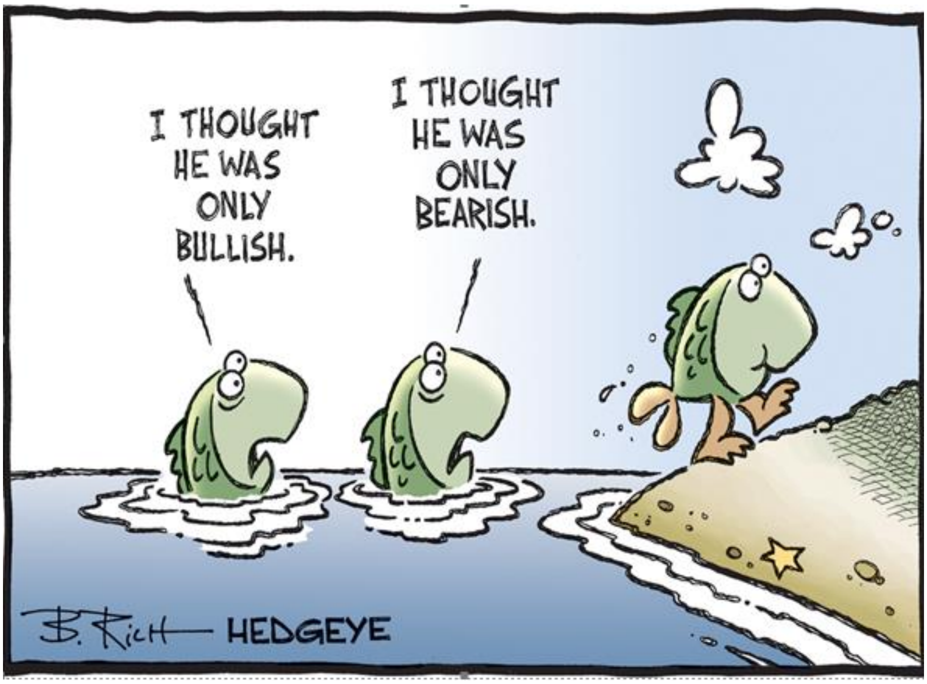
Market review June 2020



Investors appear to want to see the glass half full, at least for now! In May, stock markets continued the bounce-back that began on March 23rd. Increases hover between 3 and 7% for most of the main indices, with Europe slightly outperforming the United States, for once. Performances since the start of the year have been fairly dispersed, with declines of more than 10% for most European indices, while in the United States, the decline has been more contained with the Nasdaq 100 even up by 9% since the beginning of the year.
In terms of sectors, unsurprisingly, the technology sector posted the best performances while the more traditional "old economy" sectors like the industrial, financial or energy sectors are still lagging behind, even if, at the end of May, we saw sector rotations. We'll need to wait and see if these trends continue over time or if they are just fleeting. As we mentioned since the start of the epidemic, some industries will take longer to recover from the effects of coronavirus.

