

Six things for investors to watch in April

Weekly Market Compass: This month will be critical in assessing the global response to the coronavirus crisis

Apr 06, 2020 | Kristina Hooper, Chief Global Market Strategist

In the early stages of the COVID-19 pandemic, we talked about the need for an effective, global, three-pronged approach in order to achieve a “best-case scenario” outcome: 1) an appropriate health policy response to “flatten the curve” and control the spread of the virus, 2) an adequate monetary policy response to support financial markets and the economy, and 3) an adequate fiscal policy response to help soften the economic blow to households and businesses. We saw effective approaches, in different forms, in both China and South Korea. Now we are looking to other policymakers to provide effective strategies as the novel coronavirus spreads.

Given that focus, the following is our list of what to watch in April:

- 1. Infection rates in the US and Europe.** Ideally, we want to see an increase in testing and a decrease in the growth of infection rates. The bigger, the better for both. Overall, the growth rate of confirmed coronavirus cases in the US has slowed in recent days,¹ suggesting that the lockdown in most parts of the country is working. (Though it’s important to note that some states are reporting very high growth rates.) Recent results have been similarly positive in Europe, with several countries including Spain and Germany reporting their lowest growth in daily cases since the start of the pandemic. In the UK, the growth rate of new infections appears to have slowed over the weekend. However, we will want to follow this very closely in April to confirm whether this is a new trend, or a temporary dip. If it does mark a new trend, I would expect it to be well-received by capital markets.
- 2. Infection rates in emerging markets.** The pandemic is now spreading to emerging markets countries whose health care systems are far less capable of managing such a crisis. It will be absolutely critical to ensure that the novel coronavirus does not ravage these countries and lead to political instability and supply chain disruption. India has been proactive in attempting to contain infections, but we will want to follow infection rates closely. Ecuador has been hit hard by the novel coronavirus
- 3. Progress on Phase 4 of US stimulus.** The Phase 3 stimulus package passed on March 27 was very significant at \$2.2 trillion, but there are some very legitimate criticisms of the Coronavirus Aid, Relief, and Economic Security Act (known as the CARES Act). I am particularly concerned that the one-time payment of \$1,200 to qualifying US households (adjusted upwards for number of children) is not going to maintain people’s solvency for very long, especially given that such a large cohort of US households have little to no emergency savings. I believe we need to see progress being made on the fourth phase of US stimulus – and quickly. I would want further stimulus to be geared toward ongoing support of American households, distressed industries, and small businesses, and I would point to Denmark’s policy of 75% income replacement² as the gold standard of household stimulus for this type of crisis. While such a policy is expensive, I believe it would make it far easier for economies to re-start once lockdowns end. I have heard various

rumors that Phase 4 is not weeks away, but months away, and that it could be centered around infrastructure, which I do not believe would stimulate the economy quickly enough. We will want to follow this closely, as a prolonged path to further stimulus could spur a significant market sell-off.

