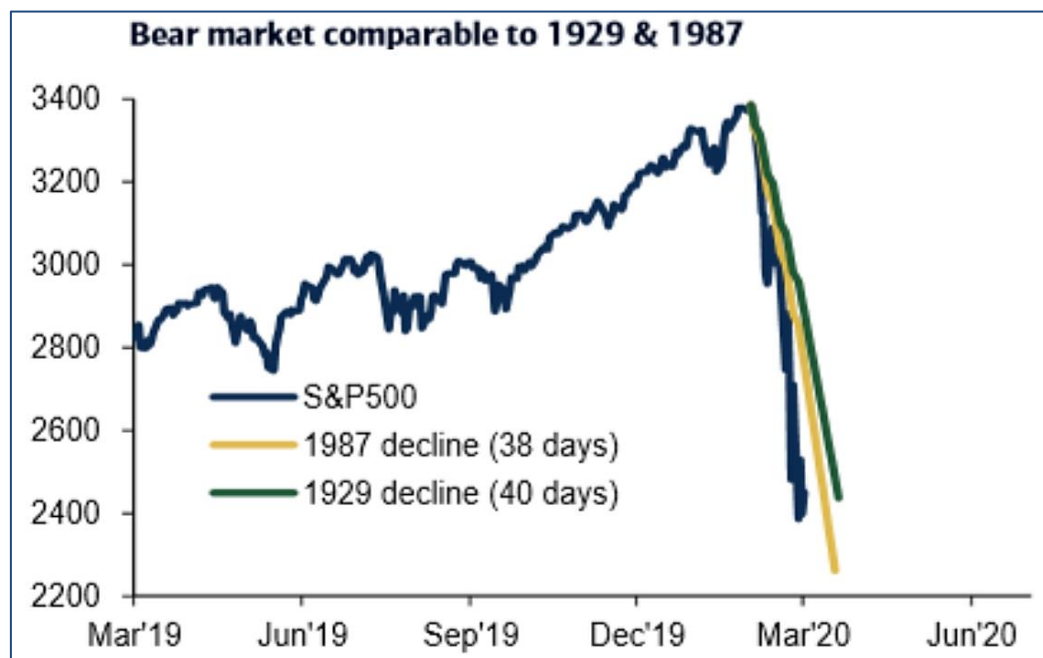




Market review April 2020



It's not easy to decide where to start when it comes to reflecting back on the month of March. Perhaps we should begin with the frustrating figures that made the headlines of the financial press. We witnessed the worst month in terms of stock market performance and volatility in a long time – but since when exactly? Depending on the selected indicator or index, the beginning of March 2020 can be compared to the crashes of 1987 and 1929. In some respects (which we will not enumerate here), this year has actually been worse, in others, almost the same.



Source : BofA Global Investment Strategy, Bloomberg

Market trends at end of March 2020

Equities in Local Currencies								
End of March	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	UK	Hong Kong
Perf 1 Month	-13.47%	-12.51%	-16.30%	-17.21%	-22.21%	-5.28%	-13.81%	-9.67%
Perf 3 Month	-21.44%	-20.00%	-25.59%	-26.46%	-28.94%	-12.29%	-24.80%	-16.27%
Perf YTD	-21.44%	-20.00%	-25.59%	-26.46%	-28.94%	-12.29%	-24.80%	-16.27%
Commodities								
End of March	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	-54.24%	-54.99%	-0.54%	-12.14%	-0.06%	0.30%	-3.20%	0.39%
Perf 3 Month	-66.46%	-65.55%	3.95%	-19.81%	1.63%	-2.57%	-4.83%	-2.32%
Perf YTD	-66.46%	-65.55%	3.95%	-19.81%	1.63%	2.64%	-4.83%	2.37%
Bloomberg Indices Bonds Total returns								
End of March	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign \$
Perf 1 Month	-2.24%	-0.59%	-3.39%	3.60%	-3.06%	-6.48%	-13.55%	-10.68%
Perf 3 Month	-0.33%	3.15%	-1.13%	10.36%	5.08%	-4.68%	-15.02%	-9.48%
Perf YTD	-0.33%	3.15%	-1.13%	10.36%	5.08%	-4.68%	-15.02%	-9.48%

