REEVES INDEPENDENT
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Investment Services

Reeves Market Outlook

May 2020

1. European countries begin to lift lockdown

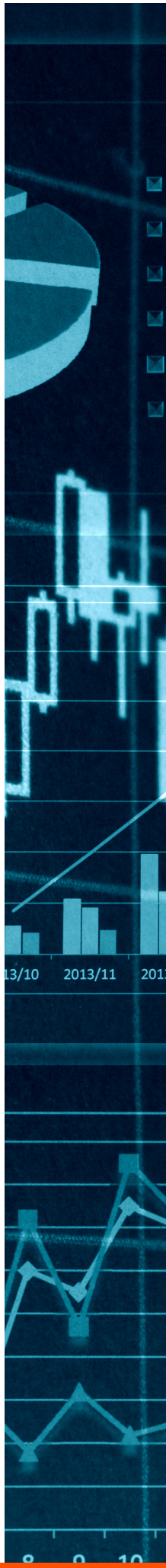
Countries across Europe have begun to cautiously lift restrictions of the lockdown, in an attempt, to stimulate their suffering economies. The principle adjustments have been seen in phases as business begin to reopen and schools are allowing certain age ranges to attend. Extra hygiene measures are in place along with social distancing rules to maintain limited contact and spread of the virus.

Relevance/Impact

The lockdown caused many European economies to stagnate, therefore there is hope of an economic boost through allowing businesses to reopen. Markets have initially reacted positively to this, with the FTSE 100 up 4.65% since the start of March, while the industry recognised European Stoxx 600 index rose 3.67% in the same period. Millions of workers across Europe going back to work is undoubtably going to provide all associated economies with a much-needed boost.

The downturn in economic activity has begun to ease but the Eurozone is still expected to experience the largest contraction in history in quarter two. Jobs across Europe are also being cut at an unprecedented rate despite millions returning to work. Fall in demand of most goods and services combined with the social distancing restrictions has caused a huge rise in unemployment, notably in the tourism sector.

In light of the easing of restrictions, there is a growing fear of a second peak of Coronavirus cases and a subsequent fall in global markets.



2. Permanent scarring of UK economy warning from Chancellor

Chancellor of the Exchequer, Rishi Sunak has warned that the UK is likely to face a severe recession as a result of the Coronavirus, the likes of which have never been seen before. The Bank of England and Treasury have stated that a recovery is not likely to be as quick as originally predicted and the hopes of a 'V-shaped' recovery were misplaced.

UK unemployment claims and the number of people claiming redundancy has increased at the highest rate on record. In the first few weeks of the UK lockdown, the average wage fell, and new hiring came to a complete halt.

Relevance/Impact

At the start of the pandemic, there was a shared view across the market that although suffering a large, the recovery was expected to begin quickly and with sharp growth, a V-shaped graph. The unanimous belief now is that the full recovery is expected to be U-shaped, meaning the full recovery is likely to be much more drawn out. With lockdowns meaning there have been a catastrophic decline in economic activity and with the UK still under the grips of the virus it is hard to see any reason for a 'bounce back' in the near future.

The Government furlough scheme has gone some way in stopping the huge unemployment rates seen in the likes of the US, however this is masking what is likely to be a much worse jobs crisis as state support is wound down. The Chancellors words reflect the reality that the UK is heading towards a period of mass unemployment.
In good news, the relaxing of some lockdown measures and the opening of businesses across the UK. that can do safely, is likely to provide a boost to the economy. Workers returning will also take pressure off the Government furlough scheme.

3. Beaten-Up Oil Prices Soared

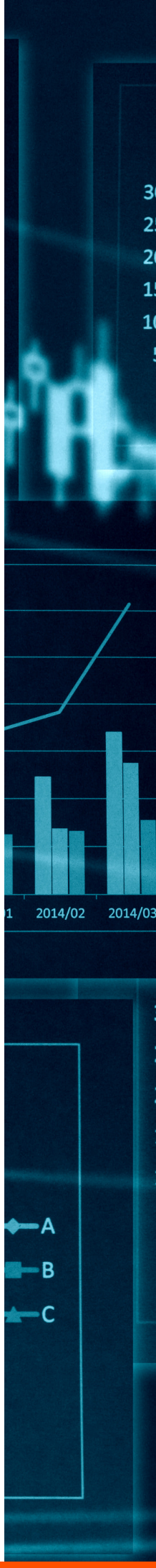
Weeks after hitting historic lows, Oil prices surged more than 10%. The U.S. crude stockpiles did not increase as predicted, China's oil demand has climbed back to 90% of pre-pandemic levels and there is new optimism in the markets that fuel consumption across European countries will rise as they begin to ease coronavirus lockdowns. This combination has allowed the price of oil to steadily rise for three weeks.

