

Weekly Update

No April fools

ACTIVITY CRASHES

PMIs paint a gloomy picture

UNEMPLOYED SURGE

US, Europe and UK all show the effects of shutdowns

DIVI-DON'T

The PRA weighs in on dividends

AMERICA FIRST

How will governments negotiate scarce resources?

A GOOD WEEK FOR

- The oil price, which rallied over 30% in USD terms in anticipation of Russian production cuts.
- UK corporate bonds, which strengthened somewhat after a period of weakness, up over 2%.

A BAD WEEK FOR

- Equities, especially in Japan (-7.7%) and the UK (-2.56%).
- Sterling, which fell versus JPY (-0.83%) and USD (-1.53%), but strengthened against EUR (+1.61%).

OIL

Oil prices surged last week after a tweet by US President Donald Trump suggested that Saudi Arabia and Russia had agreed to a production cut of at least 10m barrels per day. It has since been confirmed that a virtual meeting of OPEC member countries and allies will take place this Thursday. Oil producing states are hurt by sustained low prices and hope that agreeing to reduce supply will support them – prices have fallen over 50% year-to-date. (US producers are also expected to participate in any output cut agreed). However, the outlook for oil demand is likely to remain weak near term even with a production cut, as global growth slows sharply. There may also be logistical challenges to implementing a production cut.

PMI SURVEYS

March Purchasing Managers' Index surveys (or PMIs, which track the prevailing trend of economic data) provided a comprehensive view of how businesses are responding to social distancing measures to limit the spread of the coronavirus. Unsurprisingly, surveys pointed to sharp declines across the global economy, with the services sector hit hardest in those countries where shut-downs have been most comprehensive and prolonged.

One bright spot was China, where both the official state PMI survey and the privately-collated Caixin equivalent registered marked improvements, suggesting a broad recovery. It is worth noting that PMI surveys measure the breadth of any improvement or deterioration in business conditions, but not the magnitude of any change. Nonetheless, data historically has been a useful indicator of the likely path of hard economic data.

UNEMPLOYMENT DATA

Unemployment data continued to deteriorate this week, with new claims in the US surging higher from 3.3 million the prior week to a further 6.6 million this week. Official data for March suggested unemployment had risen to 4.4% from 3.5%, but this reading was based on a sample taken before these two weeks of sharp rises, and we would expect a marked increase in April. For now, the focus will continue to be on the weekly initial jobless claims data, to see if new claims continue to accelerate or stabilise. Data in the UK and Europe also deteriorated sharply, with increases to benefit claims released in the UK and Italy.

DIVIDENDS

The UK banking regulator the Prudential Regulation Authority announced that the seven largest UK banks will suspend dividends and not pay cash bonuses to senior staff until the end of 2020 to 'support the economy' through 2020. This follows similar measures in Europe, where the European Central Bank recommended that lenders suspend their dividends and is now looking to legally compel them to. PRA CEO Sam Woods also wrote to UK insurers, reminding them that the regulator "expects them to pay close attention to the need to protect policyholders and maintain safety and soundness, and in so doing to ensure that their firm can play its full part in supporting the real economy throughout the economic disruption arising from COVID-19." While curbing dividends may bolster bank capital, it creates a challenge for investors seeking income.

GEOPOLITICS

The coronavirus pandemic has brought to light the frailties of global supply chains, and the tension between running efficient and robust health services. With many countries rushing to obtain scarce medical equipment, it seems possible that global relations may be tested in future. There have now been a few reports of the US acting decisively to gain control of medical resources, ranging from masks to potential vaccines. Last week the German government accused the US of "modern piracy" for "diverting" 400,000 masks destined for Germany to the US instead. Governments will be seeking to strengthen international institutions in order to ensure fairer access to healthcare.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	-2.1%			-4.9%			-27.7%			-24.4%		
US	-0.8%	-2.3%	1.5%	-2.5%	-3.9%	1.3%	-16.3%	-22.9%	6.5%	-5.7%	-12.5%	6.8%
Europe	-1.7%	-0.4%	-1.3%	-3.2%	-2.9%	-0.3%	-20.1%	-23.3%	3.2%	-12.5%	-15.4%	2.8%
Japan	-6.6%	-7.8%	1.1%	-4.3%	-5.1%	0.8%	-14.8%	-21.6%	6.8%	-6.2%	-15.3%	9.0%
Asia ex Japan	0.8%	-0.1%	0.8%	-0.5%	-1.4%	0.9%	-15.6%	-18.6%	3.0%	-12.3%	-14.8%	2.5%
EM	0.3%	-0.3%	0.6%	-0.6%	-1.3%	0.8%	-18.7%	-20.1%	1.4%	-14.8%	-15.5%	0.7%

FIXED INTEREST AND CURRENCIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		

Corporate and Government Bonds

UK Gov	-0.4%			0.6%			7.4%			12.0%		
US Gov	0.8%			0.6%			9.5%			15.3%		
Europe Gov	-2.9%			-1.6%			-3.2%			1.3%		
UK Index-Linked	-1.5%			2.6%			4.3%			4.9%		
UK Corporate	2.1%			1.5%			-3.7%			2.5%		
UK High Yield	0.4%			0.2%			-13.4%			-6.7%		

Currencies – Spot

GBP – USD	1.5%			1.2%			8.1%			7.3%		
GBP – EUR	-1.6%			-1.0%			4.0%			3.0%		
GBP – JPY	1.0%			0.2%			8.2%			10.2%		

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.31%
10 Year Treasuries	0.64%
10 Year Bunds	-0.42%

COMMODITIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		
Energy												
Brent	36.8%			50.0%			-48.3%			-50.8%		
Precious Metals												
Gold	-0.5%			2.8%			6.8%			25.7%		

IMPORTANT INFORMATION

MSCI: Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

The information contained in this document is believed to be correct but cannot be guaranteed. Past performance is not a reliable indicator of future results. The value of investments and the income from them may fall as well as rise and is not guaranteed. An investor may not get back the original amount invested. Opinions constitute our judgment as at the date shown and are subject to change without notice. This document is not intended as an offer or solicitation to buy or sell securities, nor does it constitute a personal recommendation. Where links to third party websites are provided, Close Brothers Asset Management accepts no responsibility for the content of such websites nor the services, products or items offered through such websites.

Close Brothers Asset Management is a trading name of Close Asset Management Limited (Registered number: 01644127) and Close Asset Management (UK) Limited (Registered number: 02998803). Both companies are part of the Close Brothers Group plc group of companies, are registered in England and Wales and are authorised and regulated by the Financial Conduct Authority. Registered office: 10 Crown Place, London EC2A 4FT. VAT registration number: 245 5013 86. CBAM6000. 06.04.2020.