Source : Bloomberg 31/03/20

This time, one thing is certain: the longest growth cycle in history has definitely come to an end! How did we get here? Through a combination of several factors. First of all, the fact that equity markets have not seen a major correction since 2008 had made investors complacent. This led to the widespread use of more or less leveraged and sophisticated mechanisms in both the equity and fixed income markets, motivated by very low or even negative interest rates in a number of countries.



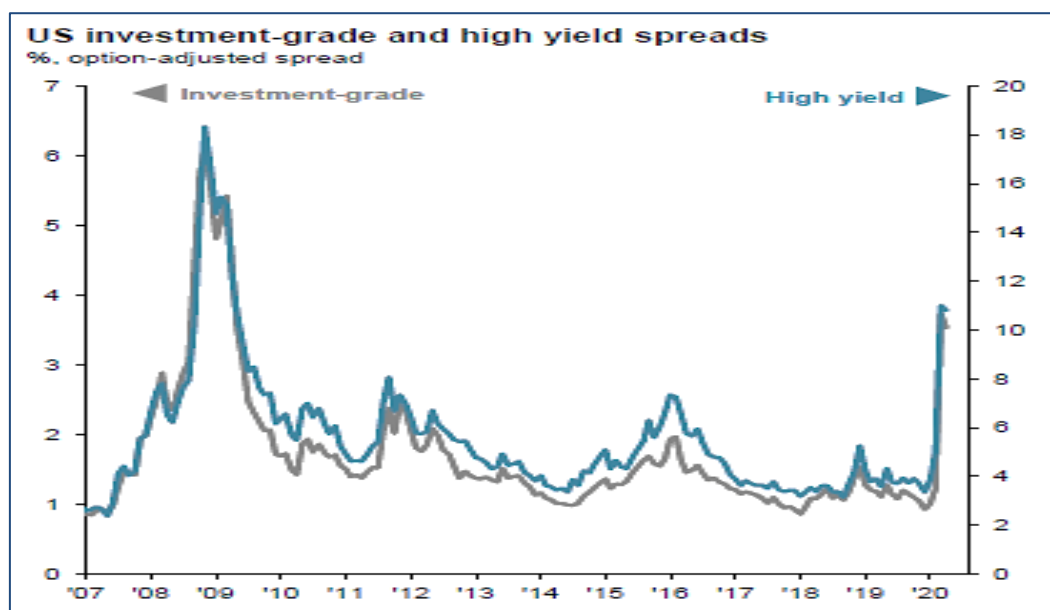
Source : Mirabaud, National Bureau of Economic Research, BEA

The main trigger, as we know, is called Coronavirus. It is him (or rather its contagiousness) whom has prompted governments around the globe to impose more or less total lockdowns on their populations, with severe consequences for the world economy. Where there other less economically painful solutions for stopping the spread of the virus?



