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Global Market Commentary
April 1, 2020

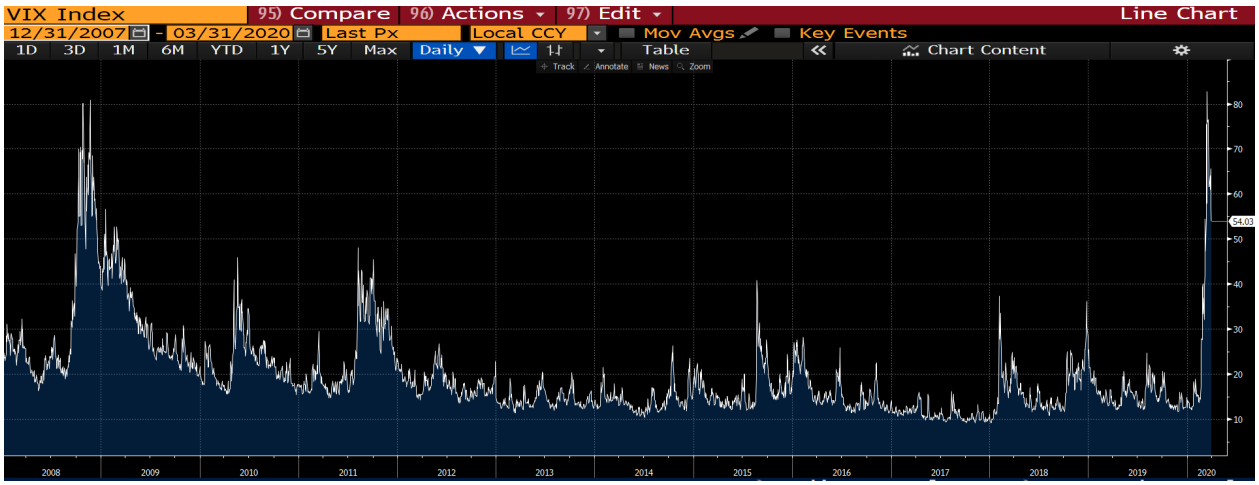
The Political and Economic Response to COVID-19 – 03/31/2020
By Peter Goodall, CFA, FRM

Global markets recovered sharply last week. The S&P ended the week up 10.28% while the MSCI World Index gained 10.71%. The Treasury yield curve shifted down but is not inverted.

Global cases of COVID-19 continue to rise as global governments attempt to address the social and economic ramifications of the contagion. In the United States, Congress approved the Families First Coronavirus Response Act, a $2 trillion economic stimulus measure to bridge the gap as households attempt to quarantine. This bill responds to the COVID-19 (i.e., coronavirus disease 2019) outbreak by providing paid sick leave, tax credits, and free COVID-19 testing; expanding food assistance and unemployment benefits; and increasing Medicaid funding.
Europe is signaling similar measures to shore up their respective economies, though nothing is finalized.

China is on the tail end of the initial outbreak with people returning to work and markets reopening. We have gained more context around the numbers reported out of China. The country acknowledged that they were excluding individuals that were infected but asymptomatic. This means the figures we were receiving from the World Health Organization (WHO) were understating the number of infected by an unknown amount. The change would mean that the virus would be more infectious but less deadly than the Chinese data initially suggested. Other countries are assumed to be following the WHO guidelines. You can find the underlying data at https://ourworldindata.org/grapher/covid-confirmed-cases-since-100th-case.

Market panic is subsiding too as most of the negative news now appears been baked in to current prices. The Volatility "Fear" Index peaked at an all-time high of 83.78 on 3/18, before falling sharply to 54.02. If this behaves like prior corrections, we may have periodic spikes in volatility but the worst of the uncertainty is likely behind us.



Conclusion
Our research suggests that increasing equity exposure at this level may be beneficial for investors with sufficient risk tolerance and a long-time horizon. We do not attempt to time the markets, as academic research suggests that is not possible. Rather, we know stocks are on sale roughly 23% from their all-time highs and our base case is a reversion to the mean over the coming 1-3 years.

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Stock Market Performance

	4/1/20	W-o-W	M-o-M	Y-o-Y
DJIA	21,341	0.7%	-16.0%	-18.7%
S&P 500	2,505	1.2%	-15.2%	-12.6%
MSCI World	1,853	3.7%	-13.5%	-13.1%
S&P/TSX	12,966	-1.3%	-20.3%	-20.1%
BSX	1,502	-0.3%	-26.3%	-32.2%
FTSE100	5,478	-3.7%	-16.8%	-25.1%
DAX	9,586	-2.9%	-19.4%	-17.9%
CAC	4,224	-4.7%	-20.5%	-21.9%
Nikkei	18,065	-7.6%	-14.6%	-16.0%
Hang Seng	23,086	-1.9%	-11.7%	-21.9%
Shanghai	2,735	-1.7%	-5.1%	-13.7%

Key Rates and Prices

Currencies	4/1/20	Month ago	Year ago
EUR	$1.09	$1.10	$1.12
GBP	$1.24	$1.28	$1.31
JPY	¥107.22	¥107.89	¥111.35
CAD	$0.70	$0.75	$0.75
CHF	$1.03	$1.04	$1.00
AUD	$0.61	$0.65	$0.71
Fixed Income			
3M LIBOR	1.43	1.46	2.60
3M Treasury Bill	0.09	1.28	2.38
2Yr Treasury Note	0.24	0.92	2.33
10Yr Treasury Note	0.60	1.15	2.50
Fed Funds Rate	0.25	1.75	2.50
Commodities			
Gold/oz.	1,586.20	1,585.69	1,287.72
Silver/oz.	14.03	16.67	15.11
Copper/lb.	2.25	2.56	2.94
Oil	20.35	44.76	61.59

Global Economic Calendar (April 1st - April 3rd)

Wed: MBA Mortgage Applications (US); EIA Petroleum Status Report (US); Construction Spending (US)
Thurs: Jobless Claims (US); US Fed Balance Sheet (US); Challenger Job Cut-Report (US)
Fri: Baker-Hughes Rig Count (US); Employment Situation (US)

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