SECOR Asset Management

Market and Macro Review – Capital Markets Update

May 4, 2020

COVID 19 Update

- Growth in cases has flattened, but the pace is different across the world
  - Europe: the number of new cases is falling across majority of European countries except UK and Sweden – where the curves just flattened
  - US: the number of new cases has stabilized but has not started falling yet (New York is ahead of the rest of the country with cases falling)
  - EM: many EM countries are experiencing an outbreak with cases increasing sharply (Russia, Brazil, Mexico)

- Medical developments are not easy to interpret
  - Remdesivir was approved by FDA, but its effectiveness is limited (it reduces the length of the disease if taken early, but its impact on mortality is not proven and its not helpful in the later stages of the disease)
  - Chloroquine is somewhat popular among medical professionals, but no study proved its effectiveness
  - Anti-body testing is becoming available, but its margin of error is very large

- Developed economies are starting the process of reopening, but significant challenges and risks remain

Sources: NY Times

Market Update

- Equity markets rallied driven by both fundamental and technical reasons
  - Worst case scenarios of COVID 19 impact are off the table as Western economies started moving toward re-opening and aggressive fiscal and monetary stimulus are expected to help the economies
  - Some of the short positions (hedged funds) and equity underweight positions (mutual funds) needed to be unwound and pushed the markets higher in the environment of relatively light liquidity
- S&P500 outperformed global markets supported by Tech and Healthcare sectors
- Interest rates remained stable as lower risk aversion was offset by quantitative easing
- Currencies stabilized after wild moves in March
- Gold rallied

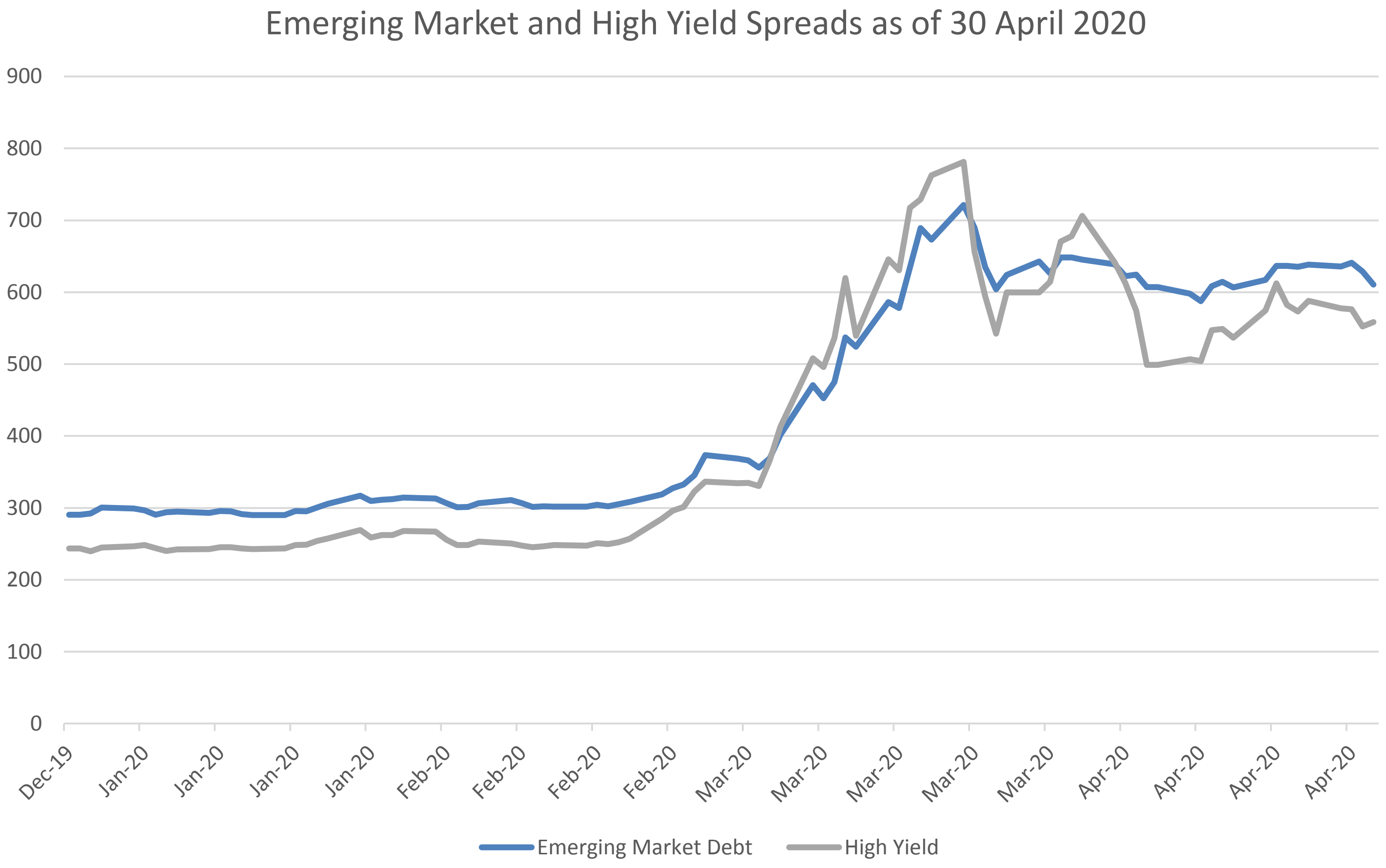
Return of Selected Indices as of 30 April 2020

