LOM OFFSHORE FINANCIAL SERVICES

Global Market Commentary
June 8, 2020

Reopening the World: Protests and Progress
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Markets are returning to pre-crisis levels as people return to work and data suggesting the worst of the COVID-19 outbreak is behind us. The S&P 500 gained 4.96% while the MSCI World Index returned 5.57%. The Treasury Actives curve is showing continued normalization with the 30-year active Treasuries yielding ~1.68%, 0.30% higher than a month ago.

Protests

The death of George Floyd prompted a global outpouring of protests against police brutality and racism. Coverage showed largely peaceful demonstrations intermixed with opportunists looting and, in certain cities, police militarization and overreach. The national guard was mobilized in the US to address some of the looting concerns.

President Trump made several political missteps during the crisis. Twitter was forced to block the display of the President's tweets after he violated Twitter's rules about glorifying violence. He mobilized the national guard to use pepper balls and smoke cannisters on peaceful protesters to get a photo op at a church in DC, sparking condemnation from the parts of the public and the church. Additional law enforcement started popping up on Tuesday with no identification. While this may have been largely due to them being sourced from prisons and other federal branches that don't require identification, it sent a message of reduced accountability. On Friday, he was condemned for arguing we should dominate the streets, then suggesting George Floyd would think this was a "great day for him… and the country", before proceeded to talk about the economic recovery. As of 6/7/2020, Fivethirtyeight is showing his blended approval rate has dropped to 41.7%.

From a human perspective, George Floyds death was reprehensible and is representative of significant failings by the police. Markets are going be largely uncorrelated to the protests. Smaller business may suffer from the looting if they weren't insured. Mom and Pop shops tend not to be listed on the stock exchanges. The economic impacts will probably be related to the risk and extent of COVID-19 spread in dense crowds. To be clear, the risks in Bermuda are relatively low. There have been 2 new cases in the last 11 days. The impact on the upcoming US elections will likely be muted. Trump was already an unpopular president but collective memories tend to be short and it looks like we are coming out of the economic downturn.

Progress

The largest gains of the week occurred on Friday when the US Bureau of Labor statistics released employment data. The change in non-farm payrolls showed a gain of 2.5 million jobs, beating expectations of a 7.5 million loss. The return to work is supported by data from the WHO suggesting global COVID-19 new cases have remained flat while mortality rates continue to fall.

In Europe, the European Central Bank (ECB) and Germany continued simulative measures to prop up the Eurozone economies. The ECB has expanded its bond-buying program while Germany agreed to a 130 billion Euro stimulus.

Conclusion

As investors are becoming more comfortable with the risk levels, we have observed a normalization of rates and a momentum shift towards value and stocks with lower market capitalizations. This trend continuing is likely dependent on new COVID-19 cases not increasing substantially as people return to work.

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Stock Market Performance

	6/8/20	W-o-W	M-o-M	Y-o-Y
DJIA	27,572	8.2%	13.3%	6.1%
S&P 500	3,232	5.8%	10.3%	12.5%
MSCI World	2,288	5.7%	11.0%	7.6%
S&P/TSX	15,975	4.8%	6.7%	-1.6%
BSX	1,949	9.3%	22.2%	-8.2%
FTSE100	6,473	5.0%	9.0%	-11.7%
DAX	12,820	10.6%	17.6%	6.4%
CAC	5,176	8.7%	13.8%	-3.5%
Nikkei	23,178	5.1%	14.9%	11.0%
Hang Seng	24,777	4.4%	2.3%	-8.1%
Shanghai	2,938	0.8%	1.5%	3.9%

Key Rates and Prices

Currencies	6/8/20	Month ago	Year ago
EUR	$1.13	$1.08	$1.13
GBP	$1.27	$1.24	$1.27
JPY	¥108.43	¥106.65	¥108.19
CAD	$0.75	$0.72	$0.75
CHF	$1.04	$1.03	$1.01
AUD	$0.70	$0.65	$0.70
Fixed Income			
3M LIBOR	0.31	0.43	2.45
3M Treasury Bill	0.16	0.11	2.27
2Yr Treasury Note	0.23	0.16	1.85
10Yr Treasury Note	0.88	0.69	2.08
Fed Funds Rate	0.25	0.25	2.50
Commodities			
Gold/oz.	1,698.53	1,702.70	1,340.86
Silver/oz.	17.77	15.48	15.02
Copper/lb.	2.59	2.39	2.63
Oil	38.19	24.74	53.99

Global Economic Calendar (June 8th - June 12th)

Mon: TD Ameritrade (US); Housing Starts (CA)
Tues: Redbook (US); JOLTS (US); NFIB Small Business Optimism Index (US)
Wed: MBA Mortgage Applications (US); EIA Petroleum Status Report (US); Treasury Budget (US)
Thurs: Jobless Claims (US); Money Supply (US); Fed Balance Sheet (US); Quarterly Services Survey (US)
Fri: Baker-Hughes Rig Count (US); Import and Export Prices (US)