



# **SECOR Asset Management**

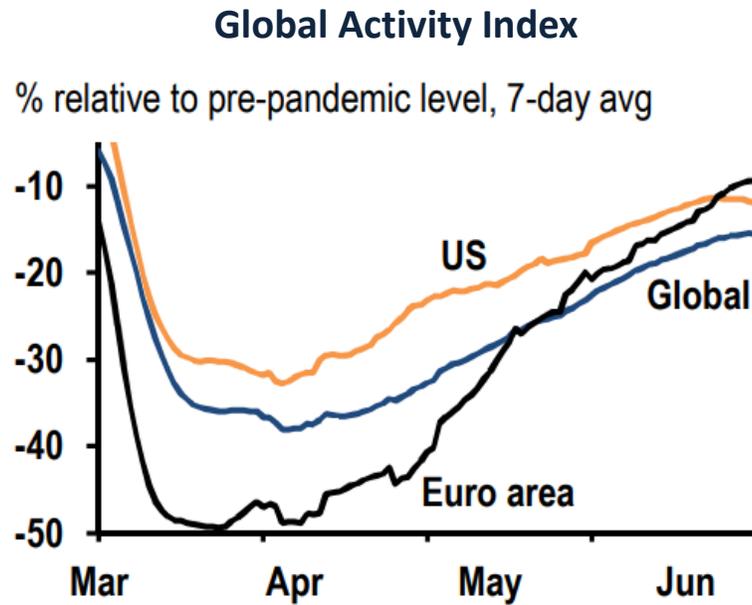
## Market Commentary

July 6, 2020

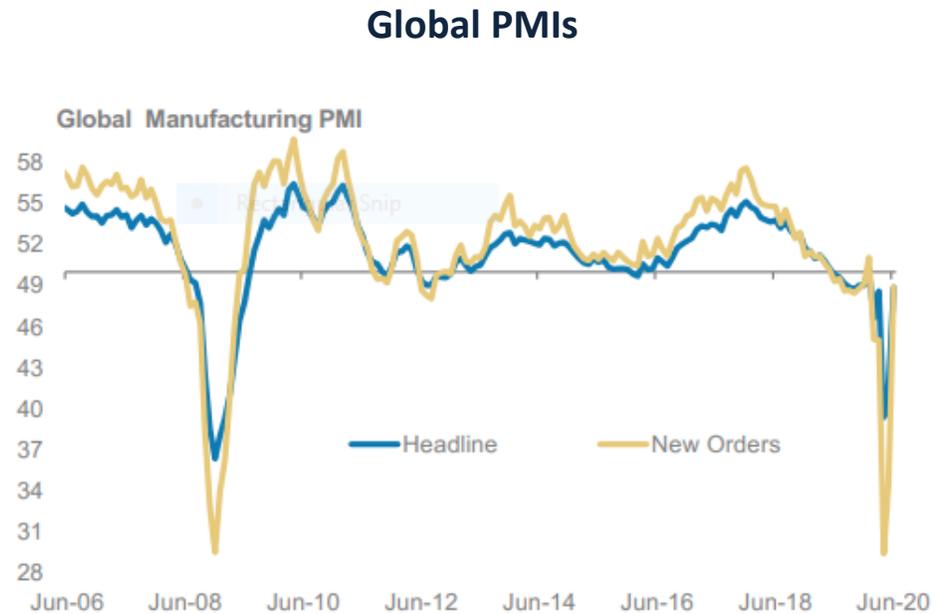
# Macroeconomy: Brief Overview

## Global Economy Continuing to Rebound from April Nadir

- Manufacturing PMIs up sharply in June, nearing 50 threshold
  - Strength in new orders, exports and employment measures encouraging<sup>1</sup>
- Retail sales recovering from recent lows in key developed markets
- Mobility trends improving<sup>2</sup>
- Covid-19 concerns diminishing in much but not all of world



Source: Google, JPM



Source: ISM, Fed, MS

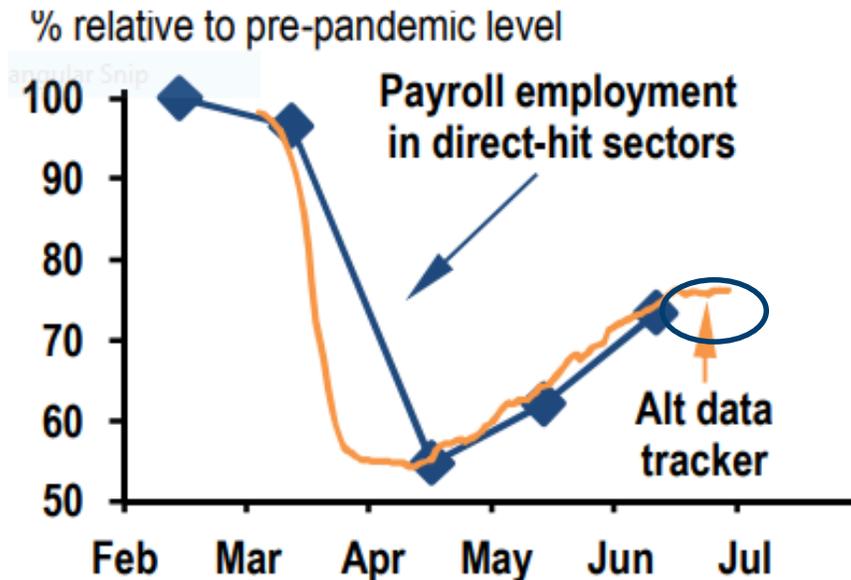
1. Aggregate manufacturing PMI still a tad below 50 but double digit gains in new orders and export orders and the employment index increasing are positive signs
2. Mobility Indexes for 29 countries that MS tracks vs. January: driving 72%  $\geq$  100 and mass transit 43%  $\geq$  100. Air traffic and hotel occupancy depressed but above lows.

# Major Country/Regional Briefs

## US: Latest Data Provide Some Upside Surprises

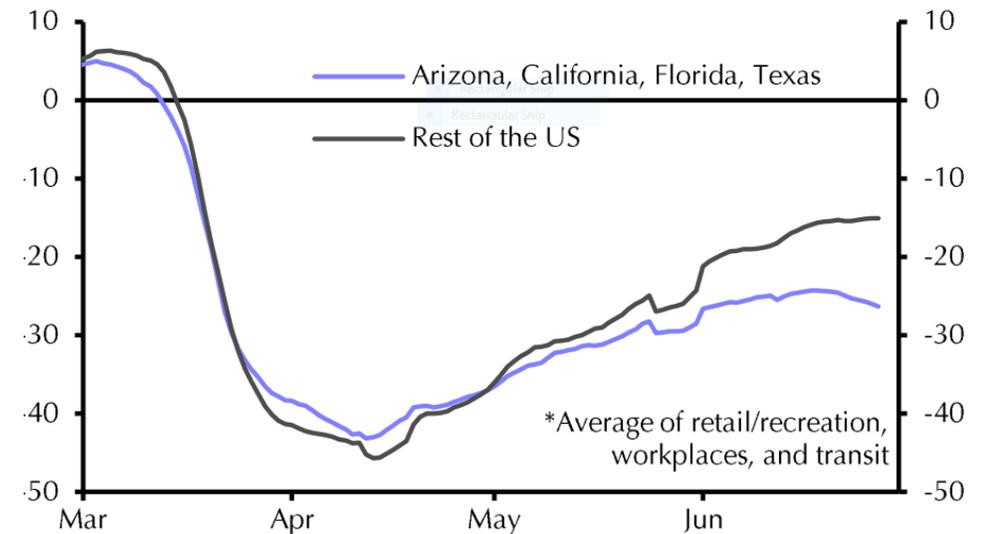
- June employment up 4.8 million<sup>1</sup>/still 15 million below February (Unemployment rate 11.1% vs. 13.3% in May)
- Factory reports and auto sales also strong<sup>2</sup>
- Some challenges remain, however
  - Additional fiscal stimulus needed to maintain forward momentum
  - Softness in high frequency data in Covid-19 “hard hit” states