	MSCI ACWI Index (Local)	MSCI Europe Index (Local)	S&P500 Index	MSCI EM Index (Local)	MSCI ACWI Index (USD)	MSCI ACWI Index (GBP)	MSCI ACWI Index (EUR)	Russell 2000 Index (USD)	MSCI EM Index (USD)	US 10Yr Treasury Futures Index	Bloomberg Barclays Sterling Gilt Index	JPMorgan EMBI Index	Bloomberg US Corporate Barclays HY Bonds Index
Apr 2020	10.3%	5.4%	12.8%	8.8%	10.7%	8.8%	10.9%	13.7%	9.2%	0.3%	3.3%	2.2%	4.5%
YTD	-11.7%	-17.5%	-9.3%	-11.9%	-12.9%	-8.6%	-10.8%	-21.1%	-16.6%	8.7%	10.6%	-9.8%	-8.8%
12 Months	-4.2%	-12.2%	0.9%	-7.7%	-5.0%	-1.8%	-2.8%	-16.4%	-12.0%	13.4%	17.4%	-3.3%	-4.1%

Sources: Bloomberg LP, SECOR

High Yield and EM Spreads Reflect Market Concerns

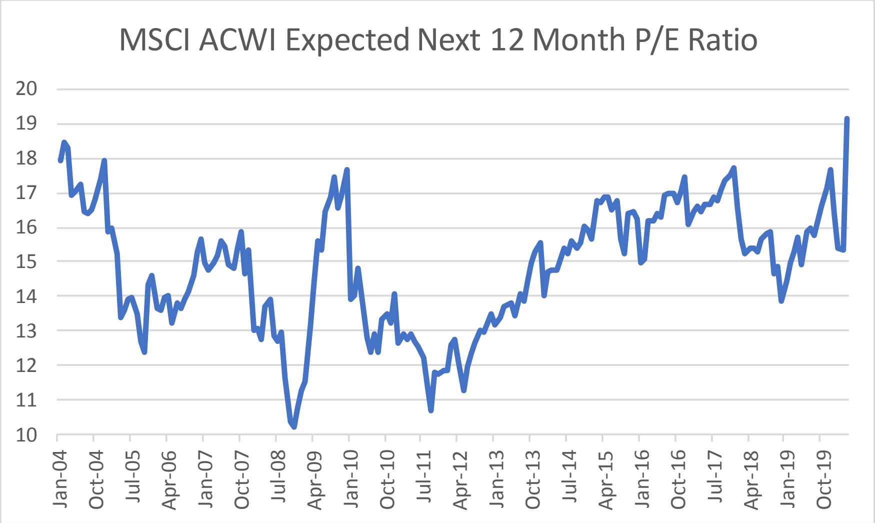
High yield (HY) and emerging market (EM) debt are assets most exposed to the consequences of economic shutdown; both still trade at distressed valuations reflecting investors concern about global economy