Source : Mirabaud Securities

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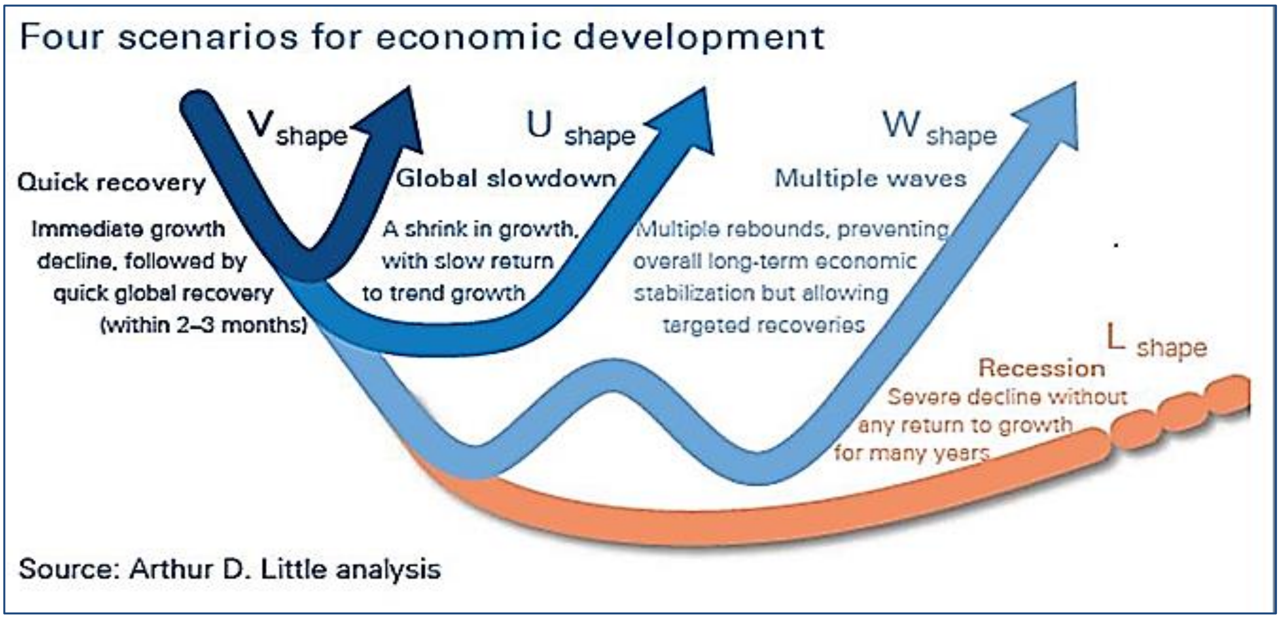
Oil trading seems to be returning to a certain normality. WTI rebounded 88% in May to reach a price of $35 per barrel again, which is close to the famous "breakeven" price we talked about last month. Recent announcements about reduced production have helped crude prices bounce back, but disputes within OPEC + are far from resolved.

Market trends at end of May 2020

			Equities in Local Currencies					
End of May	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	UK	Hong Kong
Perf 1 Month	4.63%	4.53%	4.18%	2.70%	2.52%	2.10%	2.97%	-6.13%
Perf 3 Month	0.32%	3.05%	-8.39%	-11.57%	-18.65%	0.00%	-7.66%	-11.47%
Perf YTD	-8.93%	-5.77%	-18.56%	-21.46%	-25.68%	-7.40%	-19.43%	-17.94%
		Commodities				Currencies vs EUR		
End of May	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	88.38%	39.81%	2.60%	3.62%	-1.37%	-1.96%	-3.27%	-0.91%
Perf 3 Month	-20.71%	-30.07%	9.12%	-4.59%	-0.69%	0.66%	-4.34%	0.27%
Perf YTD	-41.88%	-46.47%	14.04%	-12.92%	0.98%	1.67%	-5.95%	1.70%
			Bloomberg Indices Bonds Total returns					
End of May	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
Perf 1 Month	0.44%	0.47%	0.21%	0.18%	-2.94%	1.59%	5.10%	4.61%
Perf 3 Month	0.12%	1.65%	-2.04%	4.35%	-2.79%	-1.19%	-5.16%	-4.14%
Perf YTD	2.08%	5.47%	0.25%	11.16%	5.37%	0.71%	-6.78%	-2.85%

Source : Bloomberg 31/05/20

It is clear that investors are positioning themselves for a "V" shaped recovery of the economy. There are however several sources of problems that could worsen in the coming weeks, but it seems that for now the positive prospects for massive injections of liquidity announced by the Central Banks and the States have taken precedence over the catastrophic economic statistics for the 2nd quarter due to the lockdown.