### Hard Hit States - Employment & Activity<sup>3</sup>



Source: BLS, JPM

### Hard Hit States - Mobility vs. Rest of US<sup>4</sup>



Source: Google, CE

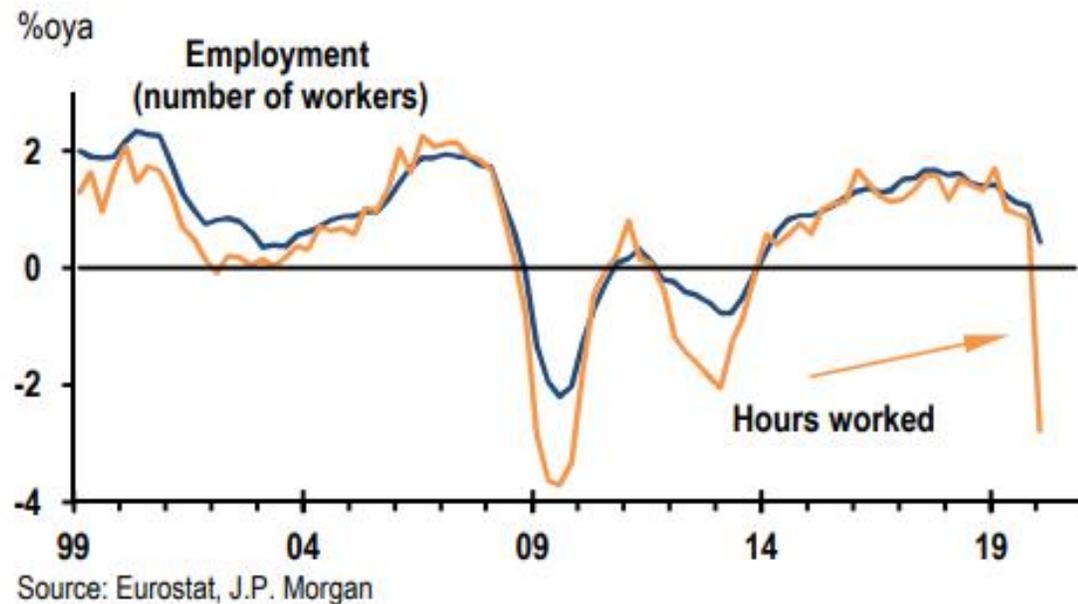
1. Gains concentrated in retail, leisure and hospitality.
2. ISM manufacturing survey rose 9.5pt.in June to 52.6. Auto sales at 13.2 million are in June vs. 12.2 million May.
3. High frequency economic activity largely based on Chase card data
4. Activity as % of pre-virus levels

# Major Country/Regional Briefs

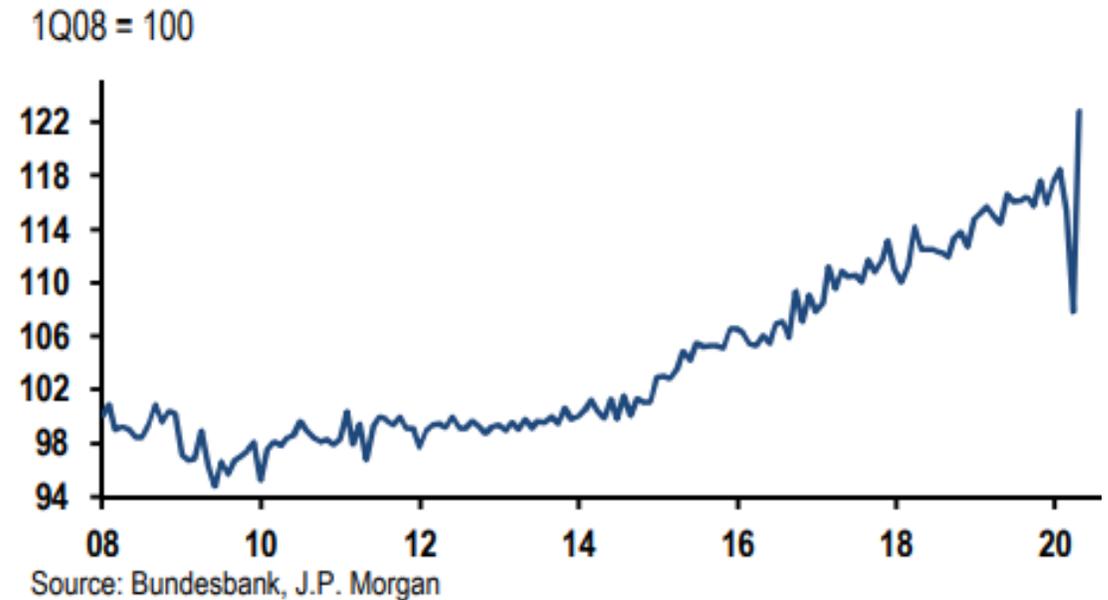
## ■ Euro Area: Covid-19 Containment Successes Creating Favorable Backdrop

- Mobility indicators rising rapidly
- Unemployment still near lows largely due to short-term subsidy schemes
- German retail sales rebounded sharply in June/expect other European countries to follow
- North/South differences still a challenge

### Employment & Hours



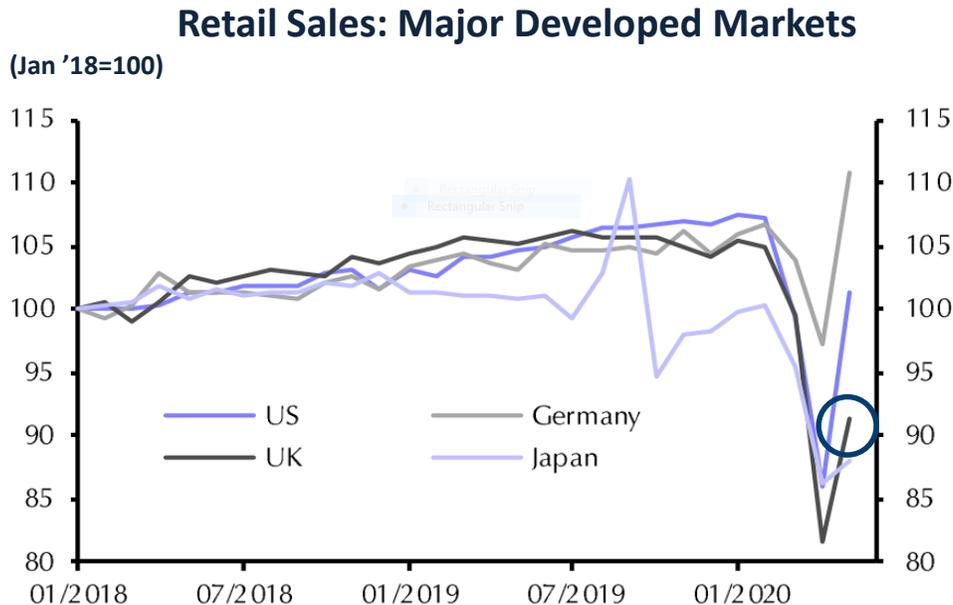
### German Retail Sales



# Major Country/Regional Brief

## UK: Modest Recovery in Progress

- Retail sales recovering, currently ~90% of pre-crisis level
- Double digit increase in output PMI to 47.6 in June
- Reopening large parts of hospitality sector/further stimulus expected

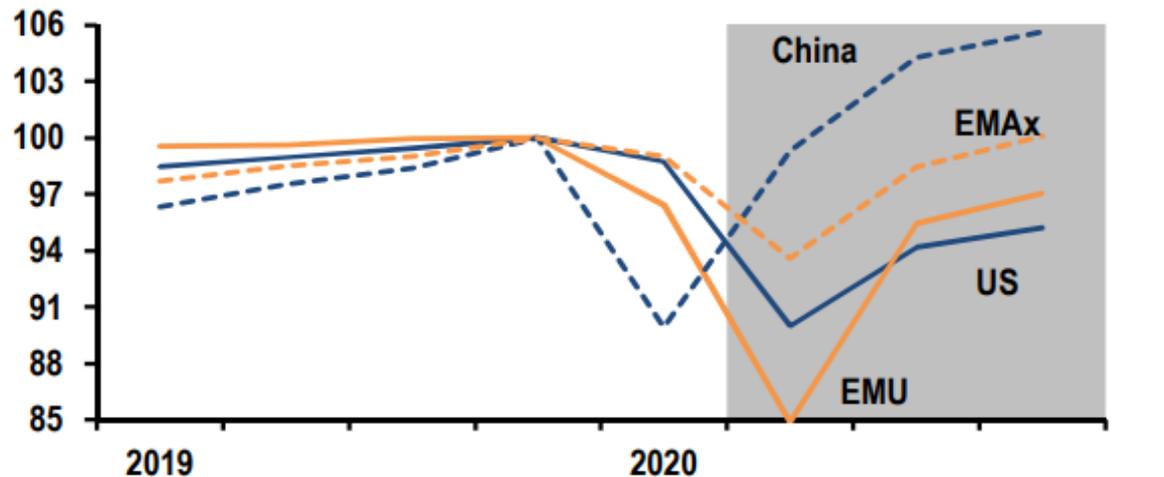


Source: Refinitiv, CE

## China: Continuing to Recovery

- June PMIs above 50 (output 52.6)
- Domestic activity normalizing/tourism still subdued
- Lingering soft labor market/weak global backdrop
- Policymakers easing further People's Bank of China announced further rate cuts

