

WEEK IN REVIEW

FRIDAY, APRIL 24TH 2020

- At the start of the week, the U.S. benchmark price for crude dropped below zero for the first time in history. The future contracts for May delivery of West Texas Intermediate tumbled to minus \$37.63 a barrel. This swing was attributed to the way oil futures operate, where the choices for long-holders were to take physical delivery or roll over the contracts. The confluence of supply glut combined with the lack of storage forced futures traders to roll over contracts at negative rates and those with oil to move were forced to pay buyers to take their inventory. Offshore oil drillers have begun shutting off wells in the U.S. Gulf of Mexico following a collapse in crude prices due to the coronavirus pandemic, and some executives worry that the region's production may take years to fully recover.
- States began loosening social distancing policies, with Georgia, South Carolina, and Tennessee leading the way. However, there are differences in how each are relaxing guidelines. South Carolina will allow some retail stores, as well as flea markets, to reopen Monday. Tennessee Governor Bill Lee said the "vast majority" of his state's businesses can reopen May 1, 2020, and Georgia will permit businesses such as gyms, barber shops and tattoo parlors to resume business on Friday. Georgia's Governor cited the drop in daily numbers of new cases, improved outlook for hospital capacity and growing availability of testing make him comfortable with his course.
- The lack of a unified approach could hinder efforts to deal with the current outbreak and prevent another. Initial steps in New York and California consider possible ways of implementing a tracking system. New York's Governor Cuomo announced plans to work with Connecticut and New Jersey to increase contact tracing -- a system in which health-care workers track down and contact people who may have been exposed to someone known to be infected. In California, Democratic Governor Gavin Newsom said the state would retrain some of its own workers to join an "army of tracers" 10,000 strong. At the same time, Newsom wants to be able to test 60,000 to 80,000 people per day, up from 16,000 now.
- Australia will keep its borders closed for three to four months. Consumers in North Korea's capital have been panic buying food, NK News said. Japan's economy is in an extremely severe situation and getting worse rapidly, the government said. Mexico's cases jumped more than 1,000 in one day. Europe's economic composite gauge plummeted to 13.5 from 29.7 as the services sector collapsed due to the lockdowns. French business confidence plunged to its lowest ever and consumer sentiment in Germany also fell to a record.
- Pimco is stepping up a bet on distressed debt with plans to raise another \$3 billion to buy leveraged loans, junk bonds and CLOs. Disco III is at least the second fund of this type that Pimco's been shopping around this year. Investment firms are raising over \$40 billion to scoop up cheap assets left in oil and the pandemic's wake. Oaktree is targeting \$15 billion for the biggest-ever distressed-debt fund.
- The House is expected to pass the latest stimulus bill, after the Senate passed a nearly \$500 billion bill on Tuesday that replenishes a small-business loan program and includes money for hospitals and testing. As Congress races to provide a fresh injection of aid to small businesses, lawmakers are contemplating a simpler, faster way to supply the next round of relief: put the existing payroll-tax system into reverse. The federal government could deliver a quick subsidy to employers by telling them to stop sending in money withheld from workers' paychecks.
- Companies and consumers filled U.S. banks with a record \$1 trillion of deposits in the first quarter, a flow more than 5 times that of the typical quarter. More than half of it went to the four largest banks in America— JPMorgan Chase & Co., Bank of America Corp., Wells Fargo & Co. and Citigroup Inc. The \$590 billion in deposits they gained in the first quarter is nearly double the previous quarterly record of \$313 billion for the entire U.S. banking industry. The biggest bank in America, JPMorgan, took in \$273 billion in the first quarter. That is akin to swallowing another top-10 bank.

- About 4.4 million Americans applied for unemployment benefits last week, bringing the total claims for the past five weeks to more than 26 million, the Labor Department said Thursday. Jobless claims, which are laid-off workers' applications for unemployment insurance payments, had reached nearly 7 million at the end of March as the coronavirus led to widespread business closures. Forty-three states reported claims declined from a week earlier, although they remained at high levels. California continued to see the most claims, with 530,000. New claims in New York and Missouri fell 50% versus the week earlier. A few states that had previously reported smaller filing rates noted sharp rises last week. Initial claims in West Virginia and Connecticut more than tripled. Florida's volume increased 180% as more than 500,000 workers filed for unemployment.
- Net outflows from hedge funds totaled \$33 billion in the first quarter, the most in more than a decade. The total is about 1% of industry capital, and the largest quarterly outflow since investors pulled about \$42 billion in the second quarter of 2009, according to Hedge Fund Research. Total industry capital declined to \$2.96 trillion globally in the quarter, the first time assets dropped below the \$3 trillion mark since 2016. Hedge fund performance broadly fell 10% in the most recent quarter.

THINKING AHEAD

As evidenced by current market levels, situated near -14% from recent peaks, the historic stimulus plan instituted within the US has provided a positive and very important short-term impact. However, the longer-term consequences are still unknown. Aside from the large debt load being incurred by the government, these policies have intervened in the private sector in un-precedented ways, and potentially distorting asset values in the process. The Fed's activities in funding the private sector now includes below-investment grade credits from the corporate sector.

Stabilizing the function of financial markets has been a double-edged sword, in that both stable and weak entities are supported throughout the turmoil created by the pandemic. Nevertheless, this has created opportunities for investors to ferret out investments that are best positioned to weather the turmoil and prosper when the economy stabilizes. The dramatic dispersion of performance caused by economic uncertainty offers fertile grounds for cultivating the best prospects to emerge from difficult times.

We will continue to provide weekly market updates. In the meantime, you can access our thought leadership pieces on our [Insights](#) page and by following us on [LinkedIn](#).

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