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Latest From the Markets

8 April 2020

Economy and Markets Update

US market rallied 23% since the lows seen on March 23, however, after a strong start to the day, they fell back in the final trading session and closed slightly negative. This was likely due to a drop in oil prices following an increase in weekly stock figures and doubts around the next OPEC+ meeting reaching an agreement.

Soon, investors' attention will turn to the quarterly results season where analysts' average estimates forecasting a contraction in earnings in the first quarter of -6.4%; at the start of the year, growth had been forecast at +6.3%. On the global pandemic front, yesterday brought some encouraging news from Europe, where Italy seems to have begun a slowdown in the contagion curve.

US Treasury Secretary, Steven Mnuchin, announced that he will ask Congress for an additional \$250 billion in aid for small and medium-sized businesses, over and above the \$350 billion already provided for in the \$2.3 trillion plan approved by Congress on March 27. The democratic and local primary elections in Wisconsin were held yesterday, amidst much controversy and legal battles to prevent them, the first since March 17 as several states have postponed. Although, for logistical reasons and lack of polling stations, the results will only be announced on April 13.

In Japan, Prime Minister Shinzo Abe has declared a state of emergency until May 6 that will apply to Tokyo and six other areas. The containment measures will affect 44% of the Japanese population, although the measures are less restrictive than seen in other countries, for now. At the same time, they also launched a fiscal plan equal to 990 billion US dollar - equivalent to 20% of Japanese GDP; the highest launched so far by any government to tackle the pandemic crisis.

With regard to the Eurogroup meeting, at the time of writing the meeting is not yet over, having been suspended last night. A statement is expected in the morning. Members have not yet reached a consensus on Eurobonds and ESM (European Stability Mechanism). Germany and the Netherlands are opposed to Eurobonds, while Italy opposes the use of the ESM, even under lighter conditions. While the war on the ESM front is fierce, the Eurogroup seems to agree on the two initiatives immediately put in place by the European Union, the 100 billion from the European Commission to aid workers - the so-called "Sure" - and the 200 billion guarantees to companies offered by the European Investment Bank.

Yesterday's Market Roundup

After Monday's strong closing on Wall Street, the positive tone continued in Asia with the Japanese Nikkei 225 up 2%. China and India, which had been closed on Monday, rose +2.3% and +9% respectively. Hong Kong also rose +2.1% and South Korea +1.7%. Only Australia closed in negative territory at -0.65%.

In Europe, markets opened very strongly with the Eurostoxx 50 index gaining more than 4%, but then fell back at the end of the day, closing with an increase of +2.1%. The German Dax rose by +2.8%, the French Cac 40 by +2.1%, the Spanish Ibex by +2.3% and the Italian FTSE Mib by +2.2%. London also performed well with +2.2%.

Closing slightly down for the US with the S&P 500 index at -0.16%, after having been up as much as +3.5% during the day, likely due to profit taking after Monday's rally and the slip in the final oil price. The WTI lost -7% at \$24.2 per barrel.

Yields on the 10-year US Treasury rose by 5 basis points to 0.73% and those on the 10-year German Bund by 10 basis points to -0.32%. The Italian differential with Germany was stable at 191 basis points.

In Commodities, in addition to the aforementioned drop in oil, gold also fell by -0.8% to 1,647 dollars an ounce. Finally, the US dollar fell against the Euro at 1.0895.

Today's Opening Bell

Uneven openings in Asia, with the Japanese Nikkei 225 up by +1.6% and Australia by +1% half an hour after closing. India and South Korea are also positive by +3.1% and +0.6% respectively. Negative Hong Kong at -0.8% and China at -0.4%. Strong volatility on oil prices saw a partial recovering this morning, while gold remains stable.

The US dollar recovered slightly against the Euro at 1.087. European futures indicated at -0.3% and futures on the S&P 500 at +0.6%.

Our View

- After Monday's strong recovery, which continued some of yesterday, stock markets have slowed their pace as improvements in the pandemic data cannot, on their own, eliminate the difficulties of the economic situation in the short-term with the negative impact on company profits in the first and second quarter at least.
- The Eurogroup's difficulties in reaching an agreement on support measures at the European Union level will most likely add further short-term volatility in European markets, unless there is a last-minute agreement.

IMPORTANT INFORMATION

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