and traders reported that most deals were met with substantial demand. High yield bond investors were focused on earnings releases and the secondary trading of recent new issues. Strong demand for recent "fallen angels"—or companies whose debt has recently lost investment-grade status—as they transitioned to high yield indexes drove much of the market's buying activity. The plunge in oil prices has resulted in several energy issuer downgrades in recent weeks.

The broad municipal market produced negative returns for much of the week and underperformed Treasuries, as several primary market deals were postponed or struggled to price without concessions while secondary market activity remained weak. Amid growing concerns surrounding the loss of revenues for muni issuers, the Fed announced that it was expanding the eligibility criteria for cities and counties that can utilize its municipal lending facility. Cities with populations of 250,000 or more and counties with populations of at least 500,000 will now be eligible to participate.

YIELD CHECK - US TREASURY MARKETS – ONE WEEK CHANGE

3 Mth: 0 bps to 0.10%
2-yr: - 3 bps to 0.19%
5-yr: - 2 bps to 0.35%
10-yr: + 1 bps to 0.61%
30-yr: + 8 bps to 1.25%

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

European equities rose as investors welcomed announcements that lockdown measures will soon start being lifted. However, the European Central Bank's decision not to inject more stimulus into the economy eroded gains. The pan-European STOXX Europe 600 Index ended the week 2.60% higher. Germany's Xetra DAX Index surged 5.08%, France's CAC 40 climbed 4.07%, and Italy's FTSE MIB Index gained 4.93%. The UK's FTSE 100 Index rose 0.73%.

The European Central Bank (ECB) left its key deposit rate at a record low of -0.5% (yes, you see that correctly, that's a negative) and reaffirmed its plan to buy more than €1 trillion of bonds to shore up financial markets. It also expanded its loans to banks through targeted longer-term refinancing operations (TLTROs), offering them at an interest rate as low as -1% from June. The ECB further announced a round of fresh lending, called non-targeted pandemic emergency longer-term refinancing operations (PELTROs). Starting in May with a rate of -0.25% (more NIRP) "to support liquidity conditions in the euro area financial system and contribute to preserving the smooth functioning of money markets by providing an effective liquidity backstop." ECB President Christine Lagarde said the central bank was "fully committed to doing everything possible within its mandate to support every citizen of the eurozone" but that "an ambitious and coordinated fiscal stance is critical."

Like in the US, Italy, Spain, France, Germany, and Greece gave more detailed plans on gradually reopening their economies after the coronavirus lockdowns while warning about a second wave of infections.

- Italian Prime Minister Giuseppe Conte said Italy's manufacturers would restart today (May 4), and physical activity outside the home will be allowed. However, schools will remain closed until September. He said the second phase of reopening shops and public places would take place on May 18.
- Germany allowed small shops to reopen this week. Playgrounds, museums, and churches can reopen from Monday, to be followed soon after by schools and sports events.
- In France, businesses can reopen from May 11, excluding cafés, restaurants, and large meeting places such as prominent museums and cinemas. Local public transport will largely be restored. Schools will then reopen progressively.
- In Spain, Prime Minister Pedro Sanchez said restrictions would be lifted in four stages over the next two months with regional variations. Mainland Spain will join the first phase, when restaurants, hotels, small shops, and places of worship can reopen on May 11. Most schools will not reopen until September.

Financial markets in China were shut on Friday for an extended Labor Day holiday and were set to open again on Wednesday, May 6. Over the shortened week, the CSI 300 large-cap index rose 3.0%, beating the Shanghai Composite, which gained 1.8%.

In an attempt to boost consumer spending, the Labor Day holiday is one day longer than last year. Most analysts believe a mood of caution will prevail, however, as workers worry about job security, global recession, and a potential second wave of infections. Per capita, disposable income fell by 3.9% in the first quarter, so any rebound due to pent-up consumption may be brief. Cinemas remain closed, and shopping malls are imposing social distancing and frequent temperature checks. While a few travel restrictions remain, with some local governments discouraging travel between provinces, signs suggest that economic and social activity continue to normalize across China.

Lastly, North Korea's fearless leader Kim Jong-un has appeared to resurface. He looked incredibly healthy while walking and reading a book in the city streets. However, there was a great debate in pictures if he dyed his hair brown, or it has stayed black. In the photo taken by State Media (not true), it certainly looks black (bet won).

Disclaimer – I am adding a little humor to this update, and yes, making a little fun. Please take the picture and that paragraph with a grain of salt.

Source: YouTube (note: this is not an actual picture of Kim Jong-un, the image is an attempt at humor)

THE WEEK AHEAD

The US jobs report will be in the spotlight this week, with job losses were seen at 21 million during April as businesses cut back or closed completely to contain the spread of the coronavirus pandemic. The unemployment rate is expected to jump to 16 percent, the highest level since 1939. Meanwhile, factory orders are seen plunging 9.8 percent in March, led by a decline in demand for transport equipment. Other notable publications are ISM Non-Manufacturing PMI, foreign trade balance, first-quarter nonfarm productivity, ADP employment change, IBD/TIPP Economic Optimism, and final readings of wholesale inventories and Markit Services PMI.

The first-quarter earnings season continues this week, with a diverse group of companies reporting such as AIG, Anheuser-Busch InBev, Bristol-Myers Squibb, CVS Health, DuPont, General Motors, PayPal, Walt Disney, Western Asset Mortgage and Uber.

Please stay safe and be well. Call us at LCP if you have any questions. Have a great week!

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