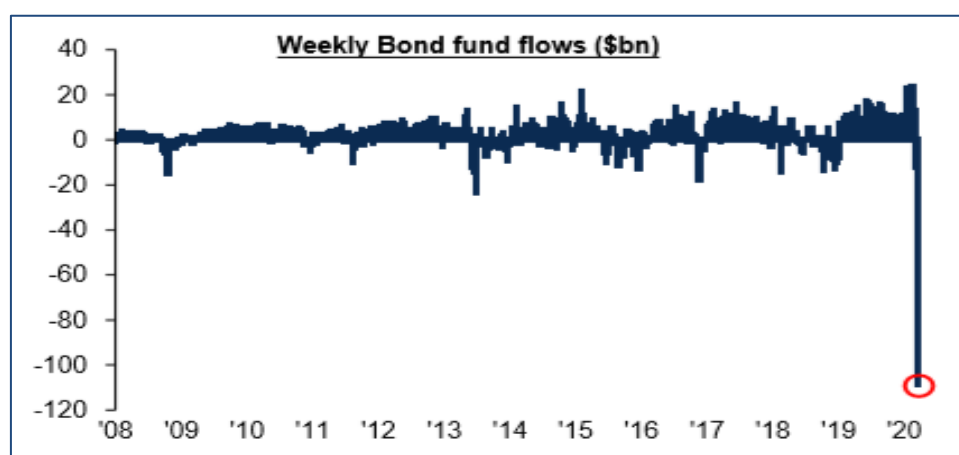
We are not in a position to answer this question, but one thing is certain: the decision had to be taken quickly and under pressure.

In the space of only a few weeks, almost 3 billion people were confined to their homes for an indefinite period of time. Against this entirely surreal backdrop of simultaneous supply and demand shocks, how could investors be expected to keep their nerves with their securities portfolios? The response was therefore immediate, with the Eurostoxx 600 tumbling by 26.3% over eight trading sessions, without any rebound. Equities were not the only asset class affected by the downturn. Corporate bonds also suffered strong declines depending on their ratings. While the high-yield segment lost between 12% and 15% (led by the oil sector), the “investment grade” segment, i.e. corporate bonds with the highest credit ratings, also were hurt to varying degrees depending on the sector. Companies relying on tourism or oil fell by between 5% and 7%, while bonds from industries less affected by the virus, such as healthcare, held up better. As can be seen in the chart below, spreads have widened significantly.



Source : Pictet

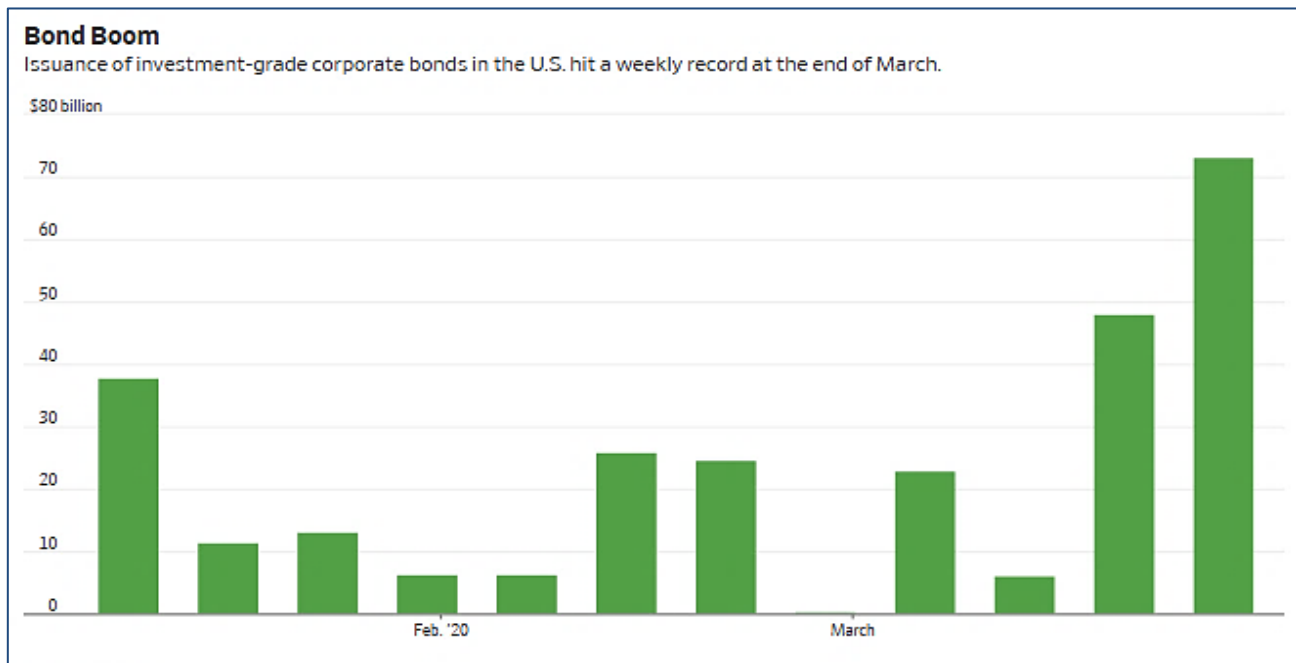
The secondary bond market initially experienced a major liquidity shock due to massive outflows.