- 4. FOMC minutes.** It is always helpful to get inside the heads of the Federal Open Market Committee (FOMC) members. In particular, it would be helpful to get a sense of any details on the Federal Reserve's Main Street Lending Program – an upcoming lending program for small- and medium-sized US businesses – as well as expectations about future monetary policy tools that the Fed may use.
- 5. Supportive central bank actions.** The responses of central banks have varied in adequacy thus far. The Fed provided a very substantial level of support, including a number of credit facilities, open-ended quantitative easing (QE) and the outlines of a Main Street Lending Program, which is yet to be rolled out. Even the Bank of Canada has embarked on QE after abstaining from such a program during the Global Financial Crisis. As my colleague Invesco Chief Economist John Greenwood pointed out, “the Bank of England has provided ample liquidity to the non-bank private sector, exactly the monetary response needed in response to COVID-19. The European Central Bank (ECB) has provided a limited package to incentivize bank lending, but banks, which have been constrained in their growth over the past decade, are likely to be reluctant to expand their balance sheets at this time. Corporate bonds bought under the (ECB's) Corporate Sector Purchase Programme will help finance the non-bank private sector, but this will be a relatively small enhancement to liquidity.” Most disappointing has been the Bank of Japan's (BOJ) response. As John Greenwood explained, “the BOJ has offered very little in the way of anything new to help the non-bank private sector at this time, with any increases in existing programs (such as purchases of commercial paper and corporate bonds) almost trivial in size.” We will want to follow upcoming monetary policy decisions to ensure central banks are enacting policies that are supportive of the non-bank private sector, given that is the epicenter of the current crisis.
- 6. The infection rate in Japan and economic stimulus from the Japanese government.** In the last week, the number of coronavirus infections in Japan has more than doubled, and the media is reporting that Prime Minister Shinzo Abe's administration will announce a state of emergency momentarily. This means the government can request citizens stay in their homes, although it cannot force a lockdown. Therefore, we will want to follow infection rates in Japan closely in the month of April to see how effective Japan's health policies are in controlling the virus' spread. In addition, the Abe administration is expected to roll out an economic stimulus package in the next several days. It will likely include (1) a cash payment of up to 300,000 yen per household, (2) a cash payment to small- and mid-sized enterprises that do not lay off employees, which amounts to 90% of leave payment, and (3) a total 1 trillion yen payout to local governments that need to implement measures in response to the coronavirus spread. We will want to see how effective these economic measures are in bolstering consumer and corporate confidence.

There are other metrics that have garnered headlines in recent days, but in my opinion following them on a day-to-day basis may not tell us much about the long-term direction of this crisis, as we expect them to be shorter-lived:

- 1. Initial jobless claims in the US and the April jobs report.** There is a lot of nervousness in the US around unemployment following the very disappointing March Employment Situation Report. This report reflects the job market between mid-February and mid-March and was expected to show a smaller hit to the economy given that “lockdowns” in the US didn’t ramp up in earnest until later in March. However, the report revealed that the unemployment rate had already risen to 4.4%, up from 3.5% in February, suggesting the situation may get much worse in the April jobs report.³ Some economists are projecting that the unemployment rate could even top 30% in this crisis – which would surpass the 25% unemployment rate⁴ reported during the Great Depression. However, I must stress my view that this is not another Great Depression. The 25% figure during that event was an average rate over the course of a year – 1933. And it was nearly the same level in 1932 (23.6%). This situation is far different, in my view. I believe that an unemployment rate of 20% to 30% would likely only last several months given that this crisis, with proper health, fiscal, and monetary policy, should be short-lived.
- 2. Eurozone PMIs for April.** The final Purchasing Managers Index (PMI) data for March was released last week, and it was more disappointing than expected. Eurozone services PMI experienced a freefall from 52.6 in February to 26.4 for the final March reading, with Italy and Spain experiencing particularly bad numbers.⁵ However, while I expect this data to get worse in April, I caution investors to not be too rattled by it. In my view, the silver lining is that a severe drop in economic activity suggests that public health protocols to contain the virus are being adhered to. What we have learned from the experience of China is that the sooner that health guidelines are strictly followed (along with the resulting cessation in economic activity), the sooner the virus’ growth can be controlled and economic activity can resume.

Conclusion

In short, there is much to be encouraged about in the midst of a very difficult period. There is a light at the end of the tunnel and, while faint, it appears to be growing brighter. April will be a critical month to confirm this.

And, while the focus of this blog is on global markets, I would like to take this opportunity to thank the health care workers on the front lines of this crisis around the globe. They and other essential workers are heroes and deserve our deepest gratitude.

Source

¹Source: Johns Hopkins University

²Source: Bloomberg News, “Denmark Will Compensate Private Wages to Avoid Virus Layoffs,” March 15, 2020

³US Bureau of Labor Statistics, as of April 3, 2020

⁴Source: US Bureau of Labor Statistics

⁵Source: IHS Markit

Important information

Quantitative easing (QE) is a monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective.

The Eurozone Services PMI (Purchasing Managers’ Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 2,000 private service sector firms. National data are included for Germany, France, Italy, Spain and the Republic of Ireland.

The opinions referenced above are those of the author as of **April 6, 2020**. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.