**Real GDP Outlook- China 6% year-over-year by End of Year**  
Index, 4Q19=100



Source: JPM

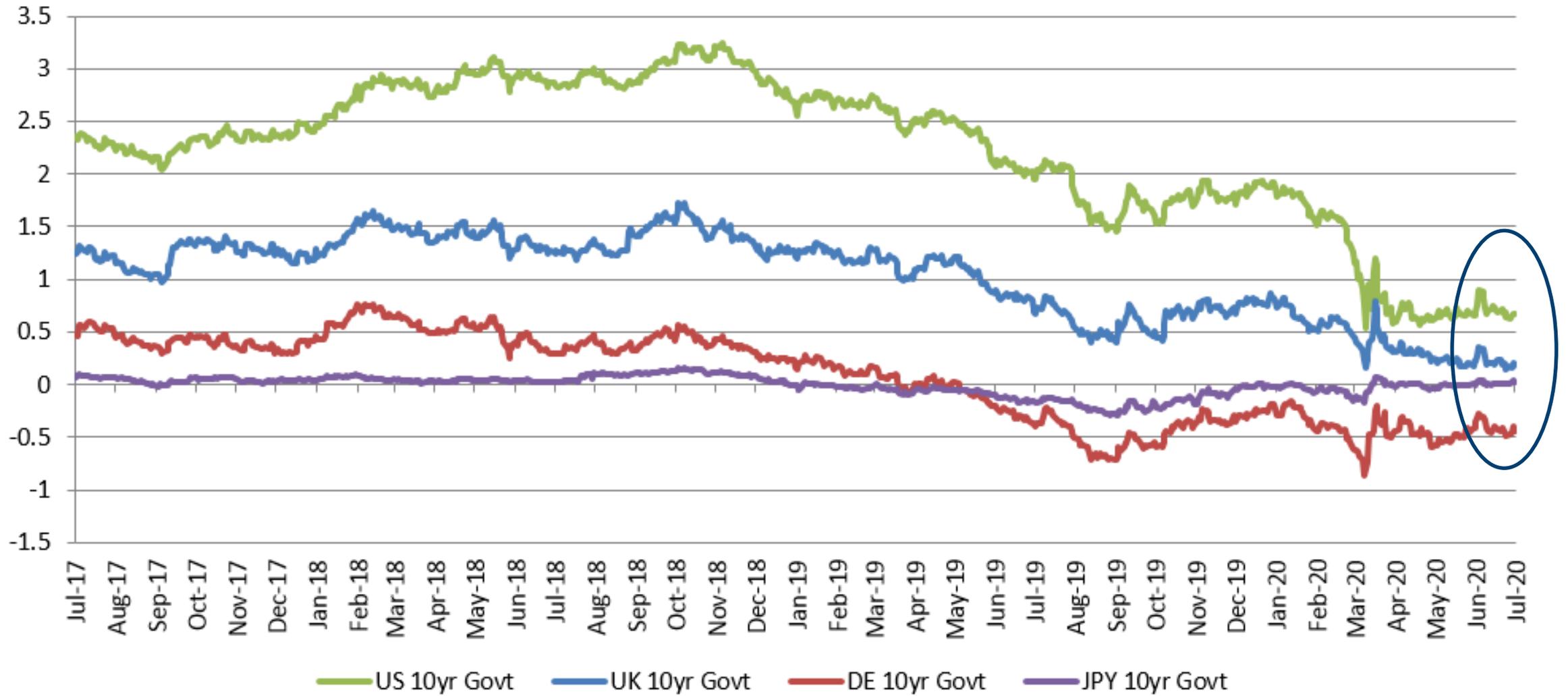
# Market Performance\*

(USD)	Since 5/29	YTD	2019	Q4 '18	2018
<b>Equities</b>					
MSCI ACWI	4.73%	-4.86%	26.60%	-12.75%	-9.42%
MSCI EAFE	4.82%	-10.13%	22.01%	-12.54%	-13.79%
MSCI EM	11.62%	-6.19%	18.42%	-7.46%	-14.57%
MSCI US	3.31%	-1.43%	30.88%	-13.81%	-5.04%
<b>Fixed Income</b>					
BarCap Global Agg Total Return (Hedged)	0.52%	3.92%	8.22%	1.74%	1.76%
Citi US 10+ Govt Bond Index	-0.20%	20.82%	14.89%	4.17%	-1.89%
BarCap US High Yield Total Return (Unhedged)	1.70%	-3.13%	14.32%	-4.54%	-2.08%
<b>Oil</b>					
WTI Crude	13.42%	-30.29%	18.32%	-26.28%	-7.80%
Brent Crude	13.11%	-31.99%	12.52%	-25.73%	-4.95%
<b>Currency</b>					
USD/EUR	-1.03%	-0.16%	1.86%	1.57%	-7.73%
USD/GBP	-0.77%	6.22%	-3.76%	2.29%	6.16%
USD/JPY	-0.16%	-1.04%	-1.00%	-3.39%	-2.54%
USD/CNH	-1.31%	1.46%	1.38%	-0.06%	5.53%
USD/TRY	0.62%	15.45%	11.93%	-11.56%	40.19%
USD/ARS	3.12%	17.98%	58.95%	-7.29%	100.07%

\*Thru July 3, 2020

Source: Bloomberg

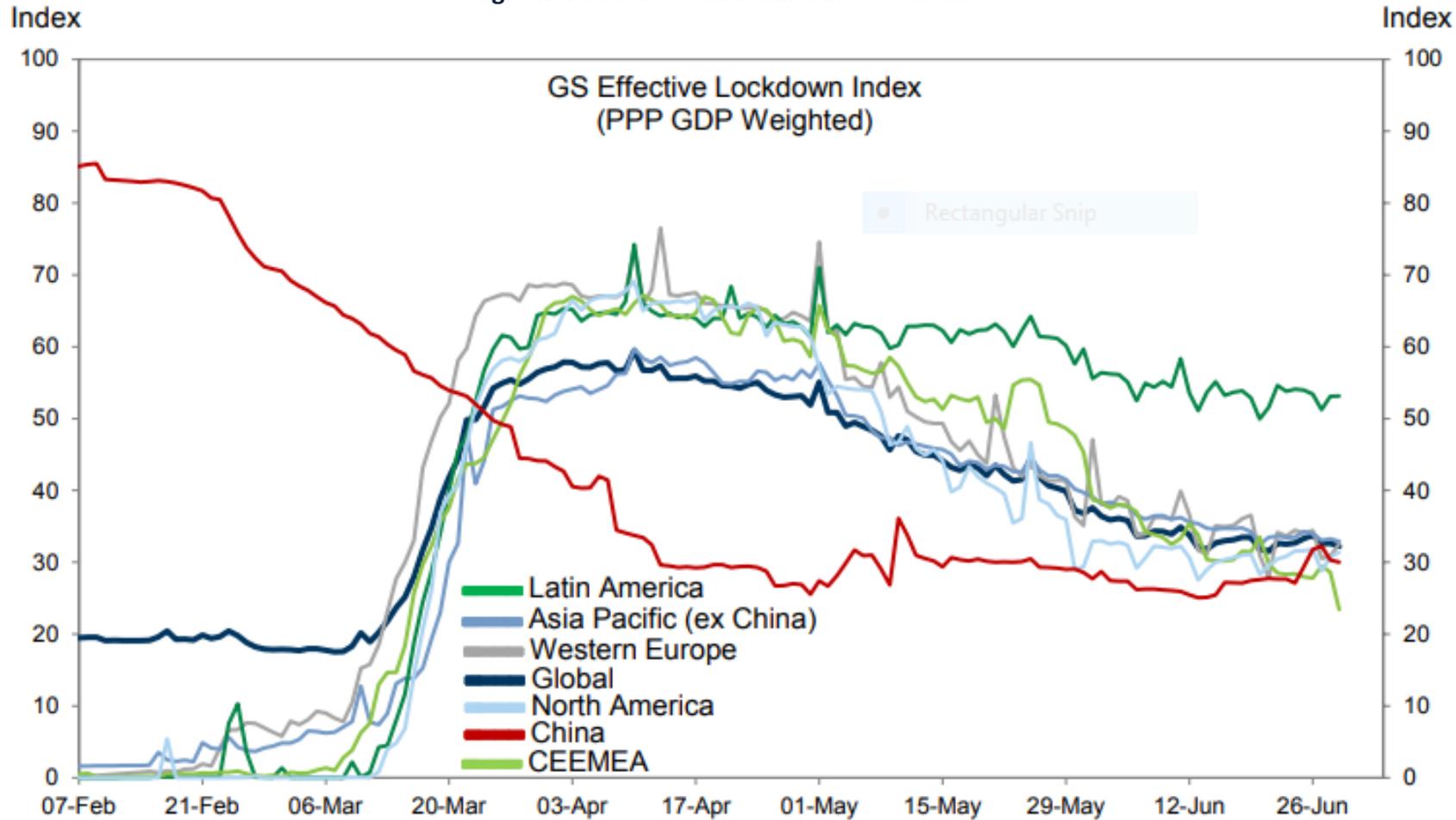
# Sovereign Bond Yields



Source: Bloomberg

# Global Lockdowns & Economy

**Global Lockdown Index Trending Down**  
Slight Reversal in US and China in Past Week



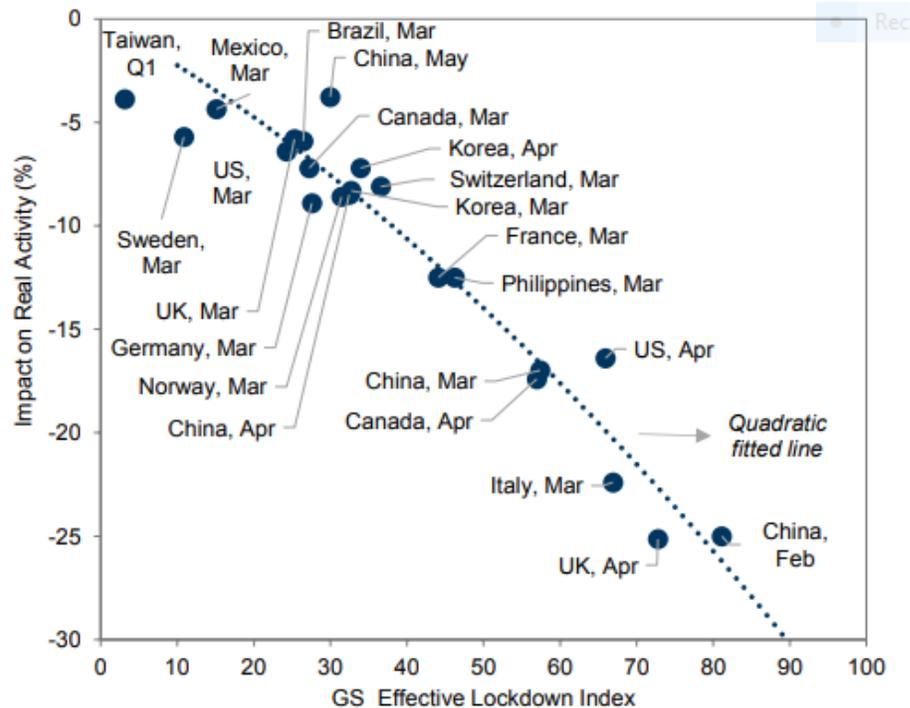
## Global Composite (dark blue line)