Source : BofA Global Investment Strategy, EPFR Global



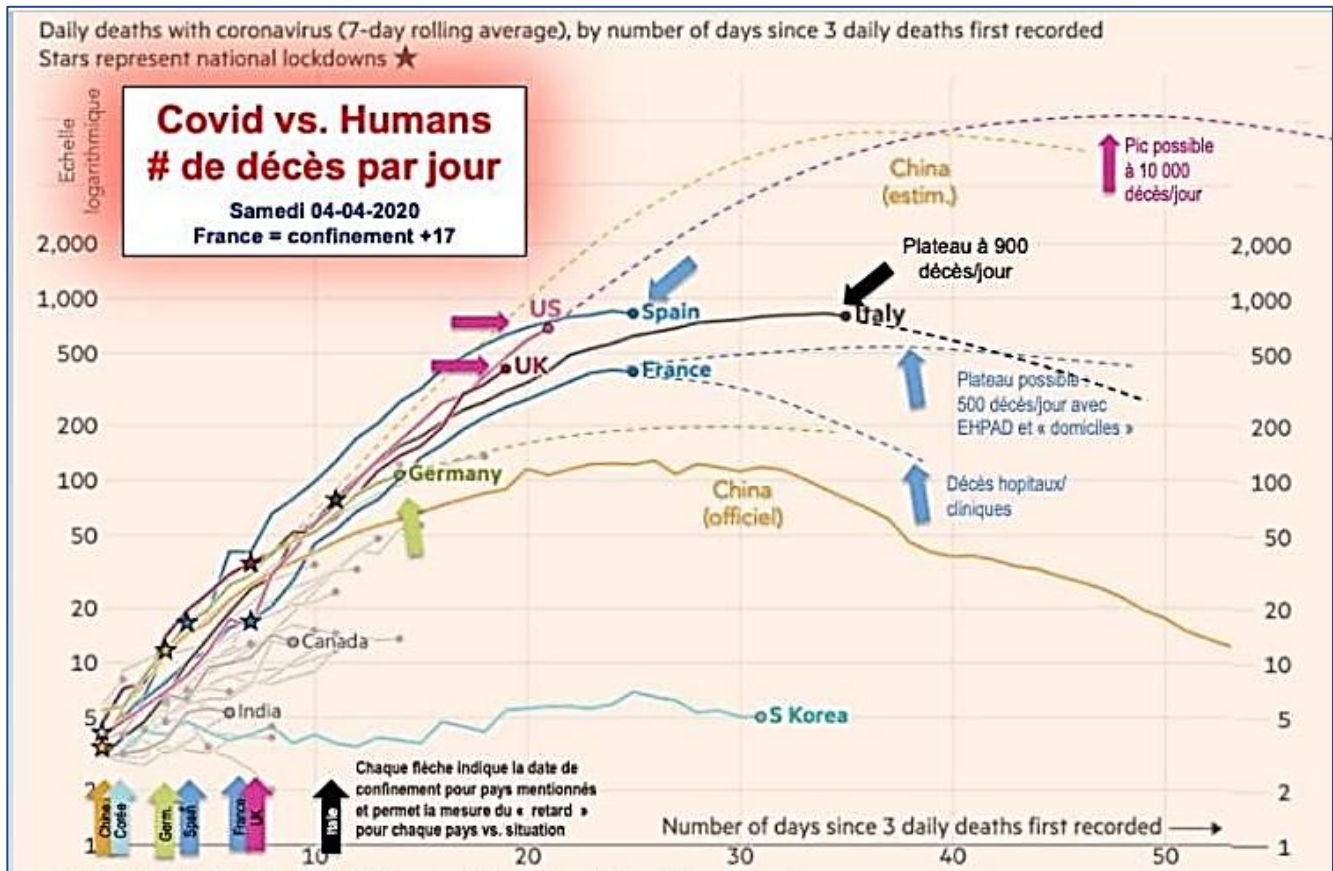
The second half of the month brought a surge of new bond issuance without historic precedent. During March, companies (mainly those with investment grade rating, given that the appetite for high-yield risk is naturally much weaker at the moment) borrowed no less than \$150.3 billion in order to meet their short-term fixed costs.



