Independent Financial Advisers

WEEKLY MARKET COMMENTARY
1 May 2020

GLOOMY ECONOMIC DATA BRINGS MARKETS BACK TO EARTH

This week we got a small taste of what's to come, when the prevailing sense of optimism in markets was punctured by the reality of the economic contraction to come. After breaking through the psychologically important 6,000 barrier, the FTSE 100 shed over 3 per cent on Thursday and continued to slide Friday morning. Forecasts from the ECB of a potential 15 per cent drop in GDP, data suggesting 20 per cent of US workers have filed for unemployment and news that any easing in the UK lockdown may be weeks away reminded all that the peak in coronavirus is going to be a long way ahead of the peak of the economic fallout.

Elsewhere dividend king Shell is cutting its pay out by two thirds. The oil sector has been hit by cratering demand and increased supply but the oil majors have been on borrowed time for a while. With firms issuing debt against their reserves to protect payments, the threat of those reserves being worth less than expected seems increasingly severe. The era of high oil company dividends might well be coming to an end.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+1.28%	+4.10%	+0.98%	+2.65%	+3.14%	0.00%	-0.06%	+14.44%	-2.49%	-0.24%	+1.49%

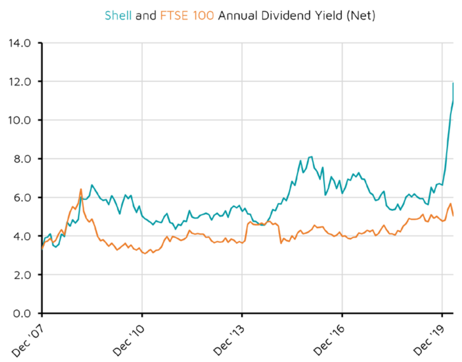
CURRENCY: STERLING RALLIES AGAINST THE DOLLAR

Sterling rose over April as investors appeared willing to take more risk. The dollar appreciated against most world currencies in the sell-off in February and March as investors sought the safety of the world's reserve currency but April saw a reversal of this trend as the pound ended the month up 1.4 per cent. Investors appeared to take heart from various governments' plans to begin lifting some restrictions on businesses. Sterling gained a similar amount against the euro.

Sterling also benefited from a weakening of the dollar and euro following ECB and US Federal Reserve meetings this week. Both central banks restated their intention to do what it takes to continue to support businesses and financial markets. The rally in sterling may be short lived, however, as a lack of progress in the ongoing Brexit negotiations and absence of a UK exit plan from the coronavirus lockdown could take their toll. The futures markets show investors have turned negative on their outlook for sterling for the first time since December.

UK: SHELL CUTS DIVIDEND FOR FIRST TIME IN 80 YEARS

Shell surprised markets this week with its decision to cut its dividend for the first time since 1945. The oil giant is a key part of many income investors' portfolios. Prior to the cut it was the biggest single contributor to FTSE 100 dividends. In 2019 it accounted for around 15 per cent of all FTSE 100 payouts.



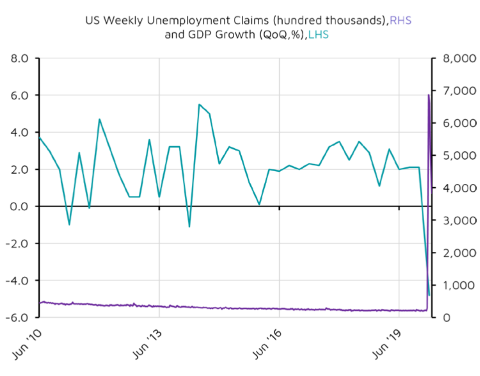
The dramatic fall in the price of oil has put energy stocks under considerable pressure. A supply glut and the dramatic drop in demand caused by coronavirus economic shutdown has combined to send oil prices back to levels last seen 20 years ago. This week Shell announced a £24m loss for Q1, down from £6bn profit in 2019. Alongside the dividend cut, Shell also announced it is suspending its share buyback programme and confirmed extensive cuts to its capital expenditure programme in the face of "significant mid and long-term uncertainty".

In contrast, BP announced this week that it intends to maintain its dividend in 2020.

US: S&P 500 POSTS BESTS APRIL IN 30 YEARS DESPITE Q1 GDP DROP

US equities enjoyed a buoyant start to the quarter with April seeing the best monthly performance since 1987. The S&P 500 ended the month up 12.7 per cent and is now down just 10 per cent this year as technology stock such as Netflix and Amazon pull the index higher. Other global markets have seen similar gains, with the FTSE All World posting its best monthly returns since 2011.

The strong rebound in equity markets is in sharp contrast to the economic data emerging. The initial GDP figure for Q1 shows US economy contracted by 4.8 per cent, the first drop in six years. There have been more than 30 million new unemployment claims since March, while in the EU GDP fell by 3.8 per cent in the first quarter. These figures capture only a few weeks of the coronavirus lockdown and Q2 GDP is predicted to be far worse. The disparity between the dire economic news and buoyant equity markets has led to questions about how much central bank liquidity is driving markets in the short-term.



Data Sourced from FE Analytics, and Bloomberg Finance LP