- Lockdown stringency peaked @ ~55 in April
- Currently ~30

Source: Oxford University, Goldman Sachs

# Global Lockdowns & Economy

**Lockdown Index & Real Activity**  
Inverse Relationship

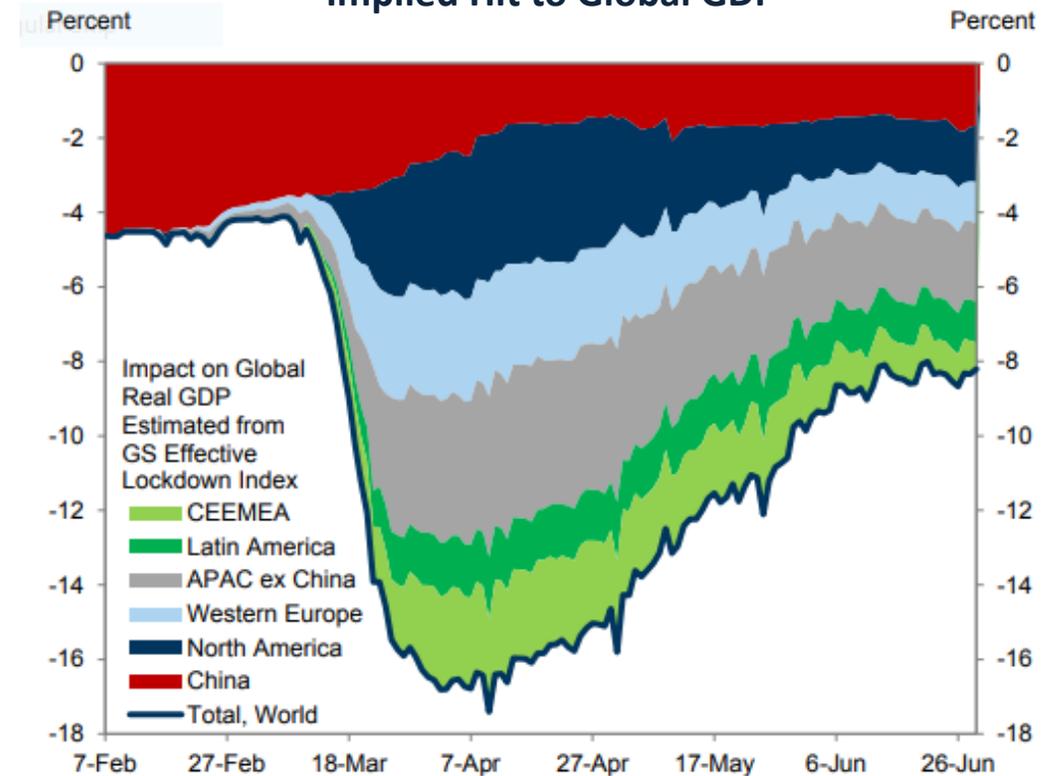


Source: Oxford University, Goldman Sachs

- Strong inverse relationship between stringency of lockdowns and economic activity

- Hit to global GDP from Covid-19 crisis estimated at 8.5% currently versus 17% in April

