Market Review

May 13, 2020

Market Commentary

The massive liquidity injections led by the U.S. central bank have stabilized both equity and credit markets. Both non-investment and investment grade corporations have tapped the debt market to bolster liquidity reserves. Fiscal policy support is helping to bridge the significant adverse financial impact of this government-induced global recession until lockdown measures can be lifted.

The containment and shelter-at-home measures have been successful with the outcomes of earlier flattening of the curve, lower peak of hospital usage and lower mortality levels than predicted by consensus models. As most countries are in the early stages of re-opening their economies, economic activity should start to improve going forward. Concerns regarding a second wave of the virus outbreaks are valid but if it were to occur, a swift policy response is expected. In addition, a more complete tool kit is now in place to combat the virus.

Corporations have largely pulled earnings guidance for this year and reinforced that second quarter profits will be lower than the first, likely marking the trough. The pace of improvement in the back half of the year will be dependent on the successful removal of lockdown measures and our ability to live with the virus.

The counterbalance to the significant drop in corporate earnings this year is an unprecedented liquidity boom coupled with a significant reduction in the discount rate suggesting a positive repricing of equities. Nonetheless, the path back to economic and social normalcy will be slow and uneven which suggest continued choppiness in equity markets.

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