Source : Dealogic

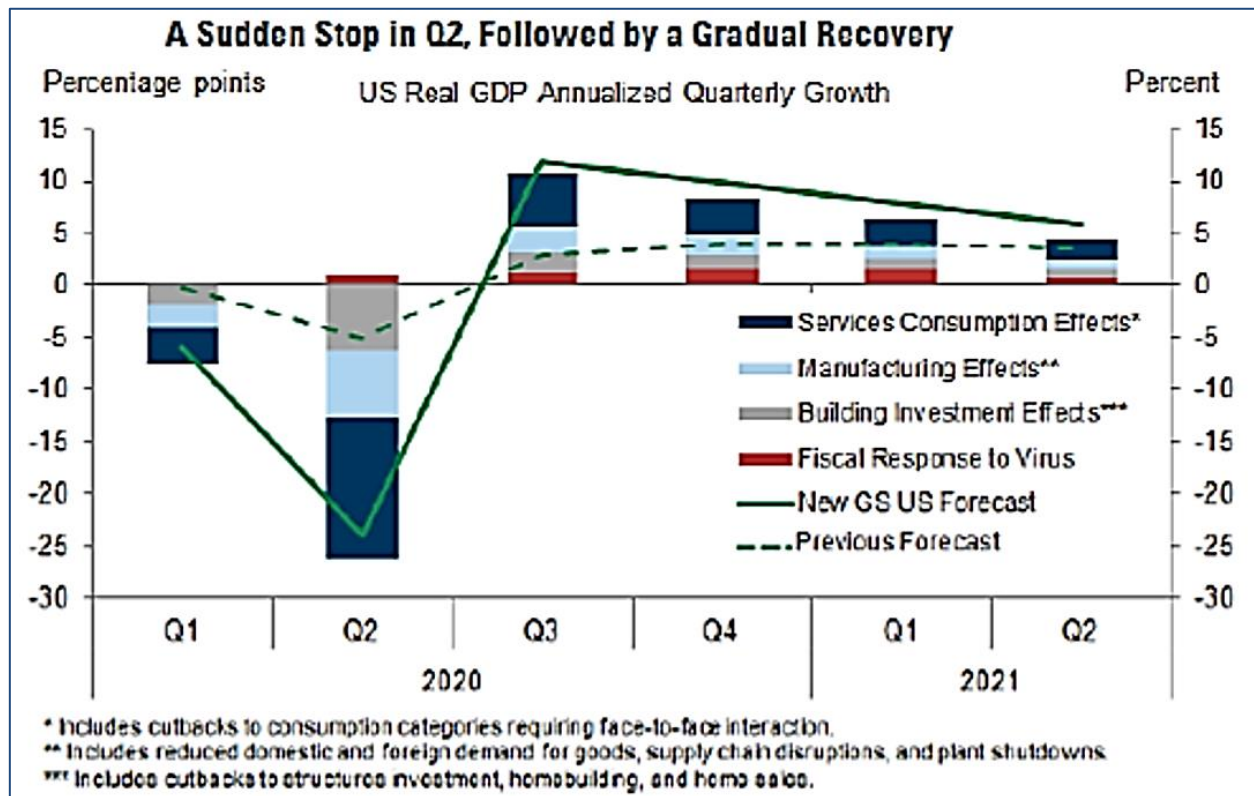
As if the spread of the virus was not enough to put pressure on risky assets, the OPEC+ countries, particularly Saudi Arabia and Russia, failed to agree on oil production quotas at their meeting on March 7 and 8. The punishment was swift. WTI crude was down more than 20% when markets opened on Monday morning, March 9, and closed the month 54.2% lower, a correction of 66.45% since the beginning of the year. Optimists might argue that this is good for the economy, especially for major oil consumers such as heavy industry, but the problem is unfortunately much more complex. Much of the US oil industry could be plunged into bankruptcy if oil prices do not rebound quickly. Current prices are well below the production costs of most US oil companies, which is around \$50.