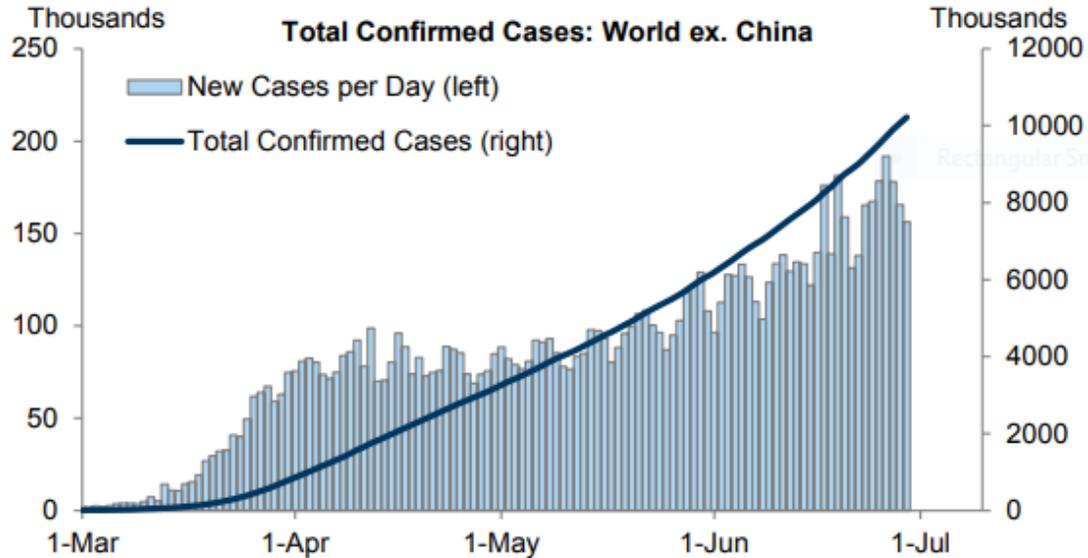
**Implied Hit to Global GDP**



Source: Goldman Sachs

# Global Covid-19 Update: Some Unpleasant Milestones

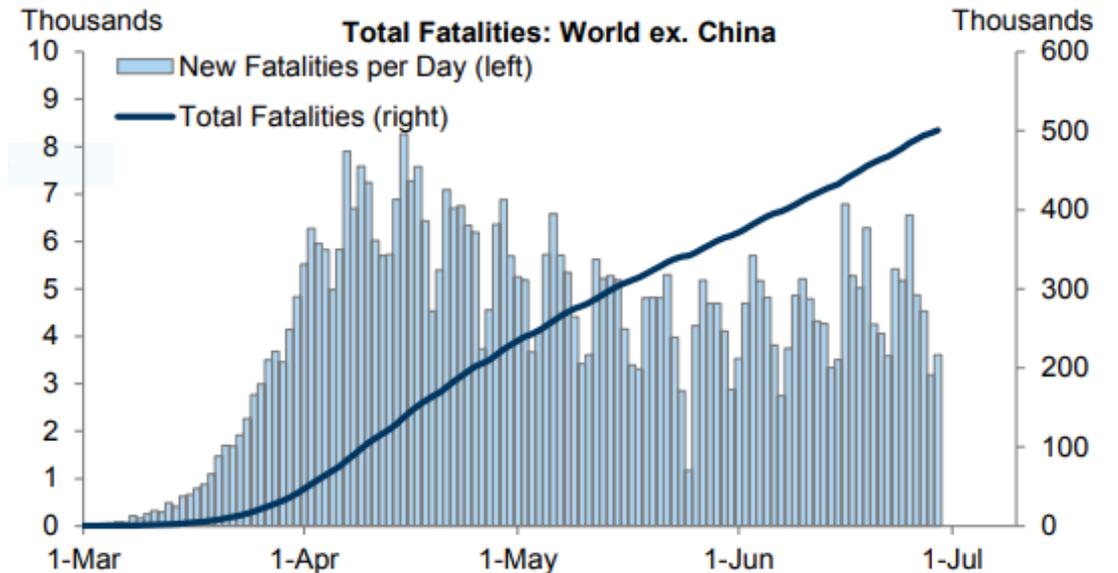
### Total Confirmed Cases



- Worldwide confirmed cases (ex-China) surpassed 10 million last week

- Worldwide fatalities (ex-China) reached 500,000 last week

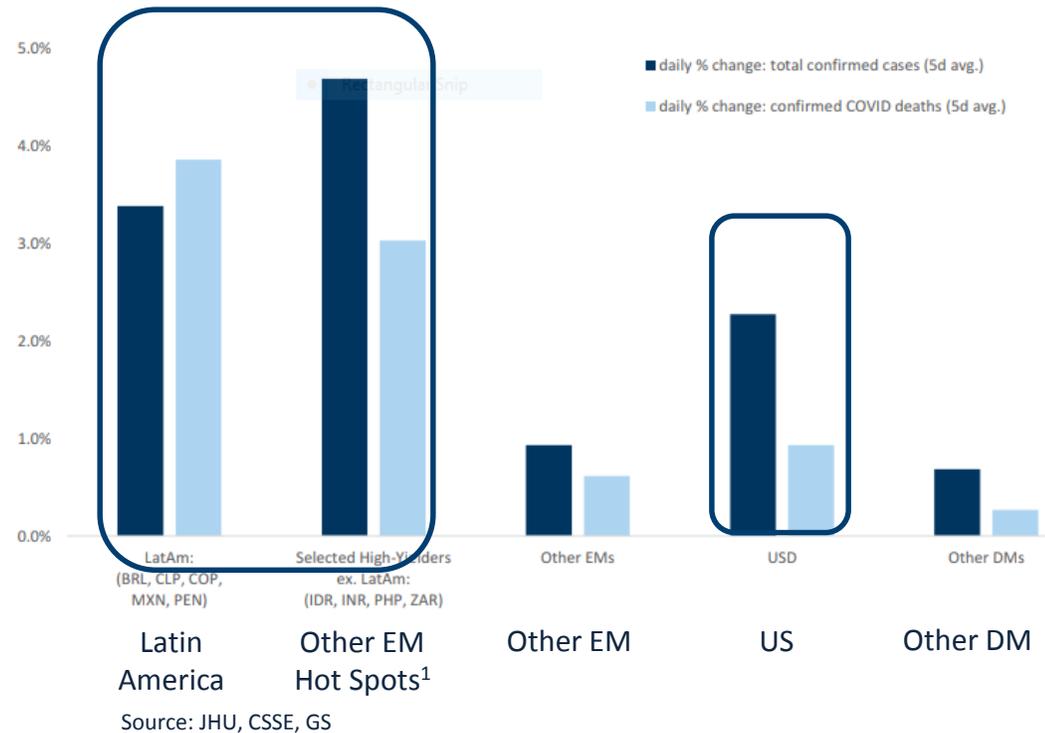
### Total Fatalities



# Covid-19 Global Update

## Covid-19 Growth & Fatality Rates

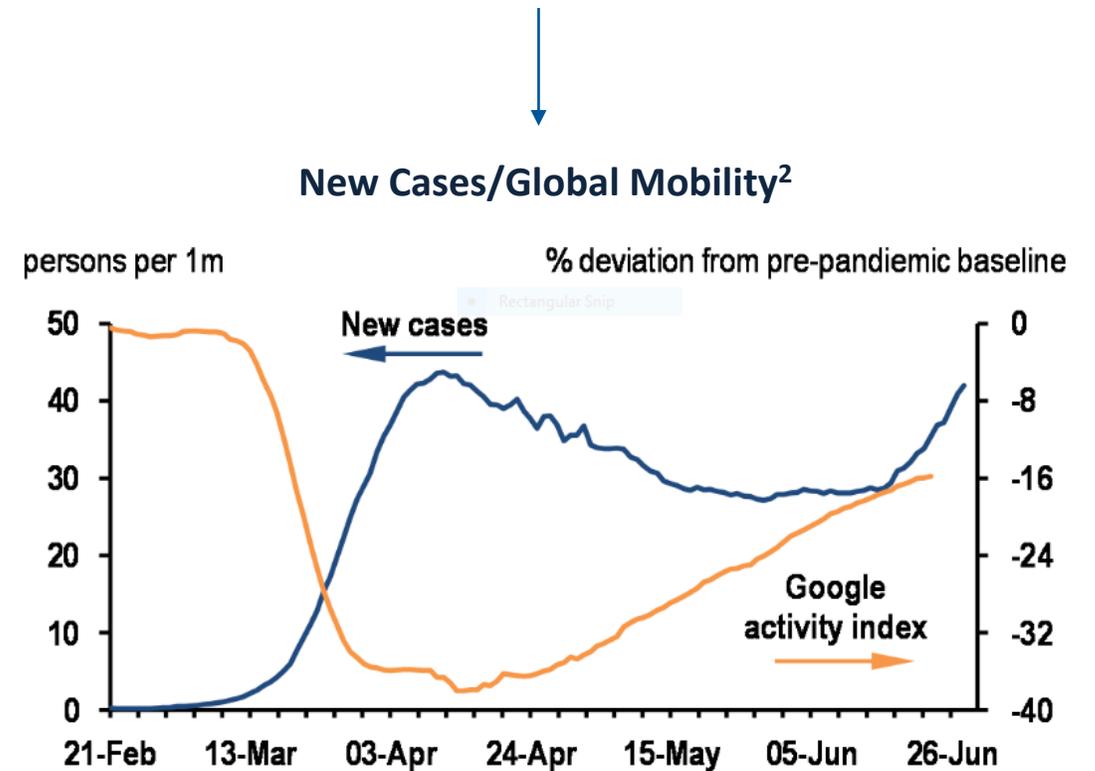
Values as of Jun 29



- New case and fatality growth rates currently highest in LatAm and EM hot spots such as India
- US rates currently higher than most other DM

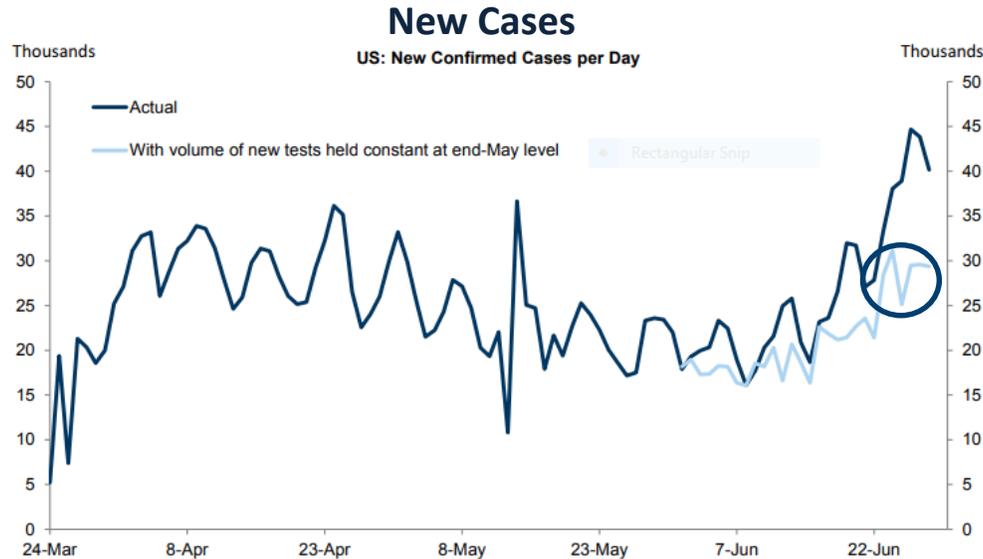
1. India, Indonesia, Philippines, South Africa  
 2. 7-day moving average plotted

- Global mobility up significantly from recent lows but new cases increasing



Source: JPM, Google

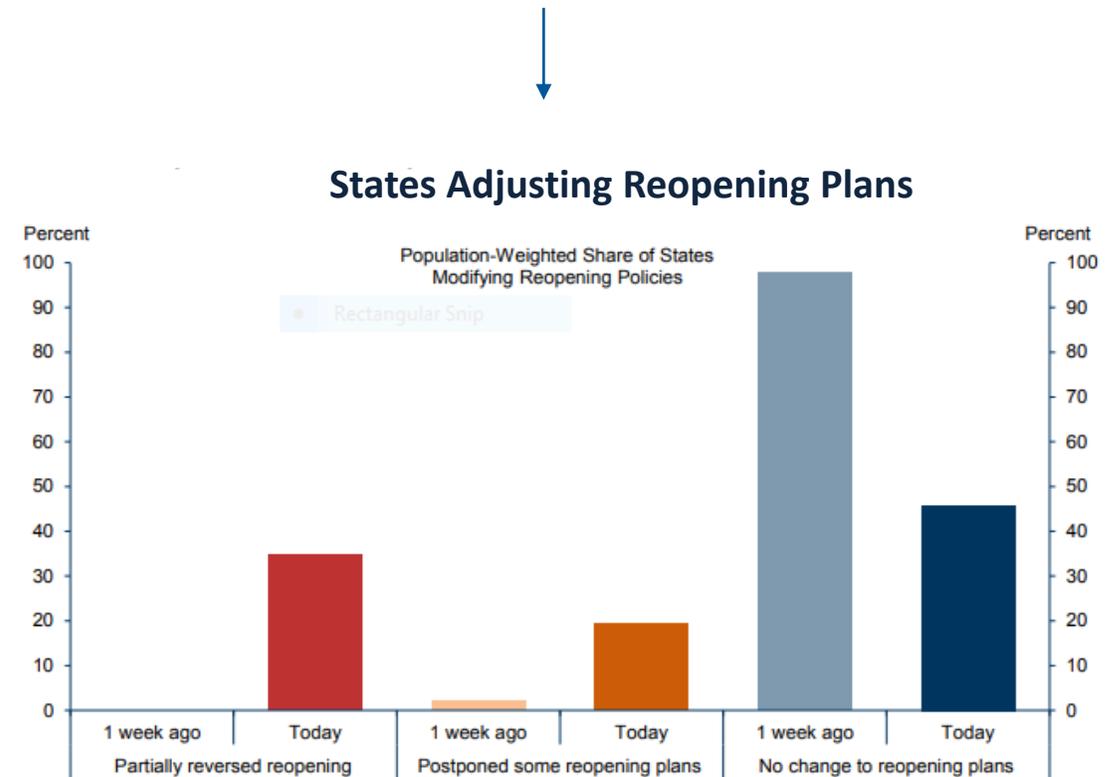
# US Covid-19 Update



Source: John Hopkins University, Goldman Sachs

- Increasing testing partially responsible for surge in new cases
- But new cases still rising after taking into account increased testing

