Piguet Galland & you.
Market Insights
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Essentials

Lower-quality bonds have been consolidating for the past two weeks, although they look set to catch up again soon. US corporates, in particular, should be boosted by the country's upcoming economic gradual recovery and the Fed's generosity.

Eurozone indicators have fallen more than expected: flash PMIs are at all-time lows, and consumer confidence has been hit hard. Only the ZEW Indicator of Economic Sentiment for Germany has bounced back, which suggests that an improvement could be on the cards. May figures will be decisive.

Swiss watch exports were down 22% year on year in March, the sharpest drop since the 2008 financial crisis. Exports to Europe, where lockdown measures are still in place, were particularly weak, but there was a 10% rebound in exports to China, which bodes well for a similar recovery in Europe in the coming months.

	USD / CHF	EUR / CHF	GBP / CHF	EQUITIES SWITZERLAND	EQUITIES EUROPE	EQUITIES USA	EQUITIES JAPAN	EQUITIES EMERGING	GOLD	OIL	ALTERNATIVE FUNDS
*Trend	↗	→	↘	→	↓	↓	↓	↓	↑	↓	→
% YTD	0.7%	-3.0%	-6.2%	-9.3%	-25.0%	-12.2%	-17.4%	-21.1%	14.0%	-67.5%	-4.8%

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

*Weekly trend

USA: a recession is inevitable

Daniel Steck
Investment analyst & manager

At the start of the year, we thought we could rule out any risk of a US recession, but now that scenario seems unavoidable. The emergence of the coronavirus and its rapid spread have forced governments to take measures that are now weighing heavily on global growth.

The markets quickly grasped the scope of the current economic downturn, as shown by March's sharp sell-off, which brings back memories of the decline recorded in the wake of the 2008 financial crisis. However, we don't think there is any systemic risk, especially given the unprecedented central bank interventions and the stimulus plan approved by the US Congress, which is equivalent to 9% of the country's GDP.

Rather than trying to draw a parallel with the 2008 crisis, it is better to focus on what makes the two crises different. The decline in output in the second quarter is likely to be similar to that recorded during the Great Recession, but the recovery should be much quicker. This time, the economic standstill has been caused by an exogenous shock and the essential measures put in place by governments to counter it, rather than by a slump in economic fundamentals. Provided the crisis is short-lived, it should have a more limited impact on the employment market, with furloughed workers returning to work more quickly. A robust uptick in consumer spending, a sector so vital to the US economy, is all the more likely given that consumers are currently being forced to save, as more than half the country has been in partial lockdown.

The US stock market has already started to price in this rapid recovery and the substantial rise in corporate earnings expected in 2021. However, we mustn't get any false hopes: some of the earnings lost during the slowdown will never be recovered. Some jobs will disappear, and the most fragile companies could shut down for good. Many people will suffer, but this could help to set the stage for another period of economic expansion.

Funds have flowed out of equities and into bonds in recent years, but investors could start showing renewed interest in stocks. We therefore remain constructive on this asset class, which has retained its appeal even after the recent April rally.

Japan – unprecedented times call for unprecedented measures

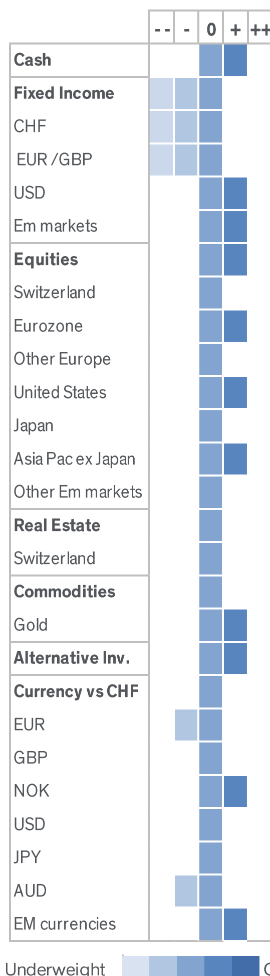
Ed Yau
Investment analyst & manager

We have already scaled back our exposure to Japanese stocks twice since last August, in light of the possible impacts of the sales tax increase and the trade tensions between the USA and China. An uptick in the manufacturing sector was meant to help the economy – which is driven largely by services – to bear the brunt of the higher sales tax. But those hopes were quickly dashed by coronavirus. The pandemic will weigh heavily on the Japanese economy, which in Q4 2019 had already recorded its sharpest contraction in over five years.

In response to these events, the Bank of Japan ramped up its purchases of shares in exchange-traded funds (ETFs) in order to stabilise the country's market in the short term. Purchases have been capped at JPY 12 trillion a year – or some USD 9 billion a month. At this pace, the BoJ will hold nearly 10% of the Japanese stock market by year-end. But with interest rates already in negative territory, the BoJ currently has limited room for manoeuvre when it comes to monetary policy. The authorities have therefore turned to other measures: the government plans to hand out the equivalent of USD 930 in cash to individuals, and at its policy meeting on Monday the BoJ announced that it was ramping up its measures to ease strains on corporate funding and that it would buy an unlimited quantity of Japanese government bonds.

These unprecedented measures should help to offset the impact of the increase in infections recorded since schools reopened in early April – at a time when infections elsewhere in the world are levelling off. Given the sharply worsening outlook for Japan's economy in 2020, we are cautious on Japanese equities and suggest continuing to take a selective approach to this market.

Synoptic view



Recent Recommendations

Schwab (Charles) Corp	Buy	April 21, 2020
TDK Corp	Sell	April 21, 2020
Bank of America	Buy	April 21, 2020
Toyota Motor Corp	Sell	April 17, 2020
HDFC Bank	Hold	April 17,2020
CK Hutchison	Hold	April 17, 2020

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