



# **SECOR Asset Management**

## **Market and Macro Review – Capital Markets Update**

18 May 2020

# Market Update

- Equity markets stabilized in a relatively narrow range after a strong rally in April
- Economic data points to a historic recession, but markets are supported by expectation of Economic re-opening, optimism about V-shaped recovery, better than feared earnings and hopes of medical breakthroughs
- New / recycled risks resurfacing: tensions with China, more concerns about inflation
- Among sectors, InfoTech and Healthcare are up YTD (through this morning)
- Yields have been stable

## Return of Selected Indices as of 15 May 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
May 2020 MTD	-1.6%	-2.8%	-1.5%	-1.9%	-2.1%	1.8%	-0.9%	-4.0%	-2.5%	0.2%	-0.5%	2.2%	0.0%
YTD	-13.2%	-19.9%	-10.7%	-13.6%	-14.8%	-6.9%	-11.6%	-24.3%	-18.7%	8.9%	10.0%	-7.8%	-8.8%
12 Months	-2.6%	-12.3%	2.5%	-4.4%	-3.8%	2.1%	-0.3%	-17.6%	-8.9%	12.6%	15.4%	-1.1%	-3.4%

## Return of S&P500 Sectors as of 15 May 2020

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Telecom	Utilities
May 2020 MTD	-1.4%	-1.8%	-5.2%	-7.7%	0.6%	-7.4%	2.1%	-1.9%	-8.9%	0.9%	-4.2%
YTD	-4.1%	-8.4%	-39.1%	-31.1%	-1.0%	-26.5%	2.4%	-16.5%	-19.4%	-4.6%	-14.5%
12 Months	4.0%	2.3%	-39.5%	-19.5%	17.1%	-18.8%	26.1%	-3.5%	-12.2%	6.4%	-2.3%

Sources: Bloomberg LP, SECOR

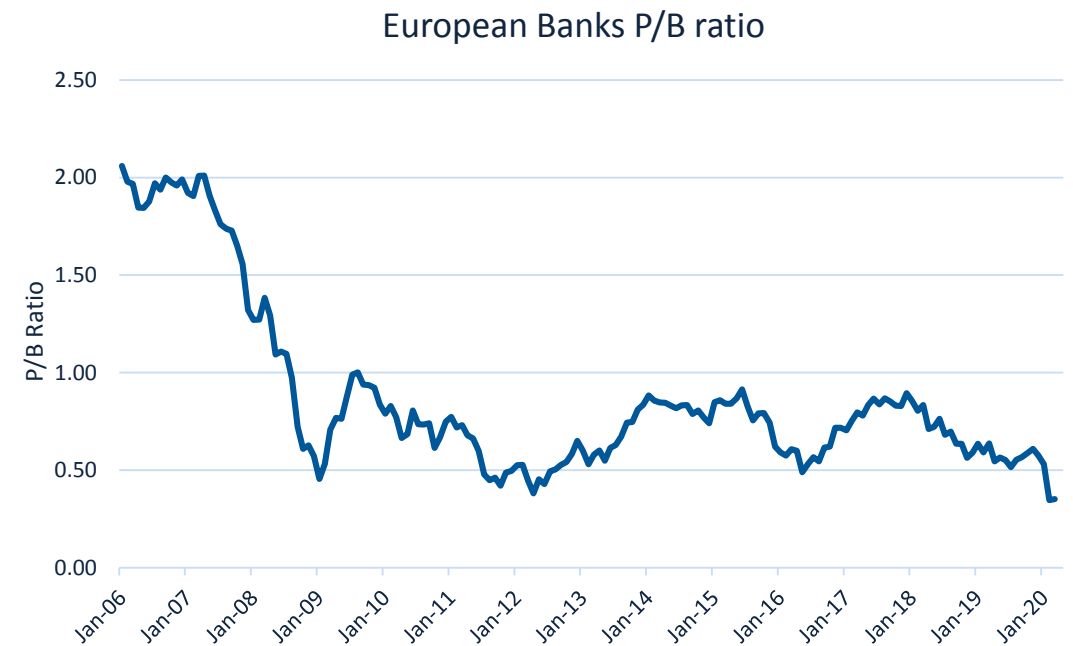
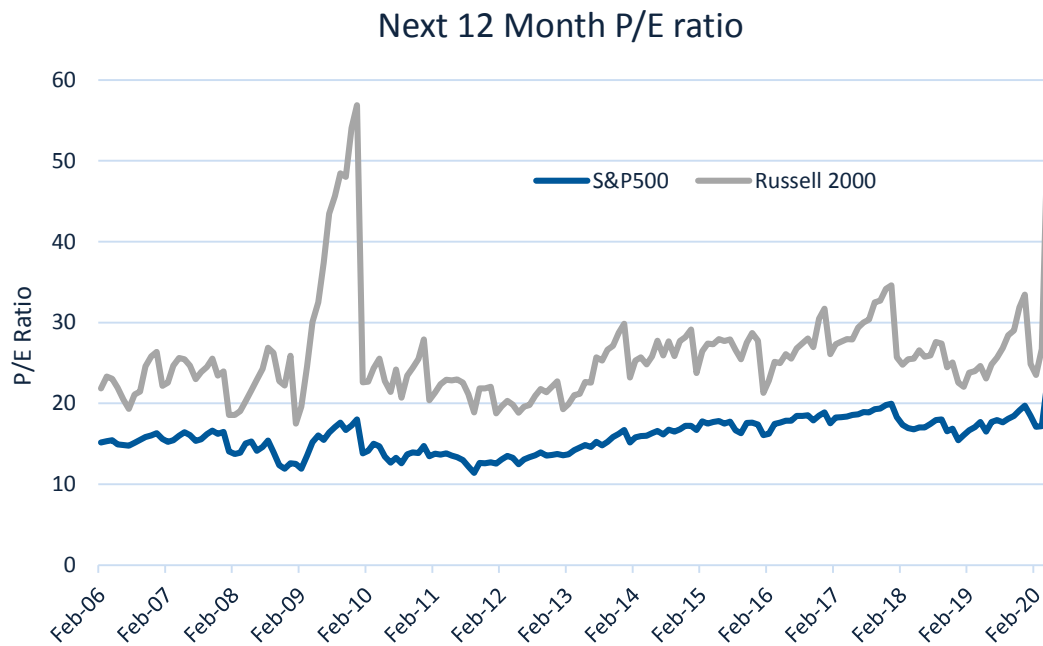
# Can medical breakthrough come earlier than expected?