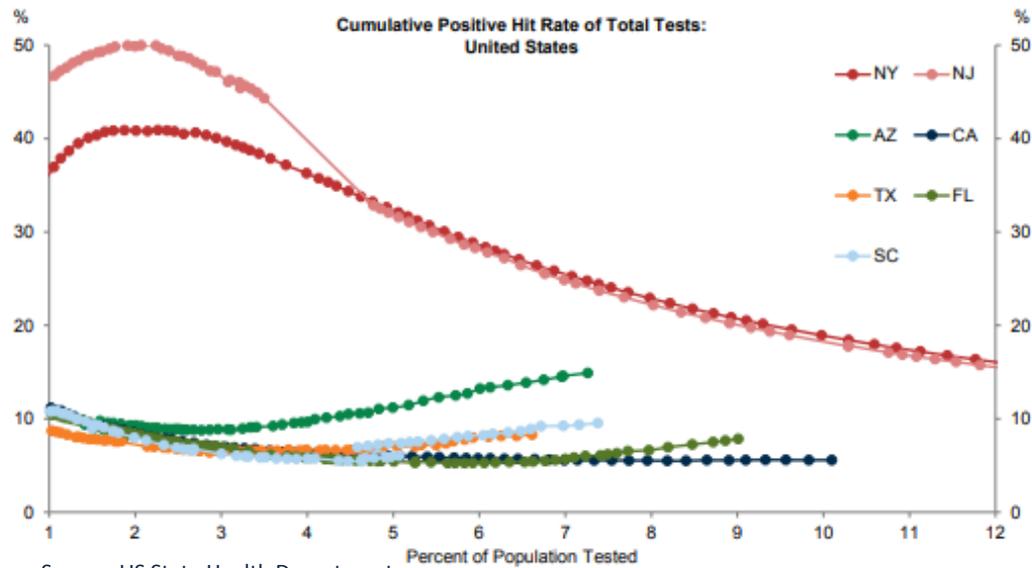
- Over half of US population has had reopening plans reversed or postponed over the past week



Source: Goldman Sachs

# Covid-19 US Update

## US States Positive Hit Rates



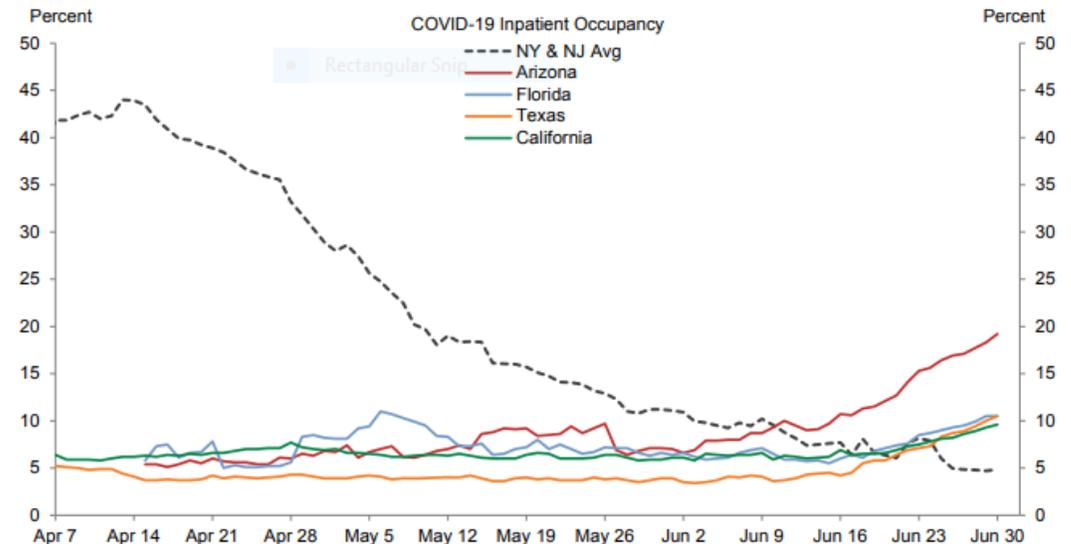
Source: US State Health Departments

- Positive test results on different paths
- Drifting higher in states such as Florida and Arizona
- Flat in California
- Falling in NY and NJ though still relatively high

- Covid-19 patients starting to account for increasing percentage of hospital capacity in some states
- Now occupy 20% of capacity in Arizona, up from 10% 2 weeks ago



## Hospital Covid-19 Patient Occupancy Rising



Source: CDC, Goldman Sachs

# Covid-19: Reflections

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- **Pandemic Far From Contained/Global “Hot Spots” Rotating**
  - Worldwide growth still rising but fatalities below recent peak
  - Much of recent growth due to US and emerging markets including:
    - India, South Africa, Brazil and nearly all of Latin America
  - Infection’s growth rate suppressed in Europe, Developed Market Asia, China & South Korea
    - Recent isolated outbreaks seemingly contained
- **Lockdowns Arguably Necessary Earlier in Year but Very Costly**
  - Principal cause of severest recession since Great Depression<sup>1</sup>
  - Inverse relationship between severity of lockdowns & economic activity
- **Gradual Re-openings Initiating Nascent Recovery<sup>2</sup>**
  - Experiences in China and Europe largely favorable/US results mixed thus far
  - Recommendations for smooth reopening include:
    - Continue social distancing/ maintain good hygiene
    - Comprehensive testing, tracking, isolate infected individuals
    - Face covering/masks<sup>3</sup> / Avoid large social gatherings

1. IMF attributed mid year downgrade in 2020 global grade from -3% to -4.9% to severity of Covid-19 recession: GS economists estimate that lockdown reduced US GDP by 17% between January and April.

2. Global composite of Oxford University’s Lockdown Index: ~55 in early April vs. ~30 currently

3. GS economists estimate that a national face mask mandate could largely offset the 5% hit to US GDP that would be associated with renewed broad lockdowns

# Covid-19: Reflections

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- **Continuing Covid-19 Concerns, at Minimum, Likely to Slow Recovery**
  - Return to “pre-crisis normal” not expected until:
    - Virus concerns eliminated
  - Ongoing medical progress in following:
    - Improved testing, treatments, partial vaccine<sup>4</sup>...
    - Potential mitigants but not cure
  - Vaccine and eventually herd immunity presumably needed to fully allay concerns
  - Best case scenario:
    - Widely available vaccine in early 2021<sup>5</sup>
    - Herd immunity soon after

4. Improved treatments from a number of antibody drugs to potentially increase likelihood of recovery for Covid-19 patients. They include Regeneron and Remdesivir and a steroid drug dexamethasone. Researchers are also testing whether the polio vaccine could provide protection against coronavirus.

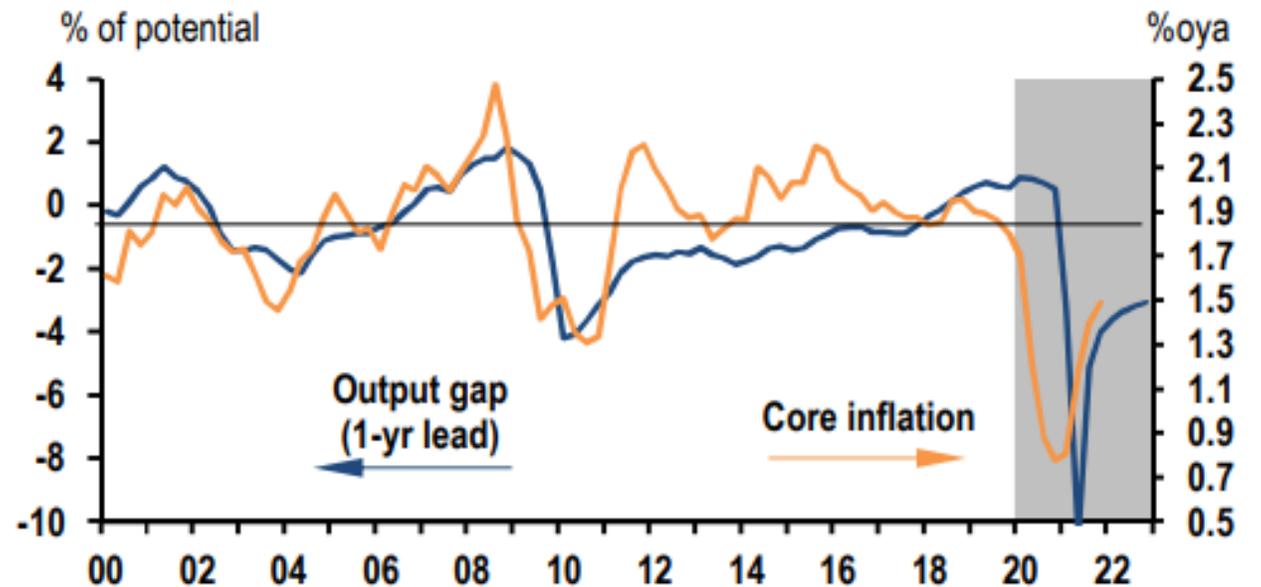
5. Dr. Fauci in recent interview noted that there are four or five trials underway for vaccine candidates. “By beginning of 2021, we hope to have a couple of hundred million doses available.”

