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Latest From the Markets

17 April 2020

Economy and Markets Update

China published GDP data for the first quarter of 2020. For the first time since 1992, i.e. since quarterly publications began, China's GDP fell by -6.8% year-on-year compared to expectations of -6.5%. Retail sales for March were also published at -15.8% compared to -10% expected and industrial production at -1.1% compared to -7% expected.

US President Donald Trump announced guidelines for a gradual reopening of the US economy in three phases. The first phase can commence if a federal state has experienced a decline in contagion for 14 consecutive days, which means that some less impacted states could already begin the first phase today.

International stock markets were in stalemate yesterday. On the one hand, markets were supported by the hope of a slow resumption of production activities in the short-term, despite conflicting signals on the evolution of the pandemic; but, on the other, were held back by increasingly concerning news on the macroeconomic and corporate earnings front.

US weekly unemployment benefit application data as of April 11 shows applications totalled 5,245,000 compared to expectations of 5,105,000, down from 6,615,000 applications the previous week. The total number of people who have requested, and continue to receive, the unemployment benefit for more than a week now stands at 11,976,000, lower than analysts' expectations of 13,500,000. These are record numbers since the publication of the data began in 1967. Based on this data, economists estimate that the unemployment rate in April could exceed 10% - similar to the Great Depression of 1929 and the 10.8% peak reached during the oil crisis of 1982.

March data on the construction of new homes was also published, down by -22.3% compared to the previous month. Finally, the "Philly Fed Business Index" (Philadelphia Federal Reserve's survey on the growth of manufacturing activity) was also published, showing a figure well below expectations: -56.6 compared to -30. A negative number indicates a contraction in manufacturing activity.

On the corporate earnings front, the publication of financials in the US continued with Morgan Stanley, one of the most important stocks in the sector, which saw a 32% drop in profits compared to the same quarter last year. The wealth management division, which accounts for 50% of sales, saw its business volume fall 8%, advisory fees in investment banking fell 11%, while as with other investment banks, trading activity grew 30% thanks to extreme volatility in equity and bond markets in the latter part of the quarter.

Yesterday's Market Roundup

Closures in recovery for most Asian markets, although negative in the case of Japan at -1.33% and Australia at -0.9%. China closed slightly positive with the CSI 300 index at +0.13%, while India rose by +0.73%. South Korea fell slightly to -0.14% and Hong Kong to -0.6%.

European markets stabilised after a difficult day on Wednesday with the Eurostoxx 50 index closing at +0.15%. The Italian FTSE Mib closed at +0.3%, the German DAX at +0.2%, the French CAC 40 at -0.08%, while Spain closed negative by -1.1%. London climbed +0.55%.

Wall Street's reaction to unemployment benefit data was positive, with the S&P 500 index closing up +0.6% again driven by the Nasdaq stocks which closed up +1.66%. Technology stocks did well, as did Discretionary Online Consumption stocks that continue to score new historical highs, and Biotechnology. On the other hand, Financials, Industrials and Oil companies are doing badly.

Yields on the 10-year US Treasury fell slightly to 0.62% (-2 basis points) and those on the 10-year Bund to -0.47% (-2 basis points). Slight narrowing of the Italian spread with Germany to 235 basis points.

In Commodities, a slight recovery in the price of oil with Brent crude oil rising by +2.2% to \$28.3 per barrel, while gold closed almost unchanged at \$1,717 per ounce. The USD strengthened against the Euro at 1.0840.

Today's Opening Bell

This morning, Asian markets reacted positively to the Chinese GDP figures, which were considered in line with expectations, and to Trump's plan to reopen the US economy in three phases. The Japanese Nikkei 225 index is up by +2.8% and Australia by +1.5% half an hour after closing. China also rose with the CSI 300 index to +1.4%. South Korea is also doing very well at +3.5%, Hong Kong at +2.5% and India at +2.1%.

Oil almost unchanged at \$28.3 per barrel Brent and gold slightly down at \$1,707 per ounce. The USD slightly weakening against the Euro at 1.0870. European futures are up sharply at +3% and those on the United States at +3.3%.

Our View:

- Equity markets were able to stabilize after Wednesday's negative day and the US market once again showed a surprising ability to react to the negative macroeconomic data and pandemic news, which yesterday saw an increase in new contagions in the US of over 26,000 and deaths of just over 2,000.

IMPORTANT INFORMATION

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