Before considering the consequences of the global lockdown, let us first review the causes. While China seems to have stopped the “haemorrhaging” of the virus’ spread by taking drastic measures, it would seem that the slow response of some European countries (such as Italy and Spain) and the United States in containing the virus has turned out to be disastrous. Trump may accuse China of having lied about its own statistics (which is probably true), but his denial of the problem will certainly exacerbate the number of infections and deaths.



Source : FT analysis of European Centre for Disease Prevention and Control, Worldometers, FT research

In most European countries, the lockdown is expected to last until at least the end of April, and in the United States probably until May, given that the virus arrived there later than in Europe. At this stage, it is very difficult to anticipate the consequences of this global lockdown on the world economy. Even the most distinguished economists have no reference points for the current situation. We have already seen some economic indicators hit historic lows, such as the Eurozone PMI (purchasing managers' index), which fell from 51.6 to 31.4 between February and March 2020, and unprecedented levels of new jobless claims in the US – 3.3 million new claims for the week of March 21 and 6.6 million for the week of March 28. The previous record from 1982 was 695,000 new claims per week. In this context, any projection of future growth would seem totally arbitrary, given that we do not know when the economy will return to “cruising speed”, especially since this will not happen at the same time for all industries. As we already stated in our March letter, the tourism industry is not going to recover as quickly as the electronic components sector, for example. Some economists, such as those at Goldman Sachs, have nevertheless dared to make some projections. They expect a V-shaped recovery in the US, but this may be questionable, especially since we cannot rule out the possibility of new outbreaks emerging in certain regions of China or in Asia more generally.



Source : Goldman Sachs Global Investment Research

Governments have responded as best they can: by means of rate cuts and **massive** liquidity injections at levels that have never been seen before. Unlike in 2008, when the financial markets already needed liquidity but the various political actors were unable to agree on a response, given that the crisis had been caused by high-risk speculation of financial institutions, this time, all countries agreed to increase deficit spending in order to support their population. Central banks and governments have therefore opened their pockets without hesitation: the former by injecting liquidity into stock markets to prevent them from imploding; the latter to send the message that they will not leave anyone behind (that has been repeatedly stated by most political parties, both those in power and those in opposition).