Source : Arthur D. Little

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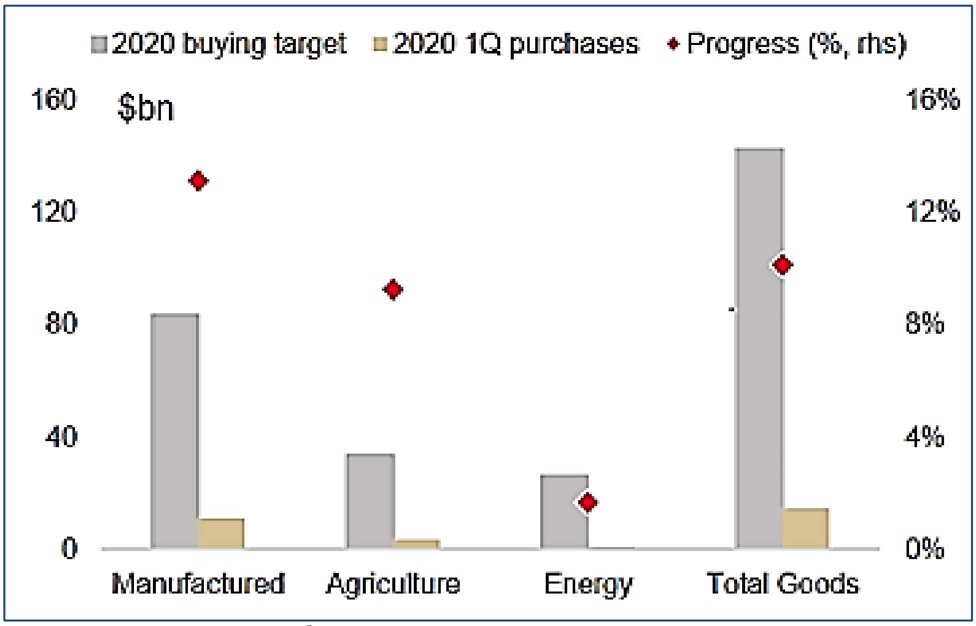
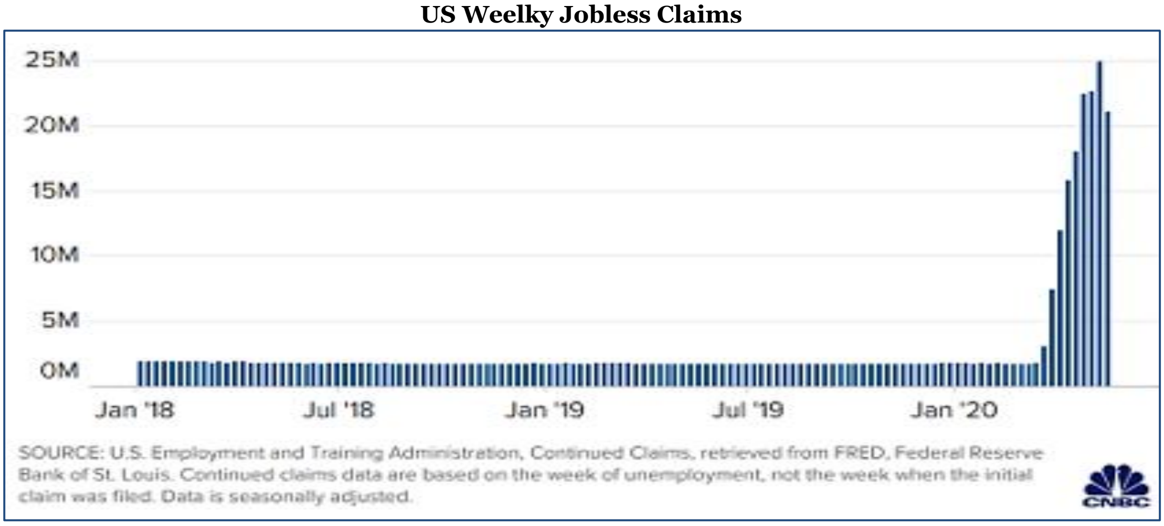
The resurgence of tensions between China and the United States does not seem to be worrying investors either. However, Donald Trump is giving the impression that he has decided to rub salt into the wound. Not only does he insist on telling anyone who will listen that China is responsible for the scale of the harmful effects of Covid-19 on the world economy, but he also seems to be starting to get impatient when he says that China is not complying with the commitments made in phase I of the agreement signed at the beginning of the year by the two nations.



Source : SG Cross Asset Research

And let's not forget the violent demonstrations in the USA since the death of George Floyd, a black American killed by a policeman in Minneapolis. First of all, from a matter of fact, these protests could worsen the spread of the virus in a country which is far from out of the woods even if new cases seem to have peaked already. Secondly, it risks widening the social fragmentation, with the middle class already struggling more and more to avoid falling into poverty since the first effects of coronavirus in the country. Let’s not forget that more than 40 million Americans have registered as unemployed since mid-March. This will not boost the popularity of Donald Trump, who seems to be in freefall in the polls for re-election in November 2020.

