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Week in Review

Friday, April 3rd 2020

- According to the non-farms payroll, employers shed roughly 700,000 jobs in March, pushing the unemployment rate to 4.4% from 3.5%. This represents the largest one month increase since March 2009, with the decline centering on service segments including restaurants and bars. Further jumps in unemployment are anticipated as the latest numbers do not incorporate shifts in the latter part of the month.

- The CARES Act was passed, providing >$2Trillion of stimulus to the US economy. Assuming nominal output is $1.8 Trillion per month, and a 30% decline in productivity across all industrial segments, we can contextualize the monetary and fiscal funding package as a four month bridge.

- Oil markets rebounded from recent historic lows with WTI spot prices increasing from 16 to 25 with talks of an international coalition of OPEC+ members agreeing upon possible cuts in production. An emergency meeting has been set for Monday to determine how cooperation may occur. While Saudi Arabia and Russia began the conversation as the two primary parties that engendered the collapse in crude prices, other parties, such as the United States, have not signaled exactly how it may join the effort.

- The US exhibits the highest number of confirmed cases of COVID-19. Recent testing has suggested that broader pandemic spreads within the US may include Michigan, Connecticut, Indiana, Georgia, Illinois, Colorado, Rhode Island, and Massachusetts.

- The increase of the global caseload has slowed somewhat, with the seven day growth statistic dropping from 127% on March 27 to 107% on March 31. The number of deaths within Spain has declined for the first time in the last four days, and the cases within Italy have stabilized given the more stricter containment measures limiting the amount of travel within these regions.

- Companies that have been hit the hardest, continue to access the capital markets. Carnival reduced its stock sale from $1.25Billion to $500Million. However, it has increased its secured debt offering to $4Billion at a yield of 11.5%. It also sold $1.75Billion of convertible bonds at 5.75%.

- The surge in outflows from emerging markets have been unprecedented. The $35Billion in outflows total from India, Indonesia, Malaysia, Philippines, South Korea, and Thailand, represents approximately 40% of the total de-risking that occurred during the global financial crisis

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Recently, a large proportion of the headlines have shifted towards projection of a market bottom, and whether the rebound of the prior week represents stabilization of the viral spread. As we discussed within yesterday's webinar, several factors come into play, including the efficacy of global containment policy, the capacity of treatment capabilities unique to each region/country's health system, the pace of stimulus deployment, and coordination of global fiscal and monetary policy makers.

A few of these factors have come into alignment, but many have not. The rate of infection within the US continues to climb, which is being counteracted by the pace of stimulus that has been planned. The converse seems true within China, where the rate of infection has begun to flatten, yet economic policies appear less coordinated and have been delivered at a slower pace when compared at the actions of the US government.

We believe that volatility will continue, and that stabilization will unfold only after these key metrics come into alignment.

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