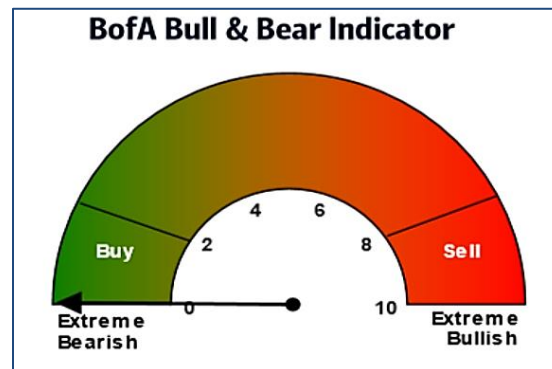
Stimulus plans by country

Organization or	Fiscal				
	% GDP	Rate Cut	Central Bank Actions (Rates & Liquidity)	Fiscal Stimulus	
government	Stimulus (\$)				
USA	2158	9.90%	1.5% Cut rates to 0%; Unlimited QE	SME Loans and public aid; Direct consumer checks, Healthcare aid	
China	718.4	5.10%	0.2% PBOC bank injections and RRR cuts	Loan commitments; rate cuts for some banks	
Germany	611.1	15.90%	-	Loan commitments;	
France	380	14%	-	Loan commitments; SME Loans and public aid	
IMF	200	-	-	Public emergency Aid; Loan commitments	
Canada	57.8	3.30%	1.0% Cut Rates; BoC created new BA acceptance facility, liquidity facility	Direct support; tax deferrals; SME Loans and public aid; Business Credit Availability	
Poland	52	8.80%	0.5% Cut rates; Reduce reserve ratio	SME Loans and public aid	
South Korea	43.4	2.70%	0.5% Cut rates, Broaden the eligible collateral for open market operations; QE	SME Loans and public aid; Liquidity to financial markets	
Europe	41.8		ECB QE; TLTRO facility; PEPP of public/private securities	Direct support; tax deferrals; SME Loans and public aid; Business Credit Availability	
Brazil	40.1	2.10%	0.5% Cut rates; Reduce reserve ratio	Healthcare aid; SME Loans and public aid; Credit lines	
UK	38.7	1.40%	0.7% Cut rates, BoE capital buffer boost	SME Loans and public aid	
Italy	27.8	1.40%	-	SME Loans and public aid	
United Arab	27.2	6.60%	-	SME Loans and public aid	
Japan	19.6	0.40%	BoJ boost to asset purchases	SME Loans and public aid	
Hong Kong	15.5	4.20%	1.1% Cut rates	SME Loans and public aid	
Turkey	15.4	2.10%	1.0% Cut rates	SME Loans and public aid, Tax cuts	
Saudi Arabia	13.3	1.70%	0.8% Cut rates	SME Loans and public aid	
Thailand	12.7	2.40%	0.5% Cut rates	SME Loans and public aid	
World Bank	12	0.00%	-	SME Loans and public aid	
Australia	11.8	1.00%	0.5% Cut rates; Bank lending; ABS purchases; Yield Curve Control	SME Loans and public aid	
Chile	11.7	4%	0.8% Cut rates; Credit lines to bank; Purchase of \$4bn in bank bonds	Healthcare aid, SME Loans and public aid	
Bahrain	11.3	29.60%	0.8% Cut rates	SME Loans and public aid	
Switzerland	10.6	1.50%	-	SME Loans and public aid	

