Latest From the Markets

1 April 2020

Confidence must be earned

Economy and Markets Update

Q1 was the worst quarter for international stock markets since 2008 and, for Eurozone stock markets, the worst quarter since 2002. Nonetheless, the situation seems to have somewhat stabilized over the last six trading sessions, while waiting to better understand how the pandemic will evolve in the western world.

February Eurozone inflation data came out yesterday. The overall figure, which includes energy and food, rose by +0.7% year-on-year, compared to consensus expectations of +0.8%. Within the Eurozone, energy contracted sharply due to the drop in oil, while food rose. The figure net of these two volatile components is +1.2% year-on-year, in line with expectations and down from +1.3% in January. Given the evolution of the pandemic, we expect to see a further decline in inflation in March; there is a real risk that we are heading towards deflation, i.e. a negative growth rate in consumer prices, should the halt to production and services continue for an extended time. In the US, consumer confidence data on for March, down to 120 from 132.6 in February, the lowest level since July 2017 (but still higher than expectations, which stood at 110).

Overnight PMIs (Purchasing Manager Indices) were published Asia, confirming the adverse effect the pandemic is having on Asian economies. The only exception is China, whose final Caixin manufacturing index for March posted 50.1 versus 45 forecast, confirming the recent positive data seen. In Japan, the PMI index fell to 44.8 from 47.8 in February, in South Korea to 44.2 from 48.7 in February and the same directionality can be seen in the rest of South East Asian countries. Important to note that indices such as the PMI indicate expansion of activity above the level of 50 and contraction below that level.

Yesterday’s Market Roundup

Wall Street closed positive on Monday and the encouraging Chinese data for March had a mixed impact on Asian markets yesterday. Australia closed down by -2% and the Japanese Nikkei 225 by -0.9%. Other markets were positive, with China up 0.3%, Hong Kong up 1.8%, Korea up 1.9%, India up 3.6%.

European markets closed with the Eurostoxx 50 index up by +0.77%, the French CAC 40 at +0.4%, the German Dax at +1.2% and the Italian FTSE MIB at +1.06%. The UK stock exchange performed well with the FTSE 100 up +1.95%, thanks to the strengthening of sterling.

However, the US stock market closed down, close to the daily low, with the S&P 500 index closing at -1.6% and the Dow Jones Industrials down by -1.84%, thus closing the worst quarter since 1987.

Yields on the 10-year US Treasury fell slightly to 0.66% and those on the 10-year Bund were stable at -0.48%. The Italian differential with Germany remained unchanged at 198 basis points.

In commodities, oil remained stable after the sharp falls seen the previous day with Brent crude closing at $22.7 per barrel, while gold corrected by -2.9% at $1,575 per ounce. Finally, the US dollar further strengthened against the Euro, closing at 1.1025.

Today's Opening Bell

Asian market opening was mixed on the back of Wall Street's negative closing and the afore mentioned PMI indices. Australia is up by +3.6% and China by +0.6%. On the other hand, the Japanese Nikkei 225 was down -1.9% half an hour after closing and the other main markets with Hong Kong -1.1%, Korea -1.4%, India -2.7%. Oil again fell by -2.2% to 25.8 dollars a barrel Brent while gold recovered 0.8%. European futures down -2.5% while the future on the S&P 500 is -1.8%.

Our Outlook

- The support to financial markets deriving from the significant monetary and fiscal policy manoeuvres carried out by international authorities risk being frustrated in the short-term if there are no tangible signs of reaching a peak contagion.

- Incidentally, yesterday's Italian data - seen by many as a test case of the evolution of the pandemic in the western world - is moderately encouraging, but it is clear that the containment measures will need to be extended at least until after Easter, in order to avoid dangerous rebound effects.

IMPORTANT INFORMATION

Unless otherwise stated, all information contained in this document is from Amundi Asset Management and is as of 1 April 2020. Diversification does not guarantee a profit or protect against a loss. The views expressed regarding market and economic trends are those of the author and not necessarily Amundi Asset Management, and are subject to change at any time based on market and other conditions and there can be no assurances that countries, markets or sectors will perform as expected. These views should not be relied upon as investment advice, as securities recommendations, or as an indication of trading on half of trading on behalf of any Amundi Asset Management product. There is no guarantee that market forecasts discussed will be realised or that these trends will continue. These views are subject to change at any time based on market and other conditions and there can be no assurances that countries, markets or sectors will perform as expected. Investments involve certain risks, including political and currency risks. Investment return and principal value may go down as well as up and could result in the loss of all capital invested. This material does constitute an offer to buy or a solicitation to sell any units of any investment fund or any services.

Date of First Use: 1 April 2020

Doc ID: 1137023