US Weelky Jobless Claims



Source : CNBC

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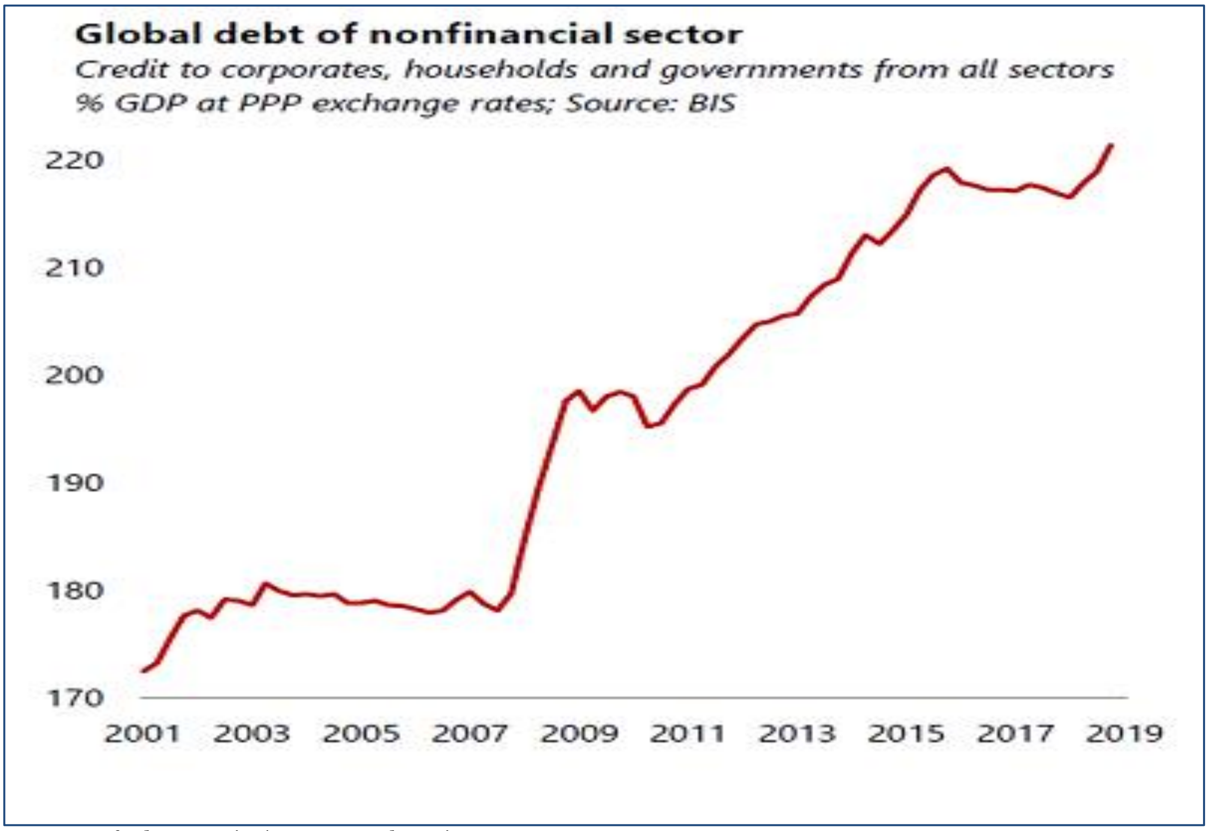
Another area of uncertainty is the negotiations between the European Union and the United Kingdom on the terms of Brexit. While this soap opera is admittedly nothing new, it seems that discussions are getting more and more bogged down, especially as Boris Johnson is already threatening to quit negotiations in June if no progress is made.
From a legal tone perspective, the filing of a complaint by Germany against the interventions of the ECB does not send a very reassuring message about solidarity in the Eurozone. This already fragile union needs more cohesion and fiscal unity to last and not division between members.
Finally, the limitless debt of States and companies has not been a cause for concern either, despite its historically high level. With such low interest rates, the risk of default remains admittedly low, but that could be seen differently in the coming months.



