LAKEVIEW CAPITAL PARTNERS – April 20, 2020

LAST WEEK IN REVIEW

The major indexes recorded mixed returns, as investors weighed record downturns in economic data against hopes that progress in containing the coronavirus pandemic might soon result in a partial reopening of the economy. The technology-heavy Nasdaq Composite Index outperformed by a wide margin, as did growth stocks relative to value shares and large-caps relative to small-caps. Relatedly, tech shares outperformed within the S&P 500 Index, helped by strong gains from chipmakers, as well as bellwethers Microsoft and Apple. A substantial gain in Amazon.com boosted consumer discretionary shares, and gains among pharmaceutical and managed care companies helped health care stocks.

Much of the week's gains came on Tuesday, as investors reacted positively to reports of slowing coronavirus infection rates and hospitalizations in some of the nation's hardest-hit areas. Sentiment also seemed to get a boost from news that governors were assembling regional coordinating committees to plan for the gradual reopening of their economies. Equity traders I spoke with said that another significant factor in the day's rally was pressure put on those with short positions that had been hurt the most by the pandemic. As a result of the so-called "short squeeze," airlines, cruise lines, and hotels were among the industry groups that had outsized moves to the upside.

Tuesday also brought the unofficial start of earnings reporting season, with some major banks reporting first-quarter profits. JPMorgan Chase and Wells Fargo reported profit declines of 70% and 89%, respectively, while Citigroup, which reported Wednesday, reported a drop of 46%. While bank earnings are feeling the pinch of lower lending margins due to falling interest rates and the prospect of rising loan defaults, analysts polled by FactSet expect other sectors to fare somewhat better, with overall earnings for the S&P 500 declining 14.5%. According to Refinitiv (formerly Thomson Reuters), 33 S&P 500 companies were expected to report results during the week.

US - MARKETS & ECONOMY

The week's economic data highlighted the challenges facing companies and appeared to foster a downturn on Wednesday. The Commerce Department reported that retail sales plunged 8.7% in March, the biggest decline on record and even worse than forecasts. Clothing and apparel sales fell by half, while sales gains at health and personal care stores and warehouse clubs and superstores rose less than anticipated. A nearly 26% gain in food and beverage store sales roughly offset the decline in restaurant and bar receipts, however. On Thursday, the Labor Department reported that another 5.2 million Americans had filed unemployment claims, bringing the total over the previous four weeks to more than 22 million.

US STOCKS

Index	Friday's Close	Week's Change	% Change YTD
DJIA	24,242.49	523.12	-15.05%
S&P 500	2874.56	84.74	-11.03%
Nasdaq Composite	8650.14	496.56	-3.59%
S&P MidCap 400	1561.43	-24.63	-24.31%
Russell 2000	1229.10	-17.08	-26.33%

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

Treasury yields edged up early in the week on news of an agreement to cut oil production (see Saudi Arabia section below) but fell back to end the week lower in response to the poor economic data. The broad municipal market produced positive returns over most of the week but underperformed Treasuries. Traders noted that primary market activity improved, however, particularly regarding deals from higher-quality issuers. The state of California issued over USD 1 billion in general obligation (GO) bonds. The deal was upsized and repriced to lower yields on robust investor demand.

Strong demand from overseas investors bolstered the performance of the investment-grade corporate bond market, although credit spreads—the extra yield over Treasuries on risk-sensitive securities—were mixed amid the unsettled economic backdrop. The volume of issuance exceeded expectations, and traders noted that most new deals were well received.

Meanwhile, positive flows provided technical support to the high yield market, which also witnessed robust demand for new deals. Our traders noted that most buyers were focused on higher-quality issuers and those that have recently been downgraded to below investment-grade status. OPEC's recent announcement of significant oil production cuts brought some stability to the energy segment, where credit-specific news drove much of the week's movement.