Source : BofA Global Investment Strategy, Bloomberg

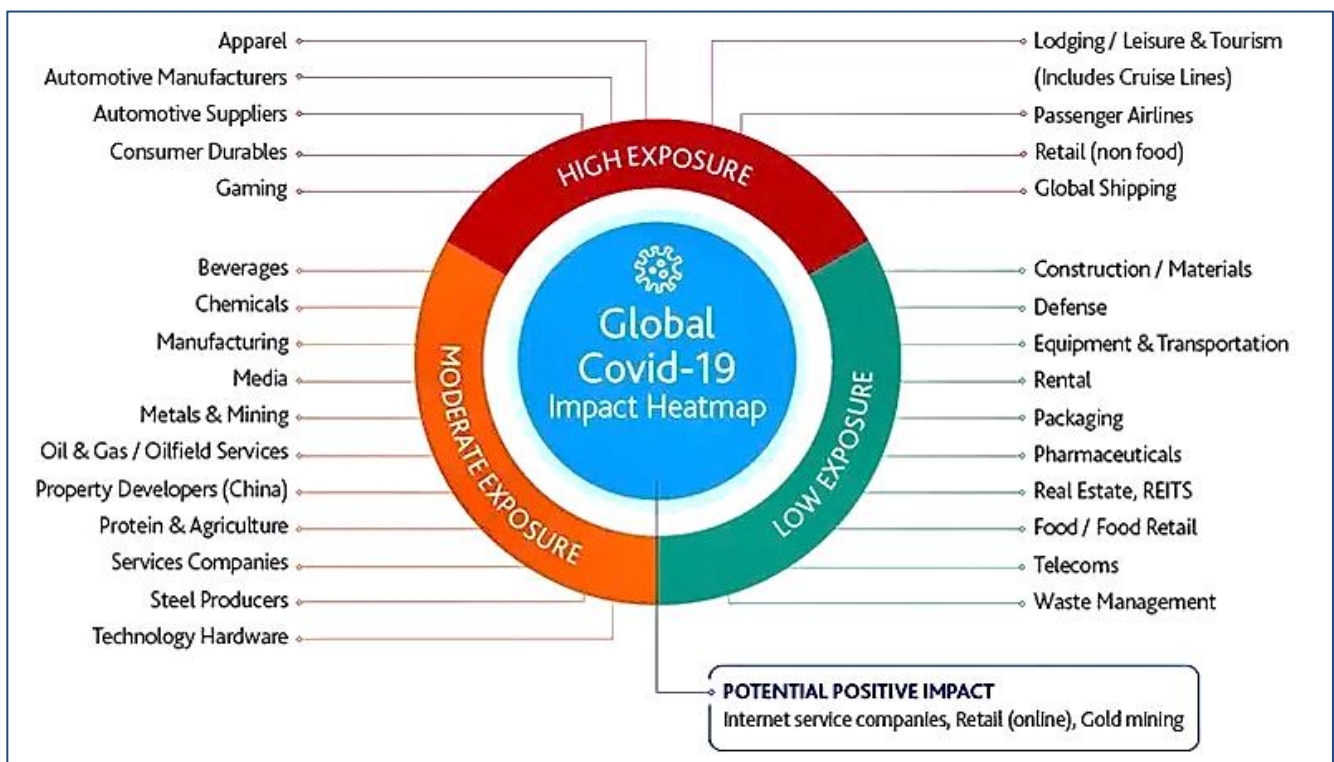
But will this be enough? At this point, it is impossible to answer this question. However, should this not be the case, there will certainly be additional measures. These liquidity injections are being financed through debt at historically low interest rates. Will this have negative implications over the long run? Probably yes. But it is too early now to anticipate the real consequences, and they will certainly not be felt for the next 18 to 24 months. For the authorities, the priority is to get out of the crisis and back to normal as quickly and as orderly as possible.

Since the beginning of the year, the damage on portfolios has therefore been considerable. Even though the situation that we are experiencing cannot be compared to any previous stock market crashes, they all had one thing in common: namely to offer very interesting opportunities for investors with a long-time horizon (3-5 years). To take advantage of these opportunities, investors must be prepared to accept higher volatility in the short term, as the correction we are witnessing is set to continue in the coming months. This level of volatility is frightening because we are constantly faced with it as we see share prices continuously fluctuate on our screens. As much as this is possible under the circumstances, taking a step back and not letting ourselves be swayed by these emotional price swings would give us greater peace of mind. For example, we tend to find it much less worrying if real estate prices shrink by 5%, 10% or 15% because we are not thinking about selling our house every day. In fact, we often buy real estate to pass it on to our children. If we adopt the same reasoning with regard to our financial portfolios, we will approach volatility differently.



Source : BofA Global Investment Strategy

Our “post-virus” daily life and habits are likely to change. As previously stated, some industries will be slow to recover (some companies in the more severely affected sectors may even disappear), but others will come out ahead. While keeping in mind the principle of diversification, we favour growth companies with strong balance sheets and low leverage.
Take care of yourself and stay at home.



Source : Moody's

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