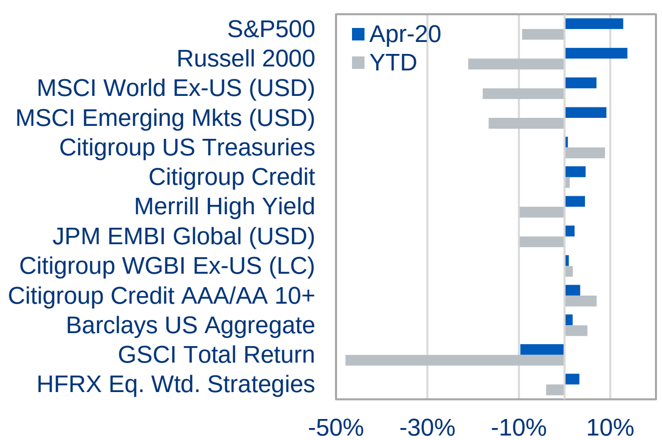
Global Market Review

Macro Summary

Following a precipitous decline in the first quarter, global equity markets rebounded sharply in April, with the U.S. leading the way. The rebound largely reflects extraordinary fiscal and monetary stimulus measures by governments and central banks around the world as well as the natural ebb and flow of sentiment in a highly uncertain environment. Despite this rebound, the pattern established in the first quarter—significant declines in equities and other risk assets in the wake of a flight to safety—remains in place. The strongest performing asset classes so far in 2020 remain long-dated U.S. Treasuries and the dollar, while oil is still the biggest loser, down two-thirds this year, reflecting a continued glut and a contracting global economy.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



April rebound moderates, but does not reverse, Q1 slide.

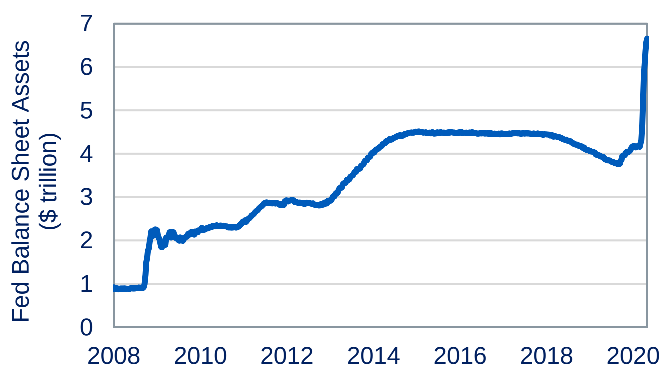
Economies in Lockdown

The global economic downturn caused by the pandemic seems certain to surpass the great financial crisis of 2007-09 (GFC) and is likely to rival that of the Great Depression. In its baseline scenario predicated on a fading of the pandemic in Q2, the IMF forecasts that global GDP will decline 3% in 2020, compared with the 0.1% decline of the GFC. In a downside scenario based on a more prolonged pandemic impact, the decline in global GDP in 2020 doubles to 6%. Recent data releases have painted a uniformly grim picture of the pandemic's economic impact. U.S. new claims for unemployment have totaled 30 million over six weeks, one sixth of the labor force, suggesting an unemployment rate of 15-20%, the highest since the 1930s. Early estimates of Q1 GDP in major global economies all point to a significant shock to output. Forward-looking economic indicators suggest a deepening economic contraction. The purchasing managers' index, a coincident indicator of output in the manufacturing and service sectors, hit all-time lows in the U.S., Europe and Japan, as well as in a number of emerging Asian economies.

The policy response to limit economic destruction and maintain orderly markets has been swift and substantial. Cuts by the Fed have brought policy rates effectively to zero, while the pace of asset purchases to ease liquidity conditions and ensure orderly markets has exceeded those of the GFC (Exhibit 1). Other major central banks have also eased significantly. Moreover, massive fiscal stimulus packages have been initiated across the globe. In the U.S., Congress approved $2 trillion in fiscal spending to soften the economic impact of the pandemic. The CBO projects that, assuming that no further stimulus measures are adopted, the U.S. fiscal deficit in 2020 will hit nearly 18% of GDP, the largest since 1945, pushing Federal debt to 108% of GDP, from 79% in 2019.

Exhibit 1. Fed Asset Purchases Spike

Source: FRED.



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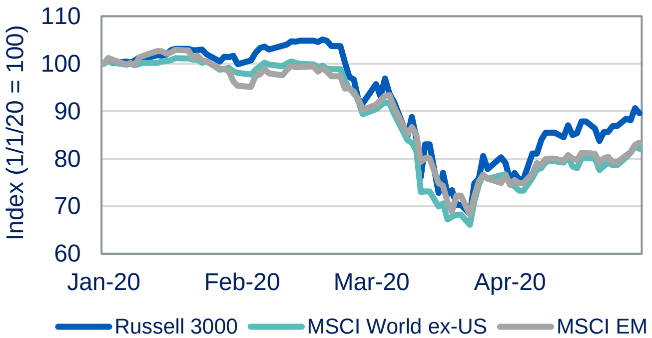
U.S. Equities Rebound Rapidly

Extraordinary policy support and hopes for an economic rebound pushed U.S. stocks to their biggest monthly rally since 1987 (Exhibit 2). The S&P 500 gained 12.7% in April; a rise of over 30% from market lows on March 23, and closed the month only 15% below its historic high. The large rally was undeterred by deteriorating market fundamentals. Most companies have withdrawn their earlier full year earnings guidance given the uncertainty of the outlook while analysts forecast an 18% decline in profit growth.