# Thoughts on Inflation

## Current Cyclical/Policy Backdrop Disinflationary

- Recent SECOR paper noted/concluded<sup>1</sup>
  - Current deep recession disinflationary/perhaps deflationary over cyclical horizon
  - Unlikely to rekindle inflation over long term as long as:
    - Central bankers maintain sound policies
    - Deviating would be counterproductive, but tail risk
  - Huge global output gap expected to shave another ½ %-pt. from 2021 core inflation

Global Output Gap & Core Inflation<sup>2</sup>



Source: JPM

1. "Risks associated with unprecedented Peacetime Stimulus" (May 2020)

2. JPM economists estimated that current yawning output gap will push core inflation rate at least 0.5% pt lower by next year

# Thoughts on Inflation

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- **Specific Question Related to Structural Issue:**

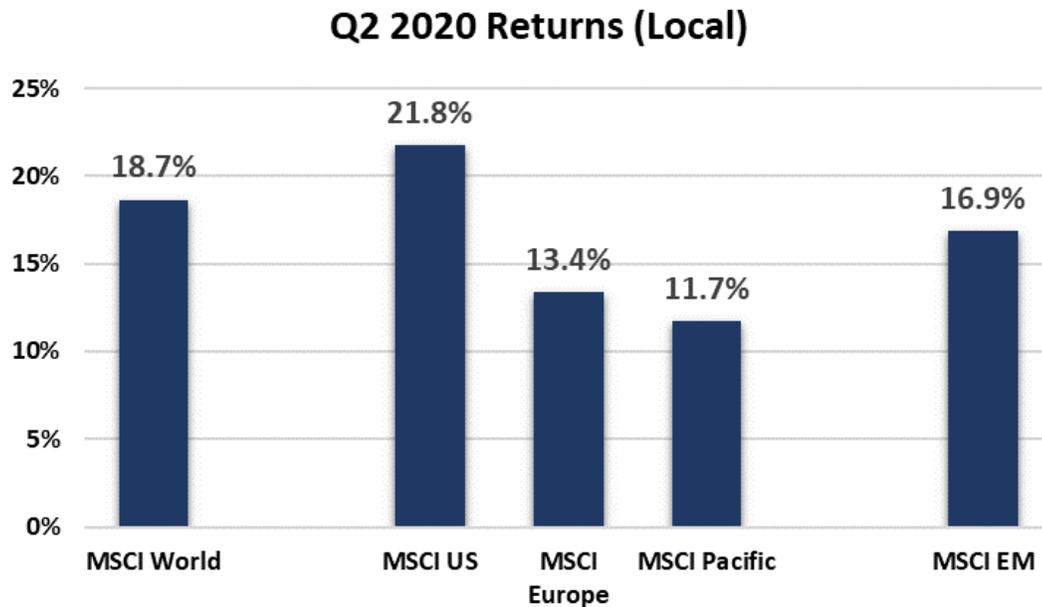
- Potential long-term effects of Covid-19 crisis on wages
  - Length of Covid-19 crisis pivotal variable in our opinion
- If our best case scenario -- vaccine early next year -- unfolds:
  - Lasting effects likely to be relatively small
- Longer-lasting crisis more likely to result in structural change
  - Major impact likely to be industry specific rather than across entire workforce
  - Phillips curve relatively flat/wages seemingly not very sensitive to macro factors
- Ultimately wages likely to continue to be determined by:
  - Competitive environment for labor, products and services
  - Barriers to entry
  - Breadth of market: local, regional, national, international

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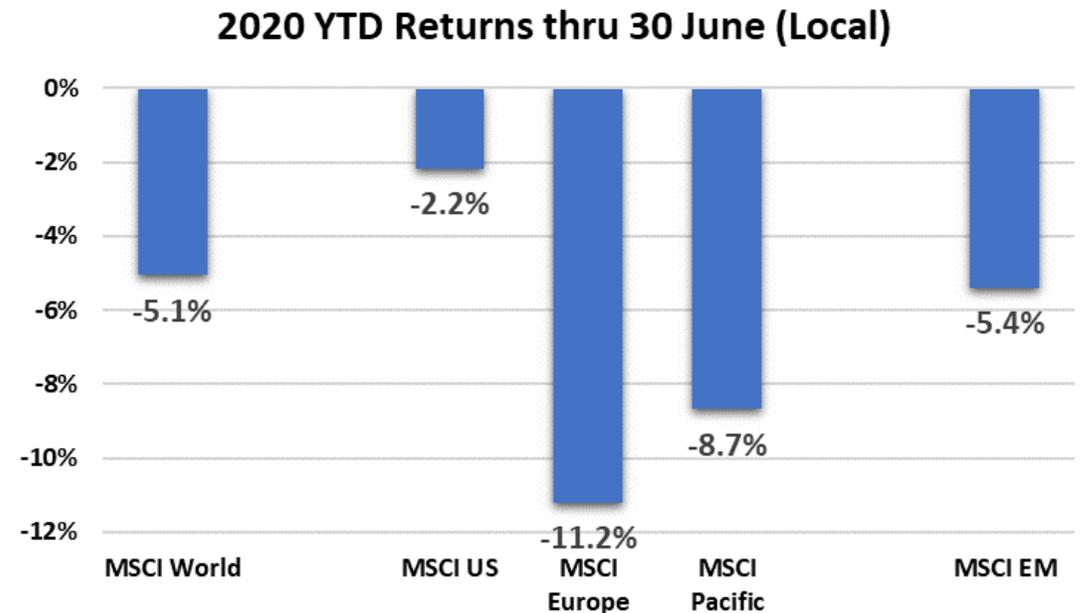
## Public Equity Update

# Equity Returns

- Equity markets around the world roared back in the second quarter - Strongest quarter in the US since 1998



- Recouping part of their first quarter losses

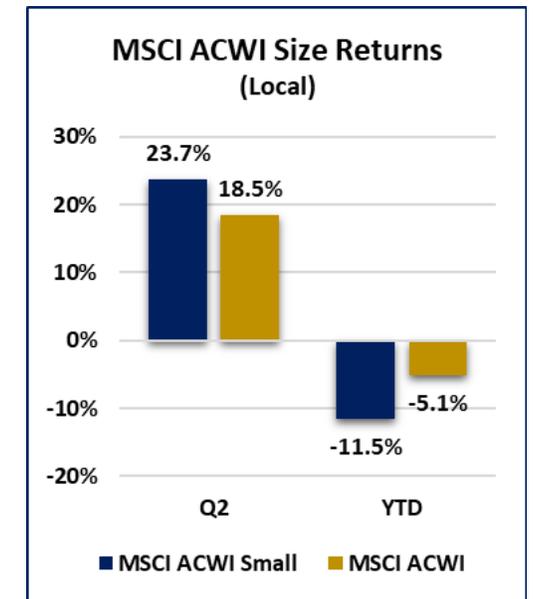
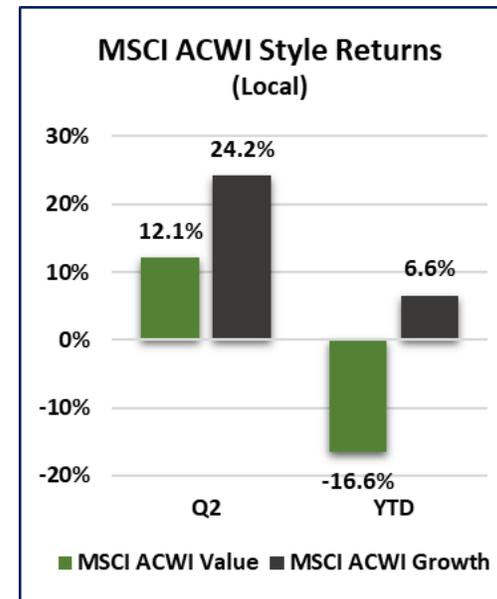
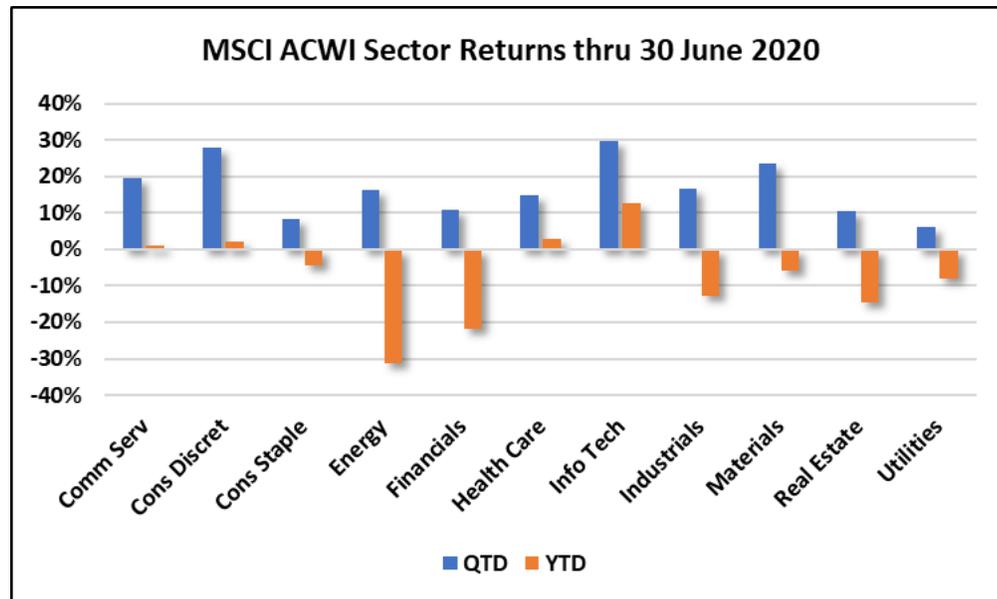