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- Markets have been reacting strongly to any sign of medical breakthrough
- Recent announcements:
  - Sorrento Therapeutics developed an antibody which is shown to block 100% of COVID 19 – in preclinical experiments
  - Moderna announced positive Phase 1 (safety) data
- Optimistic view: unprecedented reaction by the global community the level of resources allocated to fighting a disease; dozens (or hundreds) of companies are working on developing drugs and vaccines for COVID 19.
- Pessimistic view: breakthroughs are rare by definition; it takes time to properly develop and bring to the market a new drug or a vaccine

# Public equities

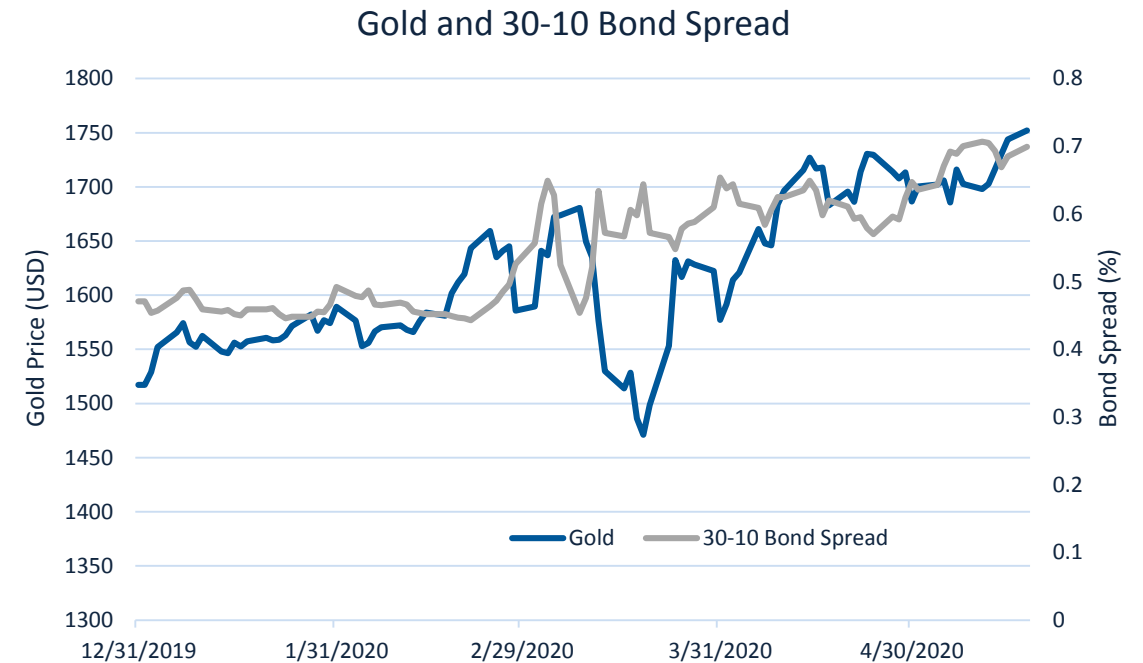
- Small Cap equity underperformance is potentially explained by investors' pessimism about small companies' earnings prospects
- European banks trade at extremely distressed valuation levels relative to recent history



