Latest From the Markets

28 May 2020

Overview

- Another positive day for international stock markets.
- The S&P 500 index exceeded the psychological threshold of 3,000 points, the level last reached on March 5. Rotation continued towards the sectors most impacted by the pandemic crisis, including tourism and leisure stocks, large retail and financials.
- The Eurozone markets were supported by expectations linked to the re-start of economic activity and the presentation of the EU recovery plan.

Economy and Markets Update

The European Commission has announced its "Repair and prepare for the next generation" programme.

This involves the creation of a new recovery facility called "Next Generation EU", with 750 billion Euros financed through the Commission's own emission capacity in the markets. The programme provides for a "Recovery and Resilience Facility", in other words, the "recovery fund" which has been much discussed in recent weeks. This facility will amount to EUR 560 billion, of which EUR 310 billion in grants and EUR 250 billion in soft loans repayable not before 2028 and not after 2058. All Member States will be able to access it, but preference will be given to those most impacted by the pandemic crisis and those where the need for financial resilience has more reason to be, in particular Italy and Spain.

The "Next Generation EU" plan, together with the strengthening of the EU budget over the period 2021-2027, will raise the total financial arsenal for the Union to 1,850 billion Euros. These proposals will have to be approved by the European Council on 18 June, following a preliminary analysis by the Eurogroup, the informal body that brings together the Union's economic and financial ministers, on 11 June.

On the macroeconomic front, industrial profits in China for the month of April fell by -4.3% year on year compared to -34.9% in March. The sectors that recovered best in April were cars, electrical machinery and electronics, with 23 out of 41 sectors registering growth compared to only 8 in March.

Yesterday's Market Roundup

Very positive closures in Asian markets as the Central Banks of China and Japan set Mixed closures in Asian markets yesterday. The Japanese Nikkei 225 was up +0.7%, supported by the new $1.1 trillion tax package. Australia and South Korea closed almost unchanged (-0.09% and +0.12% respectively). India closed very positively at +3.25%. China fell to -0.7% and Hong Kong to -0.36%.

Positive closings for the third consecutive day for the Eurozone indices. The Eurostoxx50 index closed with up +1.73% after trading peaked at +2.3% during the day. Spain performed best amongst the main markets, with the Ibex index up +2.44%, followed by France with the CAC 40 at +1.8% and the German DAX at +1.33%. Yesterday the Italian FTSE MIB was at +0.3%. London has recorded an increase of +1.26%.

In the US, the S&P 500 index was up +1.5% to 3,036 points, well past the 3,000 mark for the first time since March.

Yields on the 10-year US Treasury remained unchanged at 0.70% and those on the 10-year Bund rose 3 basis points to -0.41%. The Italian spread with Germany fell further to 191 basis points (-6 basis points).

In commodities, the price of oil fell with Brent crude down by -5% to $34.25 per barrel and WTI by -6.7% to $32 per barrel. Gold remained unchanged at 1,711 dollars an ounce. The US dollar weakened against the Euro at 1.10.

Today’s Opening Bell

Contrasting openings in Asian markets this morning with the Japanese Nikkei 225 up by +1.4% half an hour before closing, Australia by +1.3% and India by +1.25%. South Korea was slightly negative at -0.1%, despite the Central Bank cutting rates by a quarter of a point to 0.5%. China also fell to -0.52%, while Hong Kong's decline was more marked, where the Hang Seng index lost -1.8% due to protests against China.

Further decline in oil with Brent at 34.1 dollars per barrel (-1.7%) and WTI at 31.75 (-3.2%). Gold rose by +0.4% to 1,715 dollars an ounce. The US dollar fell slightly against the Euro at 1.1010. European futures rose to +1% and US futures to +0.26%.

IMPORTANT INFORMATION

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