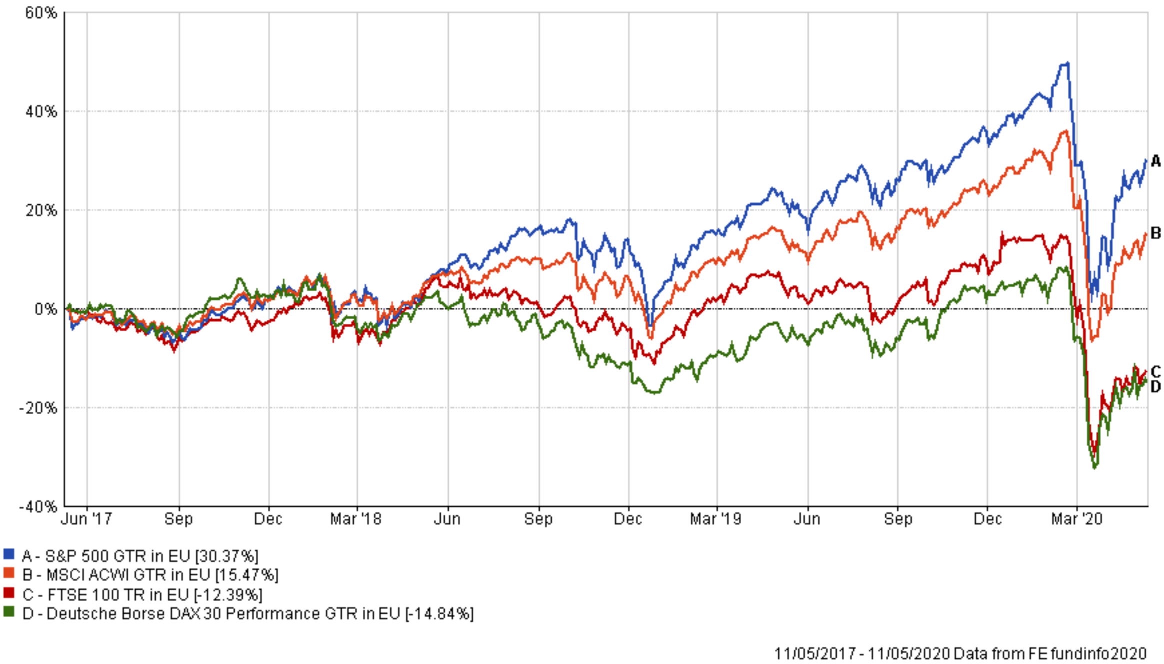
Market Review

APRIL 2020

NEAL KELLY MSC.(HONS) CFP® SIA RPA QFA

April Market Review

3 Year Review



*the returns above are gross of contract, policy or adviser fees

April Overview

In the Euro Area, Q1 2020 GDP growth was recorded as a quarterly 3.8% contraction, below market expectations with Spain, Italy and France contracting by the largest amount on record. France is now in a technical recession (2 consecutive quarters of negative GDP growth). PMIs took another leg down in April, with the Composite number falling to 13.5, an all-time low, driven by services although manufacturing was also weak. Consumer confidence also dropped to -22.7 in April, the lowest figure since March 2009, this could partly be driven by unemployment claims going up in March. Not all of these people, however, are actively looking for work (e.g. confinement measures or childcare), so the official unemployment number for March was surprisingly resilient only rising to 7.4% from 7.3% in February. Having expanded quantitative policy measures in March, in April the European Central Bank's Governing Council kept most monetary policy conditions as they were, although they did reduce the interest rate on their existing refinancing operation as well as introduce a new Pandemic Emergency refinancing operation, which will mature in Q3 2021, effectively providing a liquidity backstop.

The early indicator for US Q1 GDP growth was an annualised shrinkage of 4.8% (i.e. a quarterly rate contraction of 1.2%), below market expectations and what, if confirmed, would be the sharpest contraction since Q4 2008. Unemployment jumped from 3.5% in February to 4.4% in March and weekly jobless claims figures (to 25th April) showed the number of people claiming unemployment benefits has now surpassed 30 million since the start of the COVID crisis. As in the UK, the US Composite PMI figure for April was particularly weak at 27.4 with the service sector largely responsible and manufacturing holding up a little better. Inflation fell to 1.5% in March, from 2.3% in February largely due to the fall in oil price during March. Having made numerous monetary policy announcements last month, at the Federal Reserve's April meeting they affirmed their current interest rate and quantitative easing programmes.

