Investors Look Past the Pandemic
Monthly Market Commentary
April 2020

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- Investors were encouraged in April by plans to reopen economic activity in some regions; developments in the race for COVID-19 treatments and vaccinations; and lower securities pricing after the selloff in February and March.
- The $349 billion in U.S. stimulus funds allotted for small businesses in late March was depleted in a matter of weeks—requiring Congress to authorize an additional $321 billion in funding to keep the program in place.
- We think this real-life, albeit metaphorical, black swan presents an opportunity to become a more informed investor.

Economic Backdrop

Stock markets around the world continued to face off against COVID-19 throughout April as both equities and infection rates underwent near-relentless expansions. The official infection rate more than tripled during the month to over three-million cases worldwide—and is assumed to be a dramatic undercount given the lack of available testing. Coronavirus lockdowns were therefore maintained around much of the world. Nevertheless, stocks advanced globally almost without exception during the month as forward-looking investors spotted sources of encouragement—including plans to slowly reopen economic activity in some regions; developments in the race for COVID-19 treatments and vaccinations; and much lower securities pricing after the selloff in February and March.

U.S. stocks outperformed other major developed markets in April as the S&P 500 Index generated its highest one-month return since 1987 and volatility was nearly halved (according to the CBOE Volatility Index, or VIX Index). While the U.K., along with most European countries, Japan, and emerging-market giant China lagged the U.S., each finished high above their respective average one-month returns (according to country-level components of the MSCI ACWI Index).

U.S. and U.K. government-bond rates fell across all maturities during the month. In the eurozone, long-term rates fell as shorter- and intermediate-term rates increased somewhat. The West-Texas Intermediate (WTI) spot oil price plummeted below zero U.S. dollars per barrel for the first time in history—briefly touching -$40 per barrel in April as its futures contract for May delivery neared expiration; the June futures contract traded between $10 and $20 per barrel through the end of April. Despite a 23-nation agreement led by the U.S., Saudi Arabia and Russia to cut production by 9.7 million barrels per day, oil inventories were projected by the U.S. Energy Information Administration to reach full storage capacity at some point in 2020.

In the U.S., the $349 billion in stimulus funds allotted for small businesses through the Paycheck Protection Program (PPP) in late March was depleted in a matter of weeks—requiring Congress to authorize an additional $321 billion in funding by mid-April to keep the program in place. Larger companies, some publicly traded, received loans from the program, prompting public criticism and demands from Treasury Secretary Steven Mnuchin that those companies apologize and return the loans (which some did); he also said that loans extended under the program for above $2 million will be subjected to an audit. The Department of Justice also announced it would investigate instances of fraud associated with the PPP. This follow-up appropriation drove the U.S. annual deficit to $3.7 trillion, blowing through the previous record of $1.5 trillion set in 2010.

President Donald Trump issued an executive order in April to suspend immigration for 90 days, denying work visas for most types of jobs. He also invoked the Defense Production Act of 1950 in an effort to force meat-processing plants to remain open, despite labor unions' concerns about the danger of working in close quarters during the pandemic. The state-to-state outbreak response continued to vary widely, with some states (like New York) extending lockdowns into May while others (like Georgia) started to allow non-essential businesses to open in late April.

The U.K. government continued to build out its Coronavirus Job Retention Scheme during April, extending the program by another month until the end of June. It also increased the ceiling on a loan-guarantee program, enabling companies with annual revenues above £45 million to access support if they've been impacted by the lockdown period (which was extended by another three weeks). Prime Minister Boris Johnson emerged from his personal battle with COVID-19 in April, having been hospitalized in intensive care and temporarily deputizing Foreign Secretary Dominic Raab to fulfil his role while incapacitated.

Elsewhere, Germany began reopening on 20 April, with plans for a phased return to schools starting in May, and clear benchmarks for returning to lockdown in the event of resurgent spread of COVID-19. New Zealand declared that it eliminated widespread community transmission of COVID-19 as at 27 April, enabling citizens to start moving more freely and non-essential businesses to begin reopening.

The International Monetary Fund (IMF) forecasted the worst recession since the Great Depression as a result of COVID-19 containment measures, and announced that half of all member countries have requested a bailout from the lender of last resort. Argentina skipped a $503 billion debt payment due in late April, starting a 30-day clock toward default, shortly after a group of international creditors rejected the government's latest plan for restructuring its sovereign debt.

Central Banks

- After aggressively cutting rates in March, the Bank of Canada (BoC) held the policy rate firm at a historically low 0.25% following its April 15 meeting. The bank, however, did not stand pat as it announced corporate and provincial bond purchase programs of $10 billion and $50 billion, respectively, starting in early May. Additionally, the cap for federal bond purchases at treasury-bill auctions was raised from 25% to 40%. The BoC's next scheduled meeting is on June 3.