Relevance/Impact

After a 30% drop in Oil consumption in April, the relaxing of lockdowns and subsequent prospect of boosted economic activity has pushed up oil prices, while drivers getting back on the road has also contributed. Last month has been dubbed 'Black April' in the energy industry, with the most drastic jumps in oil price ever seen in, with the low of minus $40.32 a barrel at its very worst. This drop came after an OPEC backed agreement between Moscow and Riyadh to drastically cut supply in the midst of the Coronavirus pandemic, essentially ending the Oil price war.

Storage had also been a concern after oversupply had overwhelmed global storage facilities. Increasing oil consumption and better than expected figures in the crude storage report have gone some way in alleviating these concerns.

Although there has been a flurry of positive news for oil in the last few weeks, there are still significant risks remaining. So far, the relaxing lockdowns have been hugely beneficial to oil prices, however the threat of a second wave still lingers and could cause further uncertainty to an already volatile sector. Furthermore, the agreement for large cuts to oil supply have helped push prices up, but the willingness of suppliers to continue this trend as economic activity ramps up may be of concern.



4. China raises US Trade Tensions

After dominating the news for most of 2019, the US – China trade war rears its ugly head and could pose a significant threat to a market recovery from the Coronavirus. The US has ridiculed the Chinese government's handling of the virus on multiple occasions, blaming them for the spread of the virus into the US. China, on the other hand, has said the US should stop wasting time and work with China to combat Coronavirus, instead of smearing the country.

Relevance/Impact

In May, the conflicts between the two large economies has not had a significant effect on market growth, with global markets essentially rallying over the past few weeks. However, an escalation in trade talks and further disputes could deter this economic growth. As we saw through 2019, a tit for tat relationship between the two can be a significant drag on global growth.

In the latest WHO conference China pledged a $2Bn donation to fight Coronavirus. US officials claimed it was an attempt to avoid further scrutiny into China's dealing with the virus and allegations of covering up information.

Although the tensions have not yet escalated into actions, there have been threats from the US of further tariffs on Chinese goods coming into the country.
This trade war has had significant impact on global growth when the market was in a stronger position relative to now, and the same level of tensions could be disastrous in today's economic environment. If these threats escalate into actions, it could be a huge drag on any chance of an economic recovery from the pandemic.

5. Coronavirus: US Update

The US currently accounts for more than 30% of global coronavirus infections, despite being less than 5 percent the world's population. This suggests that the US has in fact been ineffective in dealing with the virus, with the highest amount of cases, even if they are one of the largest nations in the world.

However, Trump has stated the high number of US Coronavirus cases should be a badge of honour as it represents ''much better testing''.

Relevance/Impact

The US lockdowns are considered more relaxed compared to more rigorous restrictions across Europe, with the restrictions differing from state to state. As such, there are disparities in the number of cases and deaths. Most states have seen a removal of many restrictions in the last few weeks, while others haven't been under the same level of lockdown from the beginning.

Monday 18th May saw the first US coronavirus vaccine trial have positive initial results, with volunteers developing protective antibodies against the virus. Global stock markets rose off the back of this news, however more concrete evidence of a vaccine is needed to see a more significant rise, after weeks of 'hope' based rallies. The numbers of new cases in the US also represents a 'slow-down' of the virus across the country, although active numbers remain high.

The US represents a large proportion of global technology, global equity, and corporate funds. The US equity market is of significant importance to your portfolios, both due to specific investments and general market sentiment boosted by US markets.

Do you have a question for our Investment Team?

If you have any questions about our Portfolio Management Service or questions about your investments, please book a call with our Investment Service Team who will be happy to answer all your questions.

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