Source Bloomberg. Next 12 Month P/E ratio chart for the period February 2006 to April 2020. European Banks P/B ratio chart for the period January 2006 to April 2020

# Fixed income and gold

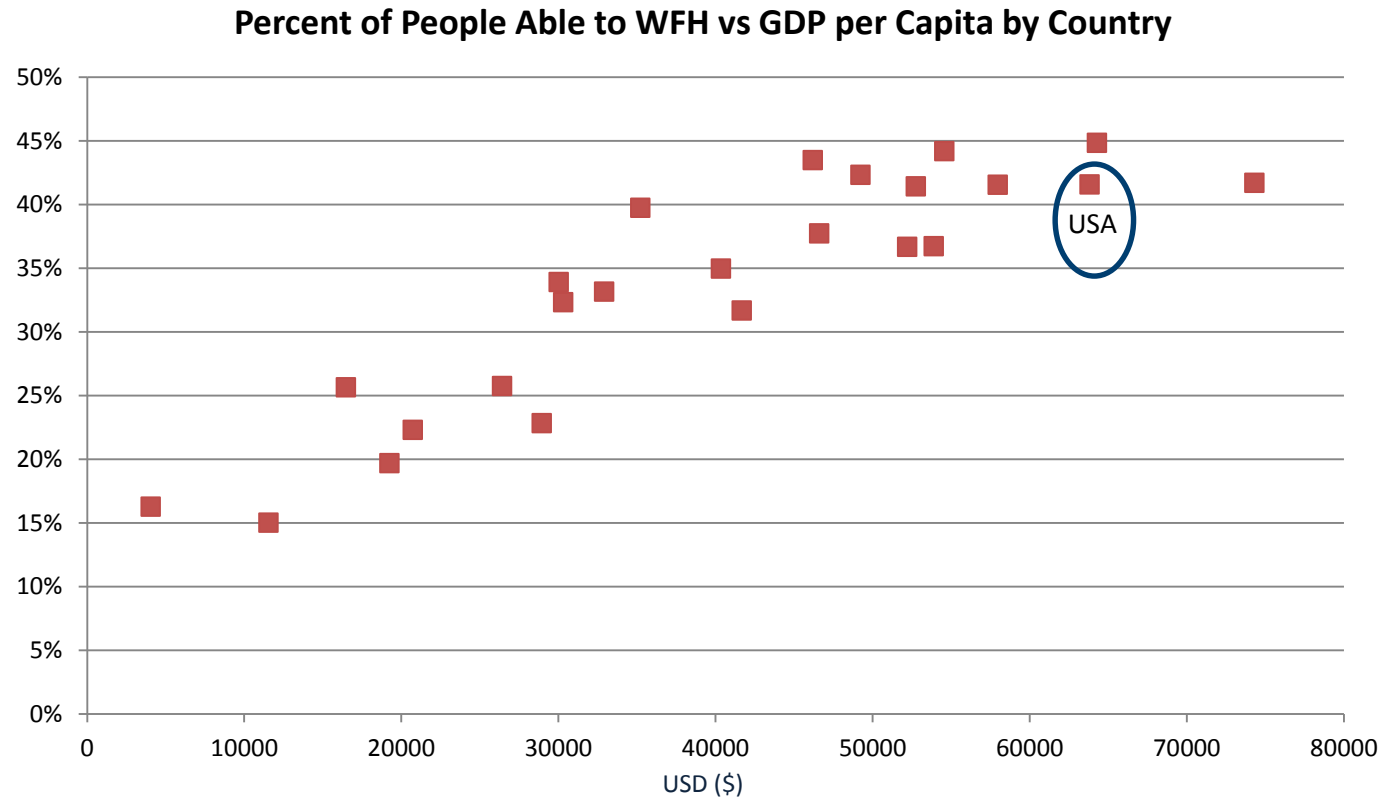
- Gold prices have been moving higher as there are more chatter about inflation
- Inflation swaps are currently not pricing in inflation concerns
- Is rising 30 year-10 year (30-10) bond spread an indication of inflation risk premium?



Source Bloomberg. Both charts are for the period 31 December 2019 to 15 May 2020.

