Latest From the Markets

27 March 2020

Economy and Markets Update

On a day that saw an all-time record number of new weekly unemployment benefit applications, Jerome Powell, Federal Reserve Chairman, made a rare television appearance to show his support for the American people. One hour after his interview, the figures for the week ending March 21st showed 3,283,000 claims, compared to 281,000 the week before. Previously, the worst weekly figure (695,000 applications) had been recorded in 1982, during the second oil crisis.

Nonetheless, Powell's TV appearance, assuring that the Fed will do everything to support businesses and the financial system until the pandemic is under control, seems to have given investors a confidence boost, pending approval by the House of Representatives of the $2 trillion extraordinary plan expected today, allowing US listings to close at the day's highs.

An online G20 meeting was also held yesterday, where a commitment to a global $5 trillion manoeuvre was decided - details have not been disclosed yet.

However, news coming from the European Council in the evening was less comforting, as no decision was made on Eurobonds and the conditions around the European Stability Mechanism (ESM) remain in place. The EU Member States have given themselves two weeks to review.

Yesterday's Market Roundup

Asian markets performed unevenly, with the Japanese Nikkei 225 closing in negative territory at -4.5%, Australia, New Zealand and India positive at +2.3%, +4% and +4.9% respectively, while China, Hong Kong, Singapore and Korea closed marginally negative by -0.7% and -1.5%.

The opening of European markets was impacted by the uncertainty seen in Asia, but after being in negative territory for most of the day, following the unexpectedly positive reaction of Wall Street, the Eurostoxx 50 index managed to close by +1.7%, with CAC 40 at +2.5%, London at +2.24% and the Italian FTSE MIB at +0.7%.

The US stock market, probably thanks to the reassurance provided by Fed Chairman Powell, was on the up, despite the significantly negative data on weekly unemployment benefit claims. By closing, the S&P 500 index had jumped +6.24% to 2,630, up +17.5% from the lows seen last Monday.

On the Fixed Income markets, yields on the 10-year US Treasury and the corresponding German Bund fell slightly. The Italian spread significantly narrowed, closing at 157 basis points compared to the 10-year Bund, likely helped by the ECB's decision to remove the 33% limit per issuer for the new purchasing plan linked to the health emergency. Spreads on corporate credit also narrowed.

As for commodities, Brent fell by about 2% to $26.7 per barrel and gold rose by 1% to $1,631 per ounce. Finally, the US dollar rose above 1.10 against the euro and sterling also strengthened versus the dollar, exceeding 1.21.

Today's Opening Bell

With the exception of Australia (-5.3%), India (-0.5%), New Zealand (-0.8%) and Taiwan (-0.4%) the rest of the Asian markets closed positively this Friday. In Japan, the Nikkei 225 rose by +3.9%, China by +1%, Indonesia by +7.9% with the other main markets up between 1% and 2%. European futures are almost unchanged while the future on the S&P 500 are at -0.5%.

Our Outlook

- While the hard facts of the data exceeded the most negative forecasts of market analysts and participants, financial markets seem to be responding to the shock therapies put in place by the Central Banks and national governments.

- This supports our view that patience and confidence are essential elements in facing the crisis, from both the health and economic-financial perspective.

IMPORTANT INFORMATION

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