LCP | LAKEVIEW CAPITAL PARTNERS

LAKEVIEW CAPITAL PARTNERS – March 30, 2020

LAST WEEK IN REVIEW

Stocks rebounded from three-year lows, as investors appeared encouraged by further aggressive monetary policy actions and the passage of an unprecedented level of fiscal stimulus. On Tuesday, the Dow Jones Industrial Average had its best day since 1933, and the S&P 500 Index experienced its largest daily rally since October 2008, with all the major U.S. equity indexes surging by around 9% to 11%. By the close of business on Thursday, the Dow had marked its best three-day stretch since 1931, although the major indexes surrendered a portion of their gains to close out the week.

Heavily beaten-down energy shares outperformed as oil prices stabilized somewhat, and US officials put pressure on Saudi Arabia to end its price war with Russia. Airline shares also bounced back at midweek as news arrived of a $60 billion bailout package for the industry as part of the stimulus bill, and a rebound in Boeing boosted the industrials sector. Utility shares were also strong, while communication services shares lagged.

The week got off to a poor start as a $2 trillion stimulus bill failed to clear a procedural hurdle in the Senate for the second time in two days, with Democrats objecting to a lack of transparency in how a $500 billion loan program would be used and overseen. Markets snapped back Tuesday, however, after House Speaker Nancy Pelosi stated that she was hopeful that a deal would be reached imminently. At his daily press conference, President Donald Trump stressed the need to act quickly and indicated his hope that the economy would begin moving back to normal by Easter (April 12).

Around midnight Tuesday, the White House and congressional leaders finally agreed on a $2.2 trillion stimulus package, including $350 billion in support for small businesses, along with $1,200 direct payments to lower- and middle-income adults and $500 per child. The bill also expanded unemployment insurance and provided additional funding for providers of health care services. The Senate passed the legislation unanimously (by a vote of 96 to 0) on Wednesday, and the House passed the bill by a voice vote on Friday.

US - MARKETS & ECONOMY

The Federal Reserve expanded its own stimulus measures, boosting both equity and fixed income markets. On Monday morning, the Fed announced that it was setting no limit on its purchases of Treasuries and agency mortgage-backed securities while also beginning to purchase investment-grade corporate bonds. Also, the Fed revived the Term Asset-Backed Securities Loan Facility (TALF)—initially launched in 2008—which is designed to support bonds backed by student and auto loans as well as other types of asset-backed securities. The central bank also said that it was taking steps to assure the flow of credit to municipalities and announced plans for a lending program for small businesses.

Traders noted that glimmers of hope in the battle against the pandemic also seemed to support sentiment at midweek. New York Governor Andrew Cuomo stated Wednesday that a slowing growth rate in hospitalizations might be evidence that social distancing could be working. Signs emerged of slowing rates of growth in new infections and deaths in Italy and Spain, although the situation remained dire. Reports also surfaced of progress in developing home testing kits for the Coronavirus. Economic data were predictably grim, however, with a record 3.3 million Americans filing for unemployment in the week ended March 21.

US STOCKS

Index	Friday's Close	Week's Change	% Change YTD
DJIA	21,636.78	2462.80	-24.18%
S&P 500	2541.47	236.55	-21.34%
Nasdaq Composite	7502.38	622.86	-16.39%
S&P MidCap 400	1420.28	162.42	-31.16%
Russell 2000	1131.93	117.88	-32.16%

*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 decreased as the Fed's purchases of Treasuries and expanded funding, credit, and liquidity facilities aided market functioning. (Bond prices and yields move in opposite directions.) The Fed's announcement that it will begin purchasing corporate debt in both the primary and secondary markets, as well as progress by lawmakers in approving an economic stimulus plan, supported the performance of investment-grade corporate bonds. The improved sentiment prompted many issuers to come to the market, and the volume of new deals reached the highest weekly total on record. The issuance was met with robust demand from domestic and overseas investors.

Traders I talked to reported that high yield bond investors continued to be mindful of cash balances due to the pace of recent outflows from the asset class. However, market sentiment improved as the week progressed amid substantial equity gains in response to the federal government's historic stimulus plan.