# What portion of population can work from home?

- A few studies attempt to analyze percentage of workers, whose job can be performed from home; resulting estimates for the US are between 37% and 51%
- There is strong relationship between country income per capita and ability of its workers to work-from-home (WFH); this partially explains concerns about Emerging Markets

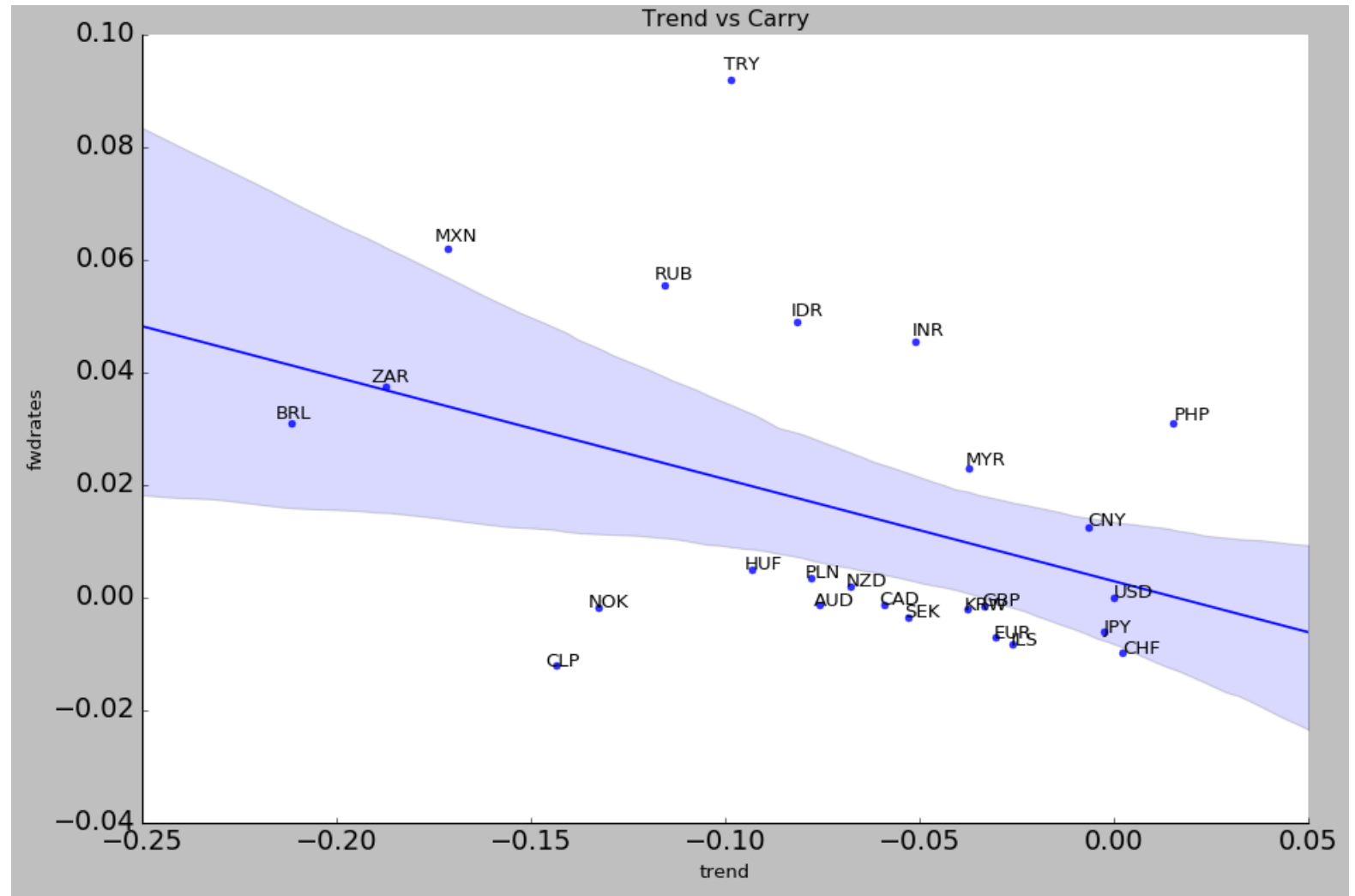


Source: Jonathan I. Dingel, Brent Neiman, *How Many Jobs Can be Done at Home?*

Data as of 2019

# Risk has not been rewarded in emerging market currency

- Higher carry currencies, which tend to be of the higher risk countries, underperformed this year
- Higher risk countries tend to be less efficient with higher debt and lower GDP per capita



Source: Forwards and return data from Bloomberg; Trend is calculated using proprietary SECOR methodology. All data as of 15 May 2020.

## Pulling it all together

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- Markets remain range-bound
- Investors may be underestimating the probability of medical break-through
  - Appear to be in unique environment where large number of biotech firms are working on developing a vaccine / drug for COVID 19 and the government is supporting this effort in all ways possible
  - Although markets react very strongly to any announcements indicating that a break-through is somewhat more likely than a day before, this may reflect that the initial estimate of the probability of the break-through was very low, so a small increase in this probability could move the markets
- Recovery outside the US may be slower than expected



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