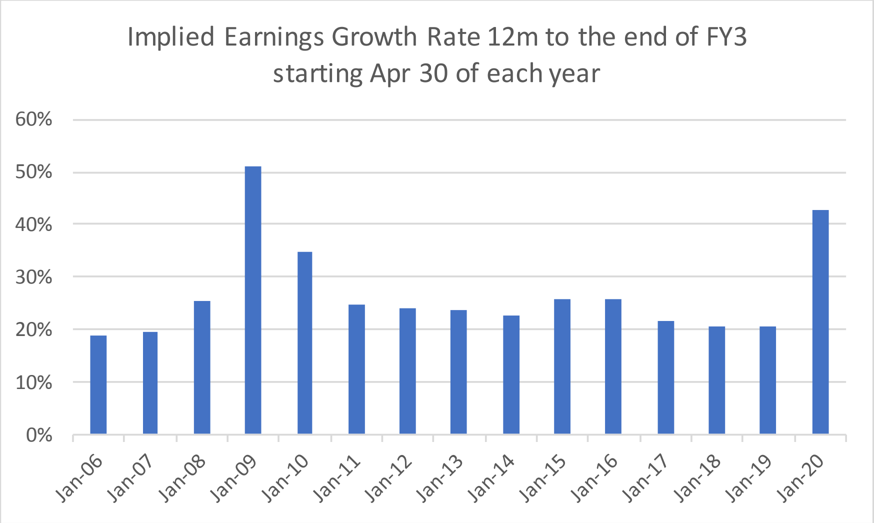


Source: Bloomberg. Emerging Market Debt: Generic EMBI 5yr Credit Default Swap Spread. High Yield: Average of US 5yr CDS and European ITRX XOVER CDS

Equities appear to be richly valued

- Next 12 Month P/E ratio is the highest since 2001 (chart on the left), it implies that earnings are going to be ~10% below 2019 year-end level – somewhat optimistic given that this 12 month period will include Q2 2020, when earnings are expected to be much lower and a very uncertain recovery through the end of the year.
- The markets are expecting that earnings are going to start rebounding in 2021, and will stage a further comeback in 2022, based on the assumption that COVID 19 consequences are going to be behind us – not dissimilar to how the markets viewed the future in April 2009. This implies that at the end of 2022 earnings are going to be 28.5% higher than at the end of 2019 – many things need to go right for this to happen.
- If earnings fully come back to the 2019 level by the end of 2021, should Equity prices be the same given that level of corporate and government debt is higher?





Sources: Bloomberg

MSCI ACWI data provided from January 1, 2004 to April 30, 2020. Implied Earnings Growth rate data provided from January 1, 2006 to January 1, 2020

