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Market Insights
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Essentials

In March, European new-car sales were down 52% year on year as dealerships closed and production was halted to stop the spread of coronavirus. Sales should pick up again towards the end of the quarter as lockdown measures are gradually eased.

Close to 10% of S&P 500 companies have now published their first-quarter results. Unsurprisingly, earnings came in 12% below the forecasts, which had already been revised down considerably. On top of these weak figures, many companies have withdrawn their guidance for 2020, a sign that companies have very little visibility going forward.

With the economy at a near standstill, investors are turning to companies that have managed to keep growing their earnings. These growth stocks have maintained their appeal relative to cheaper stocks. And Amazon holds the crown: last week its market cap reached a record high on the US stock market.

	USD / CHF	EUR / CHF	GBP / CHF	EQUITIES SWITZERLAND	EQUITIES EUROPE	EQUITIES USA	EQUITIES JAPAN	EQUITIES EMERGING	GOLD	OIL	ALTERNATIVE FUNDS
*Trend	↓	→	↗	↑	↑	↑	↑	↑	↑	↓	↑
% YTD	0.0%	-2.6%	-6.2%	-11.0%	-22.8%	-13.6%	-16.9%	-20.3%	11.8%	-52.3%	-6.2%

↓: < -1% ↘: -1 to -0.25% →: -0.25 to +0.25% ↗: +0.25 to 1% ↑: > 1%

*Weekly trend

Forex – it's all about balance sheets

Daniel Varela
Chief Investment Officer

The COVID-19 outbreak and the ensuing economic crisis prompted major central banks to enact emergency measures, just like they did during the 2008–2009 financial crisis and the European sovereign debt crisis that hit several years later. With benchmark rates already at rock bottom, central banks have started expanding their balance sheets by buying assets and injecting liquidity into the financial system. These measures have begun to pay off in recent weeks. Economic data are now showing the extent of the damage caused by the lockdown measures implemented in most countries – and the extent to which global output has slowed in recent weeks. But central banks have so far managed to prevent this exogenous shock from triggering a structural or systemic economic crisis. Calm has gradually returned to the financial markets, and investors are beginning to prepare for the rebound in output, with measures to ease the lockdown being planned in Europe, the USA and other countries around the world. Central banks have been applauded for their response so far. But when printing money becomes the norm, countries' and regions' economic fundamentals take a backseat on the forex markets. It is therefore better to look to technical indicators for guidance. And we can see several trends emerging. Among the major currencies, the US dollar and the yen are moving in a relatively narrow range, while the euro continues to soften. Peripheral and emerging currencies have fallen sharply as a result of the ongoing pandemic and the plunge in oil prices, but should regain some composure once the global economy begins to stabilise. At this point, we feel that bold currency plays could be very damaging for portfolios. We therefore recommend that clients and investors maintain a high level of exposure to their base currency. For Swiss-franc-denominated accounts, that will often entail broad forex hedging. This applies to euro-denominated holdings in particular, which we are still hedging fully against the franc. Despite its repeated interventions, the Swiss National Bank is struggling to prevent the euro from falling against the franc, and the two currencies are moving dangerously close to parity.

China – a crisis well managed

Ed Yau
Investment analyst & manager

China very quickly had to weigh up the economic consequences of maintaining the lockdown and the public health consequences of not doing so. Today it looks like the choice it made was the right one. Of course, it was easier to implement such drastic measures in a country with a tightly controlled economy and previous experience from the Sars epidemic. But the turnaround we've seen in Asia since February offers hope for countries still in the midst of the public health crisis.

The March rebound in China's manufacturing PMI and industrial output is encouraging, but that may only be the first step in a much more gradual recovery: March retail sales were down 15.8% year on year, and GDP has contracted for the first time since records began, with the economy shrinking 6.8% in the first quarter. For now, the chances of a second wave of infections derailing the recovery look relatively small, but it could happen as people return from abroad. Another potential threat to the recovery is a lasting slump in demand for exports, as Europe and the US look likely to tip into a recession. Exports still account for 20% of China's GDP, although their share is lower than it was during the 2009 financial crisis. The chances of this latter threat materialising have been reduced somewhat by the unprecedented stimulus policies that central banks have rolled out across the developed world. China has been surprisingly timid in this regard, with monetary support amounting to just under 3% of GDP – versus over 11% in 2009. That could reflect the government's desire to save some ammunition in case there's another shock over the next few months, or to prevent it from taking on excessive amounts of debt that would have to be soaked up over the years to come.

Synoptic view

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Cash			■	■	
Fixed Income	■	■	■		
CHF	■	■	■		
EUR /GBP	■	■	■		
USD			■	■	
Em markets			■	■	
Equities			■	■	
Switzerland			■		
Eurozone			■	■	
Other Europe			■		
United States			■	■	
Japan			■		
Asia Pac ex Japan			■	■	
Other Em markets			■		
Real Estate			■		
Switzerland			■		
Commodities			■		
Gold			■	■	
Alternative Inv.			■	■	
Currency vs CHF			■		
EUR		■	■		
GBP			■		
NOK			■	■	
USD			■		
JPY			■		
AUD		■	■		
EM currencies			■	■	

Underweight Overweight

Recent Recommendations

Toyota Motor Corp	Sell	April 17, 2020
HDFC Bank	Hold	April 17,2020
CK Hutchison	Hold	April 17, 2020
Essilorluxottica	Buy	April 7, 2020
Concho Resources Inc.	Sell	April 6, 2020
Reckitt Benckiser Group Plc	Buy	April 3, 2020

Our "expertise" events

Piguet Galland organises regular events for its clients. Please do not hesitate to register on our website: https://www.piguetgalland.ch/fr/agenda/

Do not hesitate to contact your adviser or write to us at the following e-mail address : advisory@piguetgalland.ch