- The Federal Open Market Committee met in late April and announced no new changes. In a post-meeting press conference, Federal Reserve (Fed) Chair Jerome Powell pressed lawmakers "to use the great fiscal power of the United States to do what we can to support the economy."

- The Bank of England's (BoE) Monetary Policy Committee did not meet during April. BoE Governor Andrew Bailey sought to reaffirm the central bank's commitment to avoiding monetary financing (that is, purchasing government debt to fund deficits) by assuring that any expansion in the government's overdraft would be repaid by the end of 2020.

- The European Central Bank (ECB) lowered the rate on its targeted long-term refinancing operation (TLTRO III) further into negative territory following its end-of-April meeting, effectively paying banks to lend. The ECB also announced a new program called the pandemic emergency longer-term refinancing operations (PELTROs) to help facilitate proper functioning of money markets.

- The Bank of Japan committed to open-ended purchases of Japanese government bonds in an effort to keep yields low and stable following its late-April monetary-policy meeting. It also announced a ramp-up to its purchases of corporate bonds and commercial paper, with a target of ¥20 trillion.

- The People's Bank of China decreased the rate on its one-year medium-term lending facility to the lowest level since the the program's inception more than five years ago. The central bank also cut its benchmark loan prime rate (one- and five-year rates). Additionally, a cut to bank reserve requirements came into effect in mid-April, freeing bank capital reserves for lending.

Economic Data

- According to Statistics Canada, the rate of inflation (as measured by the change in the Consumer Price Index (CPI)) fell by a record 0.9% in March, while year-over-year prices were only up 0.9%. Producer prices were weak as well—the Industrial Product Price Index (IPPI) also slumped 0.9% in March, while the Raw Materials Price Index (RMPI) plunged 15.6%. Over the past 12 months, the IPPI slid 2.4% while the RMPI fell 22.7%. Markedly lower energy and petroleum prices played an outsized role in the poor inflation reports. The economy has shed over three million jobs since March (over one million in March and nearly two million in April). Unemployment has quickly climbed to 13.0%, the second-highest rate on record.

- Manufacturing activity collapsed during April across the U.S., U.K. and eurozone after contracting at a relatively mild pace in March. Their respective services sectors were hit much harder than manufacturing in March as lockdowns took effect, and were not spared by that fact as conditions continued to tighten sharply in April. Preliminary data indicate that services activity contracted more sharply in the U.K. and eurozone than in the U.S. during April.

- U.S. jobless claims climbed to approximately 30 million from mid-March through the end of April, representing that roughly 20% of the U.S. labour force has applied for unemployment insurance. Overall economic activity contracted by an annualized 4.8% rate during the first quarter for the lowest reading since the fourth quarter of 2008.

- Retail sales plummeted 5.1% in the U.K. during March and 5.8% year over year.

- Overall eurozone economic activity contracted by 3.8% during the first quarter—the worst decline since the EU began keeping records for euro area gross domestic product (GDP) in 1995.

Market Impact (in Canadian dollar terms)

Equity markets rebounded sharply in April—domestic equities bounced over 10%, while small companies gained over 25%. Materials, information technology and consumer discretionary all posted notable gains while communications services was the only sector in negative territory. U.S. equities also rose more than 10%. Other foreign markets had more modest rallies, with emerging markets outpacing other developed markets.

Fixed-income markets also performed well as riskier segments of the markets snapped back. Corporate bonds and real-return bonds outperformed government bonds. U.S. high-yield bonds benefited from Fed actions despite turmoil in the energy markets.

Index Data (April 2020)

- The S&P/TSX Composite Index was up 10.79%.
- The FTSE Canada Universe Bond Index returned 3.79%.
- The S&P 500 Index, which measures U.S. equities, climbed 10.09%.
- The MSCI ACWI Index (Net), used to gauge global equity performance, gained 8.04%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 3.68% (currency hedged) and 1.29% (unhedged).
- The Chicago Board Options Exchange Volatility Index—a measure of implied volatility in the S&P 500 Index also known as the "fear index"—declined from 53.54 to a still-elevated 34.15 at month end.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, plunged from US$20.48 on the last day of March—briefly hitting an unprecedented minus US$40 in mid-April—before recovering to US$18.84 at the end of the month.
- The loonie strengthened versus the U.S. dollar; it ended the month at C$1.39 per U.S. dollar. Meanwhile, the U.S. dollar was little changed versus the world's other major currencies. It ended the month at US$1.26 against sterling, US$1.10 versus the euro and 106.84 yen.

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