LAKEVIEW CAPITAL PARTNERS – May 11, 2020

LAST WEEK IN REVIEW

Stocks recorded solid gains last week, as investors appeared to reconcile themselves to the depth of the economic downturn and focus instead on the reopening of parts of the economy along with possible therapeutic advances in the fight against the coronavirus. The gains brought the technology-heavy Nasdaq Composite Index back into positive territory for the year to date and within roughly 7% of its all-time high in February. Relatedly, tech shares outperformed within the S&P 500 Index, boosted by a solid gain in Apple shares. Energy stocks were also strong, helped in part by a slowing rise in domestic oil inventories. Utilities and consumer staples shares lagged.

US - MARKETS & ECONOMY

The week brought a host of data showing an unprecedented contraction in economic activity, but investors seemed to take hope that the economy was bottoming. On Tuesday, several gauges showed a record contraction in both manufacturing and services activity in April. Still, the Institute for Supply Management's non-manufacturing purchasing managers' index fell much less than feared. On Thursday, stocks rose despite the Labor Department's report of another 3.2 million Americans filing for unemployment insurance in the previous week, with investors reassured that this marked the fifth straight weekly decline in the number of initial jobless claims.

Similarly, many seemed to find the silver lining in Friday's official April employment report. Payrolls fell by a massive 20.5 million in April, causing the unemployment rate to spike to 14.7%, the highest since the Great Depression. The loss of jobs was smaller than consensus expectations, however, and the vast majority of those laid off told surveyors that they expected to be rehired within six months. I hope, but don't anticipate they'll be right.

The possibility of a resumption in the U.S.-China trade war added another layer of uncertainty to the outlook and seemed to result in periodic volatility. Over the previous weekend, President Donald Trump said in an interview that he was prepared to "terminate" the trade deal with China if it did not meet pledges to buy more US goods. However, stock futures jumped Thursday morning on the back of a headline that top US and China trade negotiators were expected to meet to work on the implementation of the first phase of the trade agreement.

Conversely, building hopes that treatments and a vaccine might bring an eventual end to the health and economic crisis seemed to continue to support stocks throughout the week. Enthusiasm for Gilead Sciences' remdesivir was bolstered Thursday after Japanese regulators approved the use of the possible therapeutic. Thursday also brought news that the US Food and Drug Administration had granted approval for the first phase two clinical trial of a possible vaccine, causing shares in its maker, Moderna Therapeutics, to surge on the news.

US STOCKS

Index	Friday's Close Week Ending 5/8/2020	Week's Change Week Ending 5/8/2020	% Change YTD Week Ending 5/8/2020
DJIA	24,331.32	607.63	-14.74%
S&P 500	2929.80	99.09	-9.32%
Nasdaq Composite	9121.32	516.37	1.66%
S&P MidCap 400	1676.18	89.67	-18.75%
Russell 2000	1329.64	72.25	-20.31%

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 generally decreased slightly on the worse-than-expected jobless claims data. Still, the Treasury Department's indication that it would ramp up issuance of long-term debt to finance the federal deficit kept some upward pressure on bond yields with the longest maturities. (Bond prices and yields move in opposite directions.) According to traders I spoke with during the week, federal funds futures traded at levels implying that market participants were pricing in expectations for negative yields next year despite the Federal Reserve's apparent unwillingness to take official short-term rates below 0%.

The broad municipal market produced positive returns for much of the week as attractive relative yields lured back buyers, helping the sector recover somewhat from a sell-off over the last two weeks of April due to concerns about state and local finances. In the investment-grade corporate bond market, traders reported fairly balanced buying and selling activity, although demand from overseas investors was somewhat subdued until the latter part of the week.

Meanwhile, the high yield market focused on earnings, and trading volumes were somewhat light as investors analyzed earnings reports. Investors had a generally positive reaction to energy earnings releases and companies that showed signs of being prudent about managing capital expenditures while maintaining the flexibility to increase future production traded higher. Rising oil prices also bolstered the segment, which carries a heavy-weight in high yield indexes. Below-investment-grade funds reported positive flows.