The shutdown in the UK continued through April, with even the Prime Minister, Boris Johnson, being diagnosed with and then recovering from COVID-19. Following a busy March, there was no further Bank of England monetary policy action (there was no scheduled meeting in April). The UK did, however, continue to see data releases that covered the post-shutdown period. Consumer confidence fell sharply in April but for the moment is still above levels reached in 2008 and above the level that was expected by the market. Composite Purchasing Managers' Index (PMI) fell to an all-time low level of 12.9 in April, well below the expected level of 31.4 (where any number below 50 represents a contraction). Things may not look too rosy for the near-term future either as business confidence (expectations from businesses about, among other things, output, orders, employment and investment) fell in April to the lowest level since records began in the 1950s. Unemployment for February (before the UK shutdown) did show a slight up-tick to 4%, but is expected to shoot higher over the next few months.

Despite the relatively low number of COVID-19 cases and deaths in Japan, in early April, Japan's Prime Minister Shinzo Abe declared a state of emergency in Tokyo and 6 other prefectures which has since been widened to the whole nation. This involved non-essential businesses closing and only essential trips allowed for going outside, however this is more lenient than measures in other countries with no fines or penalties for non-compliance. This was due to be lifted in early May but will now remain in place until the end of May. The composite PMI reading for April recorded a drop to 27.8, driven by services. The Bank of Japan still thought it necessary to take further quantitative easing measures in April by announcing increases to the amount of government bonds, commercial paper and corporate bonds they are willing to purchase as well as a few other tweaks.

The Chinese economy continued opening up in April, although as would be expected Q1 2020 took a big hit, recording an annualised 6.8% shrink in GDP growth (i.e. -1.7% over the quarter), the first contraction since records began in 1992. On a more positive note, unemployment dropped to 5.9% in March from a record high 6.2% in February and consumer confidence bounced in March, although it remains below pre COVID-19 levels. Composite PMI for March jumped up to 46.7 from 27.5 in February – still in contractionary territory but heading in the right direction.

Instability in the oil market persisted into April as for a brief while the price on the nearest oil futures contract went negative (although contracts for delivery a couple of months later did not experience quite the same level of technical drop). This happened the day before contracts were due to expire and holders would take delivery of the oil, and with available storage space now very low some investors don't wish to take delivery and hence incur storage costs. A number of Emerging Market countries are reliant on exporting oil and they have been hit further by the turmoil in the oil market of late.

The euro weakened against most developed market currencies in April. It was down 1.9% against the pound, 0.2% against the US dollar, 1.1% against the Japanese yen and 6.7% against the Australian dollar. It was however up against Emerging Market currencies, 2.6% against the South African rand, and 4.2% against the Brazilian real.

Asset Classes

Almost all asset classes bounced back in April after March's steep falls. The only exception was broad commodities, as oil slumped due to a lack of storage in the face of oversupply. US equities, when converted back to euros, were again the best performing equity asset class whilst Japanese equities lagged after proving defensive earlier in the year.

All bonds performed strongly as global yields fell, although riskier bonds performed best. High yield bonds were particularly strong after the Fed announced that they would receive direct support through central bank purchases.

Cash & Stable Income-Assets	Global Gov Bonds	Global Inflation Linked Bonds	Global Corporate Bonds	Global High Yield	Emerging Market Bonds	Global Equities	US Equities	Europe Equities	Japan Equities	Pacific ex Japan Equities	Emerging Market Equities	Global Property	Commodities
€	HDG	HDG	HDG	HDG	HDG	€	€	€	€	€	€	€	€
-0.02%	0.84%	3.06%	4.66%	4.27%	2.15%	11.12%	13.28%	6.12%	5.58%	11.92%	9.35%	7.12%	-9.51%

Always seek the advice and support of your investment adviser before making any significant changes to your investment positions.

This outlook and commentary does not constitute an offer and should not be taken as a recommendation from the author or Thomond Asset Management. Advice should always be sought from an appropriately qualified professional.

WARNINGS

1. The income you get from an investment may go down as well as up.
2. The value of your investment may go down as well as up.
3. Benefits may be affected by changes in currency exchange rates.
4. Past performance is not a reliable guide to future performance.

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