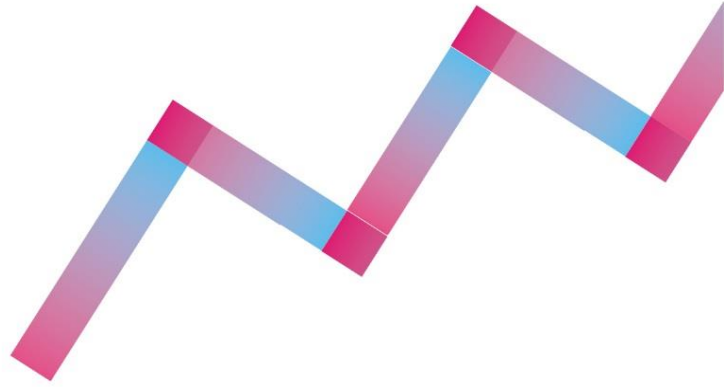


# Flash stats

Q1 2020

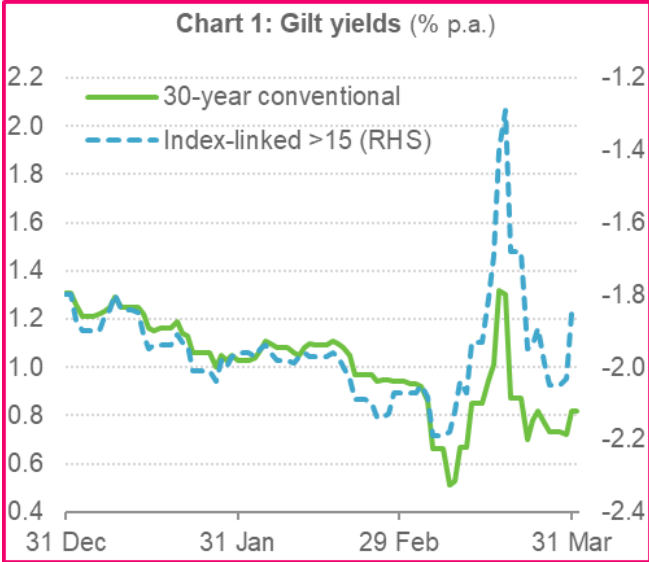


Greg Illingworth

Global equity and credit markets fell sharply as the COVID-19 pandemic brought the global economy to a halt. Global sovereign bond yields also fell in anticipation of slowing growth and significant central bank stimulus.

Sterling returns (%) to 31 March 2020				3 mths	12 mths	3 mths	12 mths
<b>EQUITY INDICES</b>							
Global	<i>FTSE All-World</i>	-15.9	-6.2				
UK	<i>FTSE 100</i>	-23.8	-18.4				
	<i>FTSE All-Share</i>	-25.1	-18.5				
US	<i>S&amp;P 500</i>	-14.1	-2.2				
Japan	<i>TOPIX</i>	-11.2	-2.5				
Europe ex UK	<i>FTSE Dev Europe</i>	-17.3	-7.8				
Emerging	<i>FTSE Emerging</i>	-19.0	-13.0				
<b>STERLING BOND INDICES</b>							
Gilts (All)	<i>FTSE</i>	6.3	9.9				
Index-linked (All)	<i>FTSE</i>	1.6	2.2				
Corporates (All)	<i>iBoxx</i>	-5.6	0.0				
<b>MODEL PORTFOLIOS</b>							
	70% equity	-14.1	-6.8				
	50% equity	-10.3	-3.7				
	30% equity	-6.5	-0.6				

- Q4 GDP numbers were broadly in-line with recent trends - a modest slowdown year-on-year. The global spread of Coronavirus, and the impact on supply and demand from necessary containment measures, will inevitably impact the rate of global economic growth in 2020 and possibly beyond. Forecasts indicate that many economies will experience a sharp contraction in the first half of 2020 and point to a global recession during the year.
- Falling domestic demand globally and steep oil price declines are creating deflationary dynamics. The slump in global demand for oil has been compounded by an escalating price war between OPEC (led by Saudi Arabia) and Russia, which has seen production increased and prices discounted, with Brent crude falling to its lowest level since 2002.
- The US Federal Reserve (Fed) and the Bank of England (BoE) have cut rates to record lows and the Bank of Japan and the European Central Bank have joined the Fed and BoE in restarting and expanding their quantitative easing programs. The Fed's now unlimited purchase program will, for the first time, include corporate debt.
- Developed market sovereign bond yields have been pushed near record lows, however have not been immune to volatility



as investors liquidated bonds in a dash for cash in March. UK long-term gilt-implied inflation has fallen as real yields rose greater than nominal counterparts (Chart 1).

- Sterling investment grade spreads rose 1.34% p.a., more than offsetting any benefit from falling underlying government bond yields.
- Speculative grade credit spreads moved substantially wider with US high yield bond spreads 5.2% p.a. higher, whilst US loans have been the largest underperformer within speculative grade credit as spreads have risen by 6.1% p.a.
- Sterling weakness may reflect the UK's persistent twin fiscal and current account deficits alongside the size of government's fiscal response. The dollar has strengthened considerably as governments and corporates build dollar reserves to meet cash outflow over the next few months (Chart 2).
- Global equity markets fell 20% in local currency terms and 15.9% in sterling terms, as weakening sterling benefited unhedged investors. The UK equity market was the worst performer with the FTSE 100 posting its biggest fall since 1987 as its sectoral composition and exposure to oil & gas hurt performance (Chart 3). Global equities did recover some losses towards the end of the quarter, as market sentiment improved on the back of fiscal and monetary support measures. Volatility levels, as measured by the VIX Index, hit levels not seen since the global financial crisis.
- Oil & Gas, industrial and basic materials stocks, which are more exposed to the economic cycle and the oil price decline, were the major laggards. There has also been significant weakness in financials stocks, as declining rates impact future profitability. Sectors that have held up better include defensive sectors such as consumer staples, health care, telecoms and utilities. The technology sector has also performed better given the pandemic's limited ability to disrupt the digital world (Chart 4).
- A number of UK property funds have suspended dealing as property valuers have been unable to accurately value the underlying assets with any certainty. They have been inserting material uncertainty clauses into their valuations which has triggered these fund suspensions. The rental income that these funds receive will be suppressed for the foreseeable future.