The broad municipal market rallied sharply for much of the week, led by higher-quality bonds. Dealer inventories of short-term tax-exempt paper appeared to slowly ease, leading to improved conditions across the maturity and credit spectrum. Traders noted that the municipal market continued to experience equity-like volatility, however. According to Lipper data, municipal bond mutual funds suffered $13.7 billion of net outflows industry-wide for the week ended March 25.

YIELD CHECK - US TREASURY MARKETS

3 Mth: - 1 bps to -0.04%
2-yr: - 7 bps to 0.24%
5-yr: - 33 bps to 0.39%
10-yr: - 20 bps to 0.67%
30-yr: - 16 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 rose over the week, snapping four consecutive weeks of losses, as unprecedented economic stimulus measures in Europe and the US calmed markets and spurred bottom-picking. But stock markets remained well below record highs. After a week of wild gyrations, the STOXX Europe 600 Index and the German, French, and Italian benchmarks rebounded between 5% and 8%. The UK's FTSE 100 Index rose 5.95%, partly helped by a sharply weaker British pound, which favors exporters, a significant part of the benchmark.

Italy, Spain, and the UK imposed severe restrictions on population movement and gatherings as confirmed cases of coronavirus infections and deaths from COVID-19, the disease caused by the Coronavirus, surged. Spanish Prime Minister Pedro Sanchez extended the state of emergency for another 15 days. The UK approved Draconian emergency legislation, requisitioned large conference centers to set up critical care centers for the sick, and launched a financial support package for the self-employed. British Prime Minister Boris Johnson on Friday confirmed that he had tested positive for the Coronavirus. However, he said his symptoms were mild, and he planned to continue leading the government while self-isolating.

Germany banned meetings of more than two people. Chancellor Merkel entered self-isolation for two weeks after a doctor who gave her a vaccine tested positive. She has passed two tests and will soon take a third.

Japanese stocks recorded substantial gains for the week. The Nikkei 225 Stock Average surged 2,837 points (17.1%) and closed at 19,389.43, but the widely watched market yardstick remained down 18.0% for the year-to-date period. The large-cap TOPIX Index and the TOPIX Small Index also posted double-digit gains for the week but are down 15.2% and 18.2%, respectively, in 2020. The yen was little changed for the week and year to date at ¥109.34 per US dollar on Friday.

Like in the US, *The Nikkei* reported that Prime Minister Shinzo Abe and his cabinet are working to implement an economic stimulus package totaling ¥56 trillion ($500 billion) now that the fiscal budget for 2020 passed. The stimulus effort represents approximately 10% of the country's gross domestic product (GDP) and would be the largest in Japanese history. The initiative, including cash payments to households whose incomes have been impacted by the coronavirus outbreak, is expected to begin in May and approximate ¥200,000 to ¥300,000 ($1,800 to $2,700) per eligible household. Additional stimulus measures include direct government spending and loans from financial institutions.

The government also intends to issue coupons and gift certificates for restaurants and other businesses that have been impacted by the outbreak. Earlier this month, the Bank of Japan committee members voiced their support for additional financing and other measures to stabilize financial markets.

In China, the major indices rose until midweek before flattening off. From Monday to Friday, the Shanghai Composite rose 4.2%, and the CSI 300 large-cap index gained 5.2%.

China was the first country to get hit by the Coronavirus and is the first country to bring the outbreak under control. Only two new local cases were reported between March 17 and March 24. A small number of new imported cases continue to be published—around 40 daily—as Chinese citizens returning from overseas. However, China's tightened immigration controls are proving useful at screening and detecting these imported cases.

The coronavirus deep freeze in China is beginning to thaw, and signs of spring are appearing with increasing frequency. Schools in areas deemed free of the Coronavirus have started to reopen, though they will remain under close supervision, beginning with Qinghai, Guizhou, and Xinjiang. The economically central coastal province of Jiangsu is aiming for the full opening of all schools and colleges by April 13. Museums and some national restaurant chains that have been closed since late January are also beginning to reopen. It's been reported that Chinese citizens are all starting to sing for the broadway show "Annie" – "The sun will come out, tomorrow, betcha bottom dollar that tomorrow, there'll be sun…" (ok that last sentence is inaccurate, but I wanted to make sure you were still reading).

THE WEEK AHEAD

Relevant economic data being released in the US include consumer confidence on Tuesday, the manufacturing Purchasing Managers' Index on Wednesday, and the March jobs report on Friday.

Be safe, hang in there, and call us if you have any questions.

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