LCP | LAKEVIEW CAPITAL PARTNERS

LAKEVIEW CAPITAL PARTNERS – April 13, 2020

LAST WEEK IN REVIEW

Stocks recorded one of their best weekly gains on record, as some encouraging trends in global coronavirus infection and hospitalization rates lifted hopes that stay-at-home orders might soon be eased. The most beaten-down asset classes fared best, with small-caps outperforming large-caps and slower-growing value shares outpacing higher-valuation growth stocks. The same was true among sectors of the S&P 500 Index, with energy shares and financial services shares regaining some lost ground, while consumer staples stocks lagged. The gains brought the large-cap indexes and the technology-heavy Nasdaq Composite Index within 20% of their February highs—or out of the bear market territory, according to some definitions. US markets were closed Friday in observation of the Good Friday holiday.

Markets got off to a strong start for the week, traders I spoke to attributed the turn in sentiment to an easing toll of new coronavirus infections and fatalities in several global hot spots, including Italy, France, Germany, Spain, and New York City. Markets carried that momentum into Tuesday morning after China reported no coronavirus-related deaths for the first time. At the same time, Germany saw more recoveries than new cases, and Italy stated it would end portions of its lockdown on May 4. New York reported a new spike in deaths on Tuesday and Wednesday, but investors appeared encouraged that new hospitalizations continued to slow. The University of Washington's widely watched model predicting the course of the outbreak also significantly lowered the expected number of fatalities in the US.

US - MARKETS & ECONOMY

Hopes for further stimulus measures to combat the economic slowdown also seemed to support sentiment. House Speaker Nancy Pelosi was quoted as telling members of her party that the next phase of fiscal stimulus would include another $1 trillion in support to the economy, including direct payments to individuals, extended unemployment insurance, and new small business loans. At a press conference early in the week, President Donald Trump stated that another round of stimulus was "absolutely under serious consideration," and talks between the administration and congressional leaders were reportedly underway.

On Thursday morning, the Federal Reserve played Oprah Winfrey and announced an even more extensive stimulus program, promising $2.3 trillion in loans to smaller businesses and municipalities. The Fed also announced it would allow investment in lower-quality debt (junk bonds) as part of its Term Asset-Backed Securities Lending Facility and other emergency lending programs. I believe Chairman Powell was quoted as saying, "And you get a car, and you get a car!" He, of course, did not say that, but with the announcement, he should have.

On Thursday, the Labor Department reported that 6.6 million Americans had filed for unemployment benefits in the previous week, only slightly lower than the record-setting number in the last report and well above consensus estimates. As an illustration of the unprecedented contraction in the labor market, the 17 million jobs lost since mid-March totaled over 10% of the US workforce. Relatedly, the University of Michigan's consumer sentiment index's preliminary reading for April recorded its largest drop on record, bringing it back to levels last seen in 2011.

US STOCKS

Index	Friday's Close	Week's Change	% Change YTD
DJIA	23,719.37	2666.84	-16.89%
S&P 500	2789.82	301.17	-13.65%
Nasdaq Composite	8153.58	780.50	-9.13%
S&P MidCap 400	1586.06	248.71	-23.13%
Russell 2000	1246.18	194.12	-25.31%

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

US Treasury yields increased over the week, driven by the risk-on sentiment in equity markets and an increased supply of Treasuries. (Bond prices and yields move in opposite directions.) In a reassuring signal for government debt markets, however, traders noted that solid demand for Treasury bills largely offset massive levels of issuance. The broad municipal market also sent positive signals, supported in part by the Fed's new liquidity facility to provide up to $500 billion in funding to qualifying state and local governments through purchases of short-term notes. As strains within the muni market eased, the firm's traders reported stable demand for several new deals as primary market issuance slowly reopened.

The growing hopes for nearing a peak in the coronavirus pandemic led to improved sentiment in the investment-grade corporate bond market. Traders reported that overseas investors were active during the week, and a steady flow of new deals came to market. Meanwhile, equity gains and the Fed supported the high yield bond market, where demand outstripped the new issuance volume. Energy bonds traded higher midweek amid reports that OPEC and other oil-producing nations would discuss production cuts at a Thursday meeting.

YIELD CHECK - US TREASURY MARKETS

3 Mth: + 13 bps to 0.19%
2-yr: 0 bps to 0.23%
5-yr: + 2 bps to 0.38%
10-yr: + 13 bps to 0.72%
30-yr: + 13 bps to 1.34%

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

Equities in Europe rose over the week, as the slowing deaths from the coronavirus raised hopes that country lockdowns may soon be eased. The STOXX Europe 600 Index ended 6.62% higher. Germany's Xetra DAX Index climbed more than 11%, France's CAC 40 Index gained 7.62%, and Italy's FTSE MIB was up around 5%. The UK's FTSE 100 Index surged 7.83%.

Spain, France, Italy, and the UK said early in the week that new coronavirus deaths were beginning to decline. The number of patients in intensive care in Italy declined for the first time. European officials noted that there are tentative signs that strict lockdown measures are beginning to help slow the spread of the virus.