Source : Oxford Economics/CBO. Bruegel, Statista

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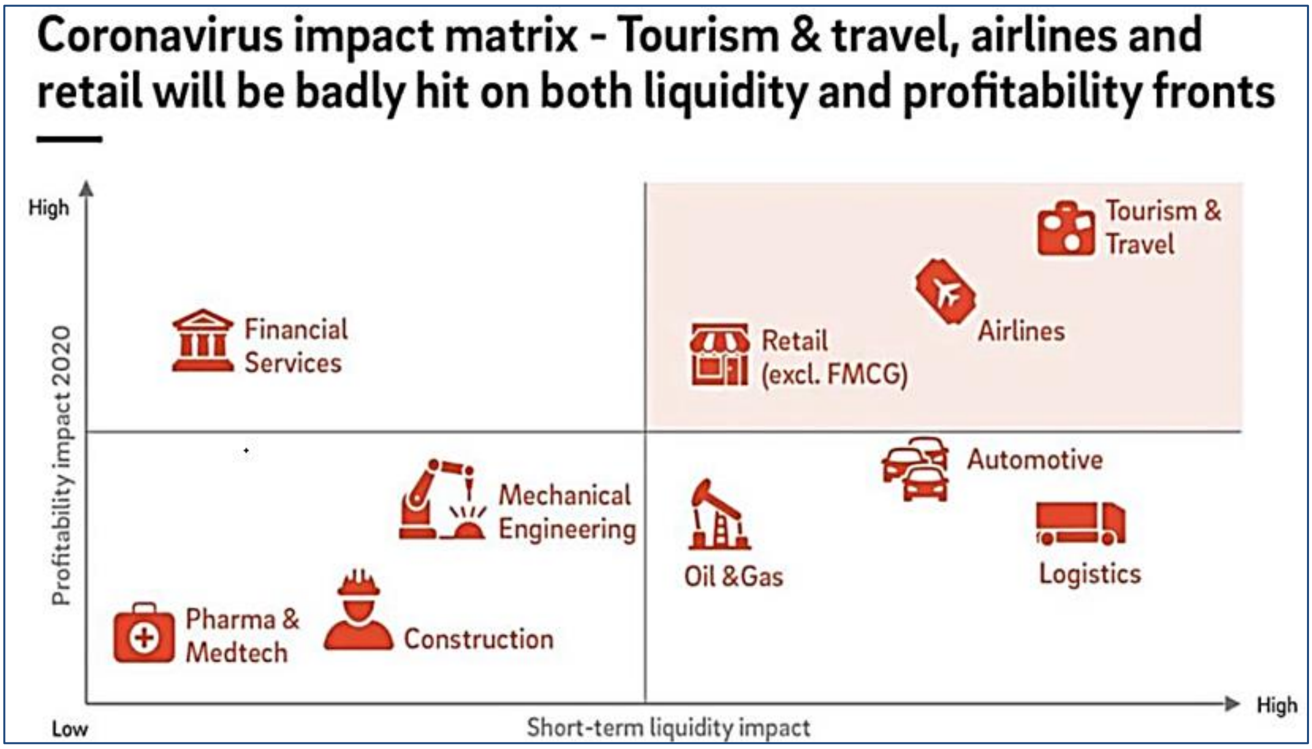
All of these uncertainties, in addition to the very negative outlook for profit for the rest of 2020, have not so far overly concerned investors. As we said in the introduction, they have preferred to see the glass half full by looking forward. This is particularly down to the fact that the consequences of Covid-19 on the economy seem less dramatic than expected and, above all that they are "behind us". The gradual reopening of the world's major economies (China, Europe and the US), the very low probability of a second imposed lockdown (even in the event of a second wave of infections) and signs of an agreement between France and Germany on a possible sharing of European debt have whetted the appetites of investors. The future will tell us if this was an illusion or not. Despite everything, we remain constructive on risky assets, because the lack of alternatives makes this category of investment essential, but we are no longer buying at current levels where a fragrance of euphoria seems to be spreading. The downward excesses of March have been more than offset between April and May. It is time to look to the future and the ability of companies to generate profits as they did before Covid-19. The first elements of a response will come in June with the publication of results for the second quarter and hopefully "guidance" for the rest of the year.
We wish you an excellent month of June.



Source : Roland Berger

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