The April rally was widely felt. Both large and small capitalization shares rose by over 13%, and growth and value stocks enjoyed double-digit gains. Shares in all market sectors gained, with the energy sector (up 30% in April following a 35% decline in March) leading the others. Large-cap technology companies also generated particularly strong returns, with Amazon and Netflix up more than 40% from their mid-March lows.

Exhibit 2. Equities Rebound Despite Weak Fundamentals
Source: Bloomberg.



Global Equities Gain

The stark disconnect between dire fundamentals and resurgent asset prices was also prominent in global equity markets. As was the case in the U.S., the main drivers of the rally were fiscal and monetary stimulus as well as improved sentiment on prospects for easing the lockdown. Developed market equities rose 7% in April despite data showing that the Eurozone economy contracted 3.8% in the first quarter, the fastest decline since 1995. Japanese markets rose 5.4% after the Bank of Japan pledged to buy an unlimited quantity of government bonds and quadruple its limit on corporate debt purchases. Notwithstanding the strong April rally, developed equity markets remain down nearly 18% for the year.

Emerging markets gained 9.2% in April, recovering 20% from their mid-March lows. However, emerging market shares remain down 16.6% so far in 2020. The April rally was broadly shared across regions, despite signs of fragile fundamentals in a number of key emerging economies. These vulnerabilities include weak health systems, large domestic output declines, falling exports, lower commodity prices, and high debt levels. Reflecting these vulnerabilities, the currencies of a number of emerging economies, including Brazil, South Africa, Russia, and Turkey, have fallen sharply.

Fed Actions Support Credit Markets

U.S. Treasuries with maturities of 10 years or more have been the best performing asset class this year, returning 23.4%. Ten-year yields have fallen 124 basis points since the beginning of the year and remain near all-time lows, while yields on two-year Treasuries have declined 138 basis points to 20 basis points at end-April on the Fed's signal that it would hold the Fed funds rate near zero for as long as necessary to restore economic growth. A flight to safety and extraordinary expansionary measures by other major central banks have had a similar effect on yields in other advanced economy sovereign bond markets. The yield on the 10-year German bund, for example, fell to -58 basis points at end-April.

U.S. investment grade and high yield corporate bond prices rose sharply in April, fueled by the Fed's plan to expand lending to corporations and support "fallen angels" (bonds downgraded to junk) during the pandemic. Yield spreads narrowed in April across other global credit markets as well, and issuance by corporate and sovereign borrowers has been strong this year.

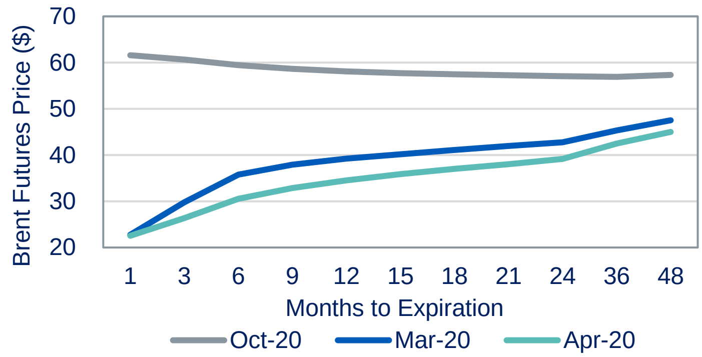
High Beta Strategies Dominate Hedge Fund Returns

The HFRX Equal Weighted Strategies Index rose 3.2% in April, driven by directional equity and credit strategies. Equity long/short strategies benefitted from the rebound in markets, earning 4.5%, while merger arbitrage strategies gained 5.2%. Low-beta equity market neutral strategies, in contrast, declined 0.9% in April. Hedge funds remain down 4% so far in 2020.

Oil Falls to 18-Year Lows

The S&P GSCI Commodities index slipped 9.7% in April, despite a rebound in oil prices following apparent progress in ending the price war that had glutted markets and sent prices tumbling (Exhibit 3). For 2020 as a whole, however, the GSCI crude index is down nearly two thirds, in the face of abundant supply and fears that global economic activity will remain low.

Exhibit 3. Oil Futures Fall on Global Demand Concerns
Source: ICE.



Performance of Major Market Indices through 04-30-2020
Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	12.8%	12.8%	-9.3%	0.9%	9.0%	9.1%
Russell 2000	13.7%	13.7%	-21.1%	-16.4%	-0.8%	2.9%
MSCI World Ex-US (USD)	7.0%	7.0%	-17.9%	-11.5%	-0.5%	-0.3%
MSCI Emerging Mkts (USD)	9.2%	9.2%	-16.6%	-12.0%	0.6%	-0.1%
Citigroup US Treasuries	0.7%	0.7%	8.9%	14.2%	5.8%	3.9%
Citigroup Credit	4.6%	4.6%	1.1%	9.3%	5.4%	4.4%
Merrill High Yield	4.5%	4.5%	-9.8%	-5.3%	1.4%	3.2%
JPM EMBI Global (USD)	2.2%	2.2%	-9.8%	-3.3%	0.6%	2.9%
Citigroup WGBI Ex-US (LC)	0.9%	0.9%	1.8%	5.1%	3.0%	2.6%
Citigroup Credit AAA/AA 10+	3.4%	3.4%	7.0%	21.3%	10.3%	7.6%
Barclays US Aggregate	1.8%	1.8%	5.0%	10.8%	5.2%	3.8%
GSCI Total Return	-9.7%	-9.7%	-47.9%	-48.2%	-15.6%	-16.3%
HFRX Eq. Wtd. Strategies	3.2%	3.2%	-4.0%	-0.4%	-0.6%	0.1%