YIELD CHECK - US TREASURY MARKETS – ONE WEEK CHANGE

3 Mth: - 1 bps to 0.09%
2-yr: - 3 bps to 0.16%
5-yr: - 2 bps to 0.33%
10-yr: + 7 bps to 0.68%
30-yr: + 13 bps to 1.38%

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 reversed course and ended higher amid late signs of easing U.S.-China tensions and optimism that economies would start to recover as lockdown restrictions are lifted. The pan-European STOXX Europe 600 Index rose 0.92%. The main country indexes, however, were mixed. Germany’s Xetra DAX Index ended up 0.24%, France’s CAC 40 slipped 0.59%, and Italy’s FTSE MIB Index dropped 1.84%. The UK’s FTSE 100 Index, which was closed on Friday for a public holiday, rose 3% after an unexpected increase in Chinese exports fueled hopes for a quick economic recovery.

The German Constitutional Court ruled that “some parts” of the European Central Bank’s (ECB) massive bond-buying program were unconstitutional. It ordered the German government to ensure that the ECB carried out a “proportionality assessment” of its asset purchasing program and that the “economic and fiscal policy effects” did not exceed other policy objectives. The court said it would prevent Germany’s central bank from making further purchases if the ECB failed to comply within three months. The ECB said Europe’s top court, the European Court of Justice, had previously said the quantitative easing program was legal. It also pledged to continue doing everything necessary to revive inflation.

The European Commission (EC), in its spring forecast, said that the coronavirus crisis would cause the eurozone economy to contract by a record 7.75% in 2020. However, it would bounce back in 2021, expanding by 6.25% as conditions normalized. The European Union economy would shrink by 7.5% in 2020 and rebound in 2021 as well, growing by 6%. Growth projections for the EU and the euro area have been revised down by around nine percentage points compared with the autumn 2019 economic forecast, it noted. The EC said the new estimates were clouded by an exceptional degree of uncertainty, and the risks were tilted to the downside.

In a holiday-shortened week, China A-shares resumed their gradual uptrend on Wednesday. The Shanghai Composite and CSI 300 large-cap indices both finished up around 1.25% from their pre-holiday April 30 close.

The public health risks in China from the coronavirus continue to fade rapidly, with only two cases reported nationally during the Labor Day holidays. All of China's provinces have downgraded their emergency threat levels to Level II or below. Ahead of crucial college entrance examinations in early July, all regions have reopened their high schools to graduate students. The National People's Congress (NPC) is also confirmed to open on May 21 in Beijing, with over 5,000 delegates attending in person.

To calm rising trade tensions, Vice Premier Liu He spoke with US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin on Friday, according to China's official press agency. During the discussion, they reportedly reaffirmed their commitment to a first trade deal reached in January and pledged to improve cooperation between the two nations.

Lastly, stocks in Brazil, as measured by the Bovespa Index, returned about -0.1%. Although a rally on Friday trimmed losses for the week, sentiment toward Brazilian assets remained negative, in part because the COVID-19 pandemic continued to spread across the country (I thought Carnival was over?), with no signs of peaking. Also, Fitch Ratings changed its outlook for Brazil to "negative," reflecting a "deterioration of Brazil's economic and fiscal outlook, and downside risks to both." However, Fitch kept Brazil's sovereign rating at BB-.

On Wednesday, Brazil's central bank decided to reduce its benchmark interest rate, the Selic rate, from 3.75% to 3.00%, an all-time low. This 75-basis-point rate cut was larger than expected. Policymakers asserted that "the current state of affairs recommends an unusually large monetary stimulus" and expressed a willingness to reduce rates one more time—by as much as 75 basis points—at the central bank's next scheduled policy meeting on June 16–17. They also acknowledged that the central bank could be limited in how much more it can do to help the economy and that the country's "fiscal trajectory over the next year, as well as the perception of its sustainability, will be crucial to determine the length of the stimulus."

THE WEEK AHEAD

This week in the US, retail sales and industrial production numbers for April will be in the spotlight, with forecasts pointing to record falls in trade and activity due to the coronavirus outbreak. Also, the preliminary reading of Michigan consumer sentiment for May will probably point to a further deterioration in morale to the weakest since November 2011, while April's inflation rate is seen slowing to the lowest level since October 2015. Other notable publications are producer and foreign trade prices, business inventories, JOLTs job openings, NY Empire State Manufacturing Index, overall capital flows, the government's monthly budget statement, and the weekly jobless report.

I want to wish all of the Mom's out there a belated Happy Mother's Day! Miss you, Mom.

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

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