The *Financial Times* newspaper said governments across Europe had begun preparations to ease lockdowns when infection curves are under control. Denmark noted that kindergartens and primary schools would reopen from April 15. The Czech Republic said shops selling some non-essential goods could resume from Thursday. Austria said small shops, DIY stores, and garden centers would be able to open from April 14. Italian Prime Minister Giuseppe Conte told the BBC that some restrictions in Italy might gradually be removed by the end of April. However, concerns arose at the end of the week that the implementation of lockdown exit strategies may be delayed after data showed new infections were still rising in Germany, Italy, Spain, and the UK.

Eurogroup finance ministers were set to resume their meeting on Thursday to try to agree on a package of measures to support economies struggling with the impact of the coronavirus pandemic. So far, they have failed to reach an overall agreement after 16 hours of talks. The Dutch, backed by Germany, are resisting the unrestricted use of the European Stability Mechanism. At the same time, France and Italy insist on a temporary reserve fund, financed by joint bond issuance, to support fiscal policy in the most indebted countries. Germany has rejected this proposal.

Ahead of the resumption of talks, European Central Bank President Christine Lagarde said Europe needs to show greater solidarity and full alignment of fiscal and monetary policy as the best way to protect productive capacity and employment. She urged ministers not to get hung up on joint debt issuance, so-called Coronabonds, adding that there are other forms of solidarity like mutualized spending from the shared budget or a reconstruction fund.

In Japan, stocks recovered nearly the entire prior week's losses through the close on Thursday. The Nikkei 225 Stock Average advanced 1,526 points (8.5%) and closed at 19,345.77, down 18.2% for the year-to-date period. The large-cap TOPIX Index and the TOPIX Small Index also posted good gains for the week but have returned -17.7% and -22.0%, respectively, in 2020. The yen was modestly weaker for the week and traded in a range near ¥109 per US dollar on Thursday.

The latest Reuters poll of economists shows the Japanese economy is expected to endure recessionary conditions (typically defined as consecutive quarters of declining economic growth). The poll showed that economists forecast an economic contraction of 3.7% year over year in the first quarter of 2020, following an unexpectedly steep 7.1% decline in the fourth quarter, as the U.S.-China trade war and the October 1 consumption tax increase choked consumption and businesses slashed capital spending at the fastest pace since the global financial crisis in 2008.

The forecasters polled by Reuters believe that Japan's economy will continue to slide at an annualized 6.1% rate in the current quarter. For the entire year, economic growth is expected to decline 2.1%. Prime Minister Shinzo Abe announced a massive stimulus effort totaling ¥108.2 trillion ($992 billion), a headline figure that is nearly 20% of the nation's economic output. About 80% of the economists believe that the Bank of Japan's (BoJ) next move will be another easing of monetary policy (roughly 50% expect some form of action this month), in a follow-up to the BoJ's March easing of corporate funding, including asset purchases of corporate bonds and commercial paper, to reduce strains on markets impacted by the global pandemic.

Lastly, Saudi stocks, as measured by the Tadawul All Share Index, returned about 3.8% in the five trading sessions since the close of business on Thursday, April 2. The market is closed on Fridays and Saturdays. Although an expected conference call among oil-producing nations was delayed from Monday until Thursday, equities extended last week's gains as investors were optimistic that OPEC and non-OPEC countries would reach an agreement on cutting global production. According to CNBC, the meeting was expected to start at 4 p.m. (local time) in Vienna, Austria.

Early in the week, there were conflicting reports about the likelihood of renewed cooperation between OPEC heavyweight Saudi Arabia and non-OPEC member Russia. Some media reports indicated that there was continued tension between the two countries following Russia's early-March decision not to cooperate with proposed OPEC production cuts and Saudi Arabia's retaliatory move to drive down prices via increased production and discounts to global customers. Other reports quoted a Russian official as saying he believes that a Saudi-Russia deal to cut global production was "very close."

The likelihood of a deal seemed to increase around midweek, as Russia signaled a willingness to cut production. There were also reports in early Thursday trading in the US that a Saudi-Russia deal was taking shape, and *The Wall Street Journal* reported shortly before markets closed in New York that the two nations had agreed to cut production by a combined total of 5.3 million barrels a day, nearly a quarter of their current combined output.

THE WEEK AHEAD

In the US, retail sales and industrial production numbers for March will provide an insight into the early impact of the coronavirus pandemic on the world's largest economy, with forecasts pointing to a record fall in trade and to the steepest decline in output since September 2008. Other notable publications are housing starts and building permits, as well as foreign trade prices, business inventories, NY Empire State Manufacturing Index, Philadelphia Fed Manufacturing Index, NAHB Housing Market Index, and the weekly jobless report.

Meanwhile, the first-quarter earnings season will kick off next week, starting with reports from health care companies such as Johnson & Johnson and Abbott and major banks, including JPMorgan Chase, Wells Fargo, Goldman Sachs, Citigroup and Bank of America.

I guess it would be a good time to move, but for the rest of us, its another week working from our homes. 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)

LCP | LAKEVIEW CAPITAL PARTNERS