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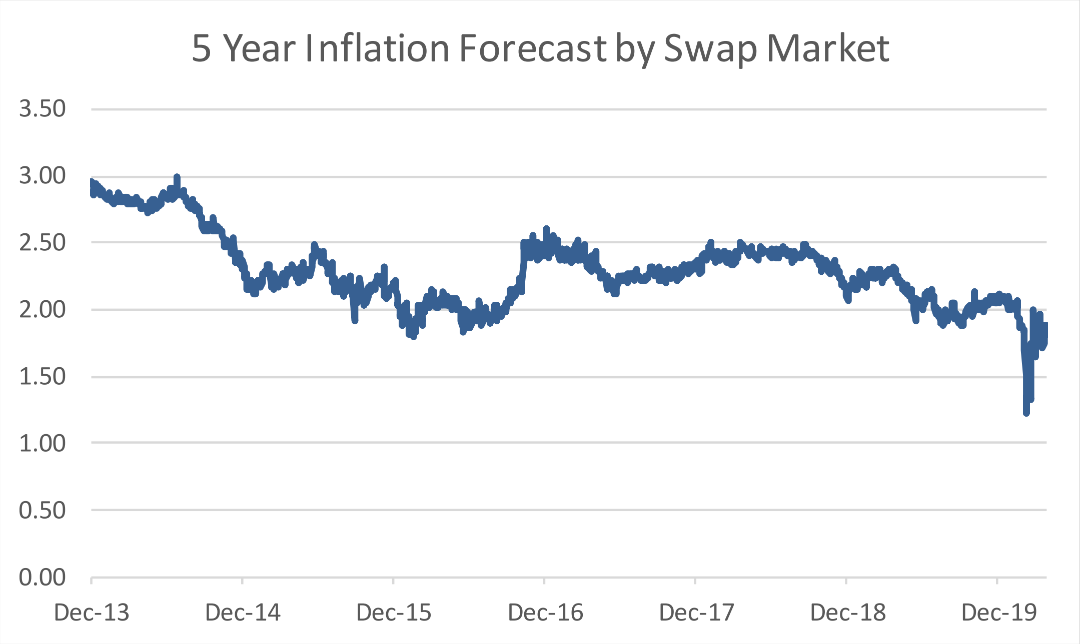
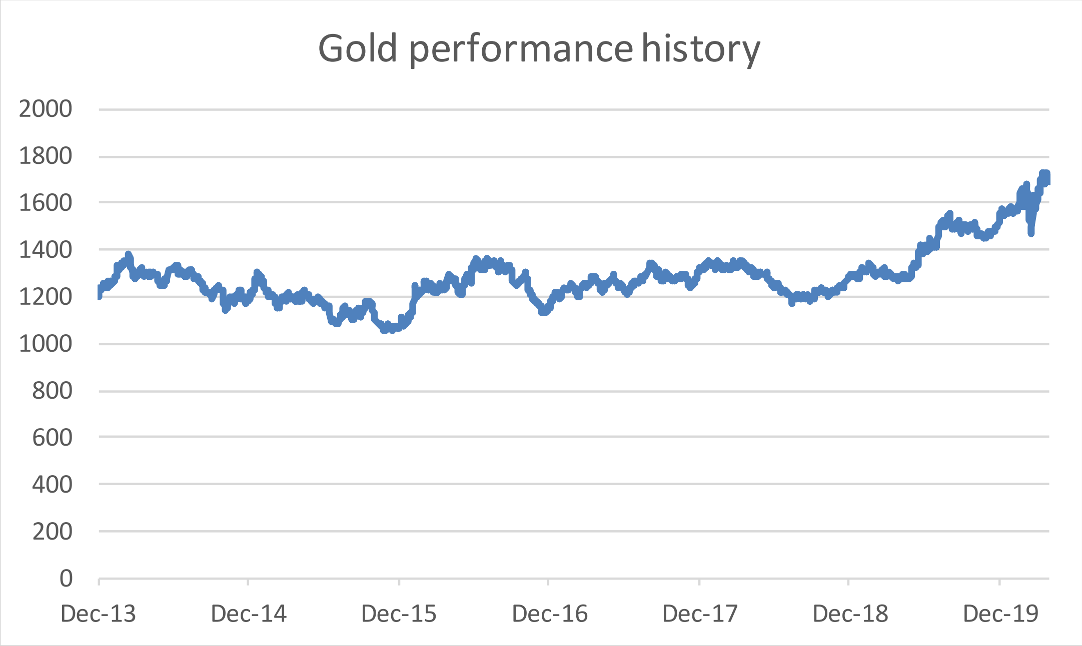
Inflation appears not likely

- Even though inflation is mentioned in the press all the time, markets do not price an inflation increase.
- Gold is moving higher more because of demand for safety and uncertainty about future policies than because of inflation concerns
- Central banks learned their lessons in the ‘70s and ‘80s and are likely to conduct sound monetary policies, understanding that markets would react violently to the true inflationary concerns





Sources: Bloomberg

Both charts for the period December 31, 2013 to April 30, 2020

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