Market Currents

- **<u>Market Rebound.</u>** Massive global fiscal and monetary responses fueled a strong market rebound in April, despite macroeconomic data that showed the epic (and continuing) economic cost of the COVID-19 shutdowns. Volatility has declined from the extreme levels seen during the worst of the drawdown in March. Although still negative on the year, the S&P 500 gained 13% in April, its first monthly advance, and the index's best monthly return since 1938.

- **<u>COVID-19.</u>** The U.S. has surpassed 1.25 million infections, with fatalities topping 72,000. These numbers will continue to rise. New York City and New Jersey are the hardest hit states. The infection growth rate there appears to be slowing, but increasing for other parts of the country. In Europe, we are seeing a clear flattening of cases in Germany and France, with progress being made in Spain and Italy as well.

- **<u>Re-Opening the Economy.</u>** With the pandemic showing signs of stabilizing, plans are developing across various countries and states to gradually re-open their economies. Positive developments on the treatment and vaccine fronts from several pharmaceutical companies have helped to boost sentiment, but concerns over renewed infections from a return to work and commerce remain.

- **<u>Unprecedented Policy Response.</u>** Policymakers around the globe have responded with extraordinary monetary and fiscal actions to bolster industries, businesses, and individuals. U.S. lawmakers have enacted four separate pieces of legislation, totaling approximately $2.4 trillion, offering financial assistance, economic relief programs, direct payments to households, and various tax incentives. In concert, the Federal Reserve made emergency cuts to interest rates, slashing federal funds to a range of 0 – 0.25%. To ease liquidity concerns, the Fed has also provided explicit support to the overnight lending market and money markets. The Fed has also pledged to be active in supporting the government bond and investment-grade bond markets.

- **<u>Q1 Earnings.</u>** Roughly two-thirds of S&P 500 companies have reported, and results, as expected, are weak. For investors, there is a shift in focus toward balance sheet strength, and less so on current profit trends. The earnings softness will certainly extend into the second quarter. Perhaps now more than ever, the quality of companies matters, and the widening gap between winners and losers emphasizes the virtue of active security selection.

- **<u>Outlook for 2020</u>**. COVID-19 has delivered a significant shock to the global economy. For now, the economic lockdown and social distancing guidelines appear to be working, with several countries and states seeing a clear slowdown in new infection growth rates. Most expect the world to face a deep but hopefully short recession concentrated in the first half of the year, followed by an economic rebound in the second half. We advise a degree of caution as the recovery from shutdown will likely be gradual, although assisted along by supportive policy actions.

Christopher Lai
Senior Portfolio Manager
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