MARKET OPPORTUNITIES

May 2020

• Soaring stock markets defy looming recession

The divergence between the flying stock market and the dying economy is so extreme it is leaving many analysts scrambling for explanations.
The recent string of economic data releases reflecting life under global coronavirus lockdowns has been even grimmer than expected, spurring the IMF this week to forecast the biggest global recession since the 1930s' Great Depression.

Most investors are in awe at the scale of the shock and agree that we are in uncharted territory. We have a monster mash-up of the Great Depression in size, the crash of 1987 in speed, and 9-11 attack in terms of fear. But still we have stock markets that have been on a roar for a more or less 5 weeks now.

What was once dismissed as a mere "bear market rally" — often strong but ultimately doomed bounces that can occur in the middle of severe downturns — has now turned into a roughly 25 per cent jump for global stocks. Technically, that qualifies as a new bull market. The rise has erased more than half of the stock market's fall since late February, and brought the FTSE All-World index back to levels seen in the US tax cut-fuelled summer rally of 2017.

Analysts and investors say that global efforts by central banks to soothe the financial system have been the trigger. Citigroup estimates that the biggest central banks will buy $5tn of bonds this year, led by the US Federal Reserve, which is more than twice the size of the stimulus seen at the peak of the 2008-09 financial crisis. The Fed has even charged into areas once thought untouchable for central banks, announcing plans to support corporate debt graded "junk" by credit rating agencies.
Through various other liquidity injections and a series of government spending packages aimed at ameliorating the effects of measures taken to contain the coronavirus outbreak, and the overall stimulus bill comes to $14tn, according to the IMF.

Technology stocks and healthcare stocks are once again leading the rally, both are sectors where we hold exposure and where we wish to add to our exposure. Even travel and leisure stocks have jumped significantly from their lows although there is little or no clarity as to when clients and profitability will return to these two sectors.

History does support that after a big 20-30 % set-back in equity prices there is usually a significant come-back.

One notable exception, however, was after the crash of 1929 and the Great Depression. The US stock market rallied over 44 per cent from the November 1929 low through to March 1930 before sliding another 80 per cent, and did not reclaim its 1929 highs until September 1954. Some investors think this is a plausible scenario now.

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Markets – April 2020

Equity indices	April 2020	2020
MSCI ADWI	10.58%	-13.46%
MSCI World	10.51%	-11.70%
S&P 500	12.68%	-9.85%
Euro Stoxx 50	5.06%	-21.82%
DAX	9.32%	-18.02%
FTSE 100	4.04%	-21.76%
Nikkei 225	6.75%	-14.64%
OMX 30	6.44%	-10.95%
OMXC 25	9.63%	-1.51%

Bond indices	April 2020	2020
Global Treasuries	1.31%	2.71%
Global High Yield	4.37%	-11.31%

Currencies	Price	April 2020
EUR/USD	1.0955	-0.64%
EUR/SEK	10.6901	1.00%
USD/SEK	9.7579	1.59%
USD/DKK	6.8117	0.51%

Interests	April 2020
US T-bill 3M	0.099
Euribor 3M	-0.273
Libor Fix 3M	0.594
Stibor Fix 3M	0.257
Cibor Fix 3M	-0.133

Other	April 2020	2020
Gold	6.93%	11.15%
Brent Crude Oil	11.13%	-61.71%
HFRX Index	2.88%	-4.17%

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Nervousness creeps back into markets last week, as abnormal pricing in the oil market triggered a three day sell off in the equity market. Although partly a technical dislocation, it underscored the fragile state of the global economy. Meanwhile, the first-quarter corporate earnings season has started to reveal the extent of the revenue destruction hitting many companies. And such grim results may pale next to what is likely to be a “horrific” second quarter.

This message was hammered home by data released on Thursday showing another 3.8m Americans claiming unemployment benefits, taking the total since mid-March to 30m. This remarkable rise in the unemployment rate also means that when companies are ready to re-hire employees they will most likely have a vast selection of qualified candidates to hire at salaries which are unlikely to surpass previous 2019 levels. This will make companies more competitive going forward.

A potential antiviral drug for coronavirus failed its first randomised clinical trial, but there are still robust hope that the drug could shorten the average illness period and the severity of the respiratory impact.

We remain risk management oriented with a significant underweight in equities but are getting ready to reduce this underweight over the coming weeks.

• Market outlook

Equities

It is obvious that the medium-term visibility has disappeared. Many companies are withdrawing their 2020 guidance. We are primarily trying to avoid sectors such as : airlines, hotel groups, gaming and casino, car manufacturers. Our preferred sectors are : technology, biotech, specialised healthcare, internet security, robotics & automation and stable consumption. We remain underweight equities.

Fixed income

High yield and Emerging market debt has suffered similar losses as equities. Government debt with yields close to zero has provided safety. We reduced in March significantly in Emerging Markets Debt and High Yield.

Foreign Exchange

A relatively quiet period on the currency market in April. The risk on currencies like AUD, SEK and NOK have performed well in April. We expect this to continue provided the equity markets remain on positive footing.

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Holding of the Month

BB Healthcare Trust

The BB Healthcare Trust, with its experienced management team and strong board of directors, invests in a concentrated portfolio of listed equities in the healthcare industry and targets a dividend payout equal to 3.5%.

In April the Fund was up 17.07%.