YIELD CHECK - US TREASURY MARKETS

3 Mth: - 10 bps to 0.09%
2-yr: - 3 bps to 0.20%
5-yr: - 2 bps to 0.36%
10-yr: - 8 bps to 0.64%
30-yr: - 8 bps to 1.26%

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

European shares ended higher, clawing back earlier losses on US President Donald Trump's plan to start reopening the US economy and hopes for a treatment for COVID-19, the disease caused by the coronavirus (see above). The STOXX Europe 600 Index rose 0.61%. Other markets were mixed, with Germany's Xetra DAX up 0.66%, France's CAC 40 little changed, and Italy's FTSE MIB down 2.91%. The UK's FTSE 100 Index slipped 0.93%.

Some European countries extended their lockdowns while outlining plans to reopen economies amid signs that the coronavirus crisis was abating. France will continue its lockdown until May 11 and then open schools. Italy, which extended containment measures until May 3 last week, has reportedly begun considering how to reopen its economy. The UK said the lockdown could last at least another three weeks, with ministers split on whether to encourage people to go back to work. Meanwhile, children in Denmark are back in nurseries and primary schools, Italy opened some bookshops and small stores, Austria allowed home improvement shops to open, the Czech Republic lifted restrictions on communal sports, Germany's automakers are set to resume production next week, and Spain allowed workers in nonessential industries to return to work.

European Central Bank (ECB) President Christine Lagarde repeated at an International Monetary Fund (IMF) meeting that the central bank is willing to do everything necessary within its mandate to help the euro area pull through the coronavirus crisis. She said the ECB is fully prepared to increase the size of its asset purchase programs (very "Fed like") and adjust their compositions by as much as necessary and for as long as needed. Lagarde also said that the central bank would explore all options and all contingencies to support the economy through this shock. The ECB is bracing for a "large contraction" of the economy and, at least initially, falling inflation, she said.

The IMF predicted that the eurozone economy would shrink by 7.5% this year before partly recovering and growing 4.7% next year. It also forecasts in its April Fiscal Monitor that gross public debt will rise by around EUR 800 billion from 2019 to 2020 and reach 97.4% of gross domestic product (GDP), much higher than during the sovereign debt crisis. Greece and Italy will have the highest debt burdens this year among euro area countries, exceeding 150% of GDP. Some other states, including France, Spain, and Portugal, will have debt burdens of more than 100% of GDP.

Lastly, Saudi stocks, as measured by the Tadawul All Share Index, returned about -5.3% in the five trading sessions since the close of business on Thursday, April 9. The market is closed on Fridays and Saturdays.

The Saudi market surrendered the previous week's gains, and then some, as oil prices retreated amid disappointment with oil producers' efforts to reduce global production. On Sunday, a group of OPEC and non-OPEC oil-producing nations, collectively called OPEC+, agreed after several days of meetings to cut global output by 9.7 million barrels per day in May and June. Smaller reductions will be required through April 2022.

The drop in oil prices suggests that, even after the production cuts, world oil markets will still have abundant supplies due to the significant reduction of global demand. Late in the week, energy ministers from Saudi Arabia and Russia issued a joint statement in which they expressed willingness "to take further measures jointly" with other oil-producing nations to help stabilize world oil markets.

THE WEEK AHEAD

The Markit PMI survey for the US is set to highlight the damage from the coronavirus outbreak on the world's largest economy, with forecasts suggesting the private sector activity contracted at a record pace in April. In addition, the March durable goods orders report will probably show the steepest fall in demand for US manufactured goods since August 2014, while the final reading of Michigan Consumer Sentiment is expected to come in even weaker than initially thought. Other notable publications include existing and new home sales, the Chicago Fed National Activity Index, and the weekly jobless report.

On the corporate front, the first-quarter earnings season continues, with around 500 US companies publishing their results and updating guidance on full-year expectations. Earnings reports to watch include Amazon, American Airlines, American Express, AT&T, Boeing, Coca-Cola, Delta Air Lines, Eli Lilly and Co., IBM, Intel, Netflix, PayPal, Philip Morris Inc, Procter & Gamble, Snap, Texas Instruments, Union Pacific, Verizon, Visa, and 3M.

Elsewhere in America, critical economic data to follow include Canada retail trade, inflation, and new housing prices, Mexico retail sales and economic activity, and Brazil's business confidence and current account.

Its another week we are working from our homes. Keep your head up and keep grinding.
Please stay safe and be well. Call us at LCP if you have any questions.

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