Source: MSCI.

# Equity Returns

- Information Technology was the strongest performing sector in both the second quarter (+30%) and YTD (+13%)
  - Despite second quarter bounces, Energy and Financials remain the laggards YTD

- Value stocks continued to struggle in Q2 despite some occasional signs of strength; small caps outperformed in Q2
  - Both Value and Small Cap have trailed in the YTD period



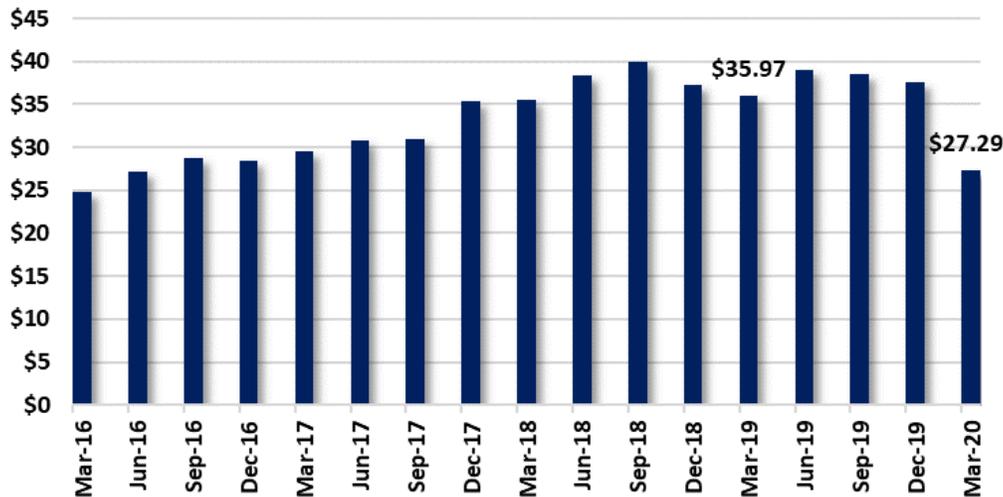
Source: MSCI.

# Earnings – Q1

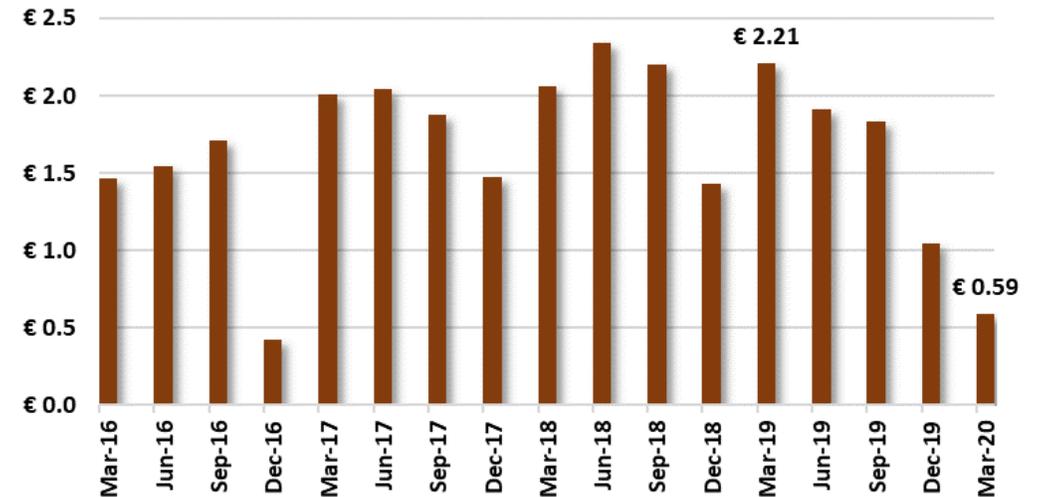
- Q1 earnings in the US fell year-over-year as the coronavirus impact began to be felt at the end of the quarter
  - Earnings fell 24% year-over-year in Q1

- The drop in earnings was even more severe in Europe which felt the impact of the virus earlier than in the US
  - Year-over-year earnings fell 73% in Q1

**S&P 500 Quarterly Earnings**



**MSCI Europe Quarterly Earnings**

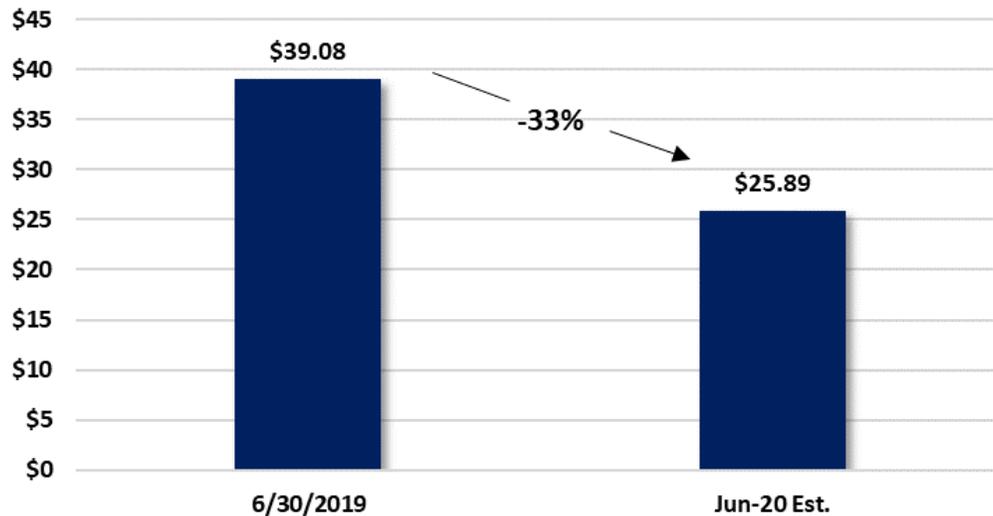


Source: Bloomberg.

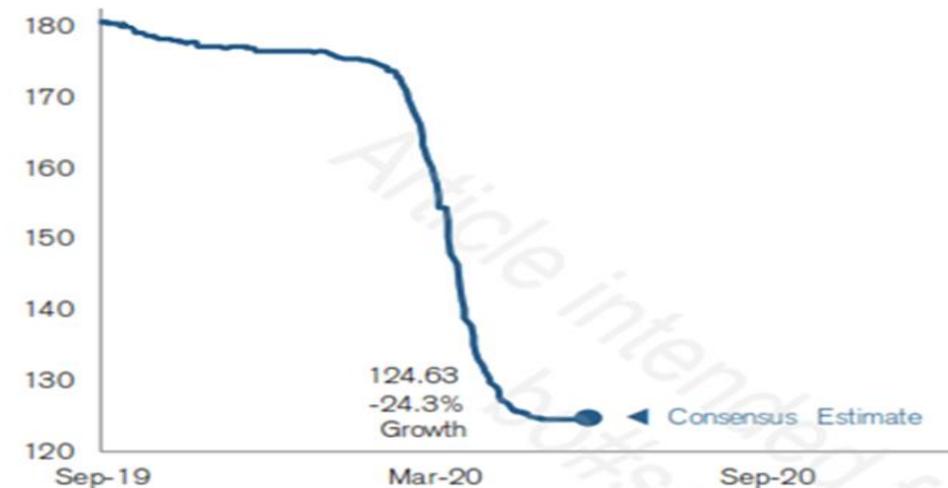
# Earnings Estimates – Q2 & 2020

- Q2 earnings in the US are expected to fall even more with the full impact of the coronavirus during the quarter
- And calendar year 2020 estimates have finally bottomed
  - Consensus forecast is down 24% versus 2019
  - Bottom-up forecast has finally caught up with top-down consensus of \$126 back in mid-April

### S&P 500 Earnings



### S&P 500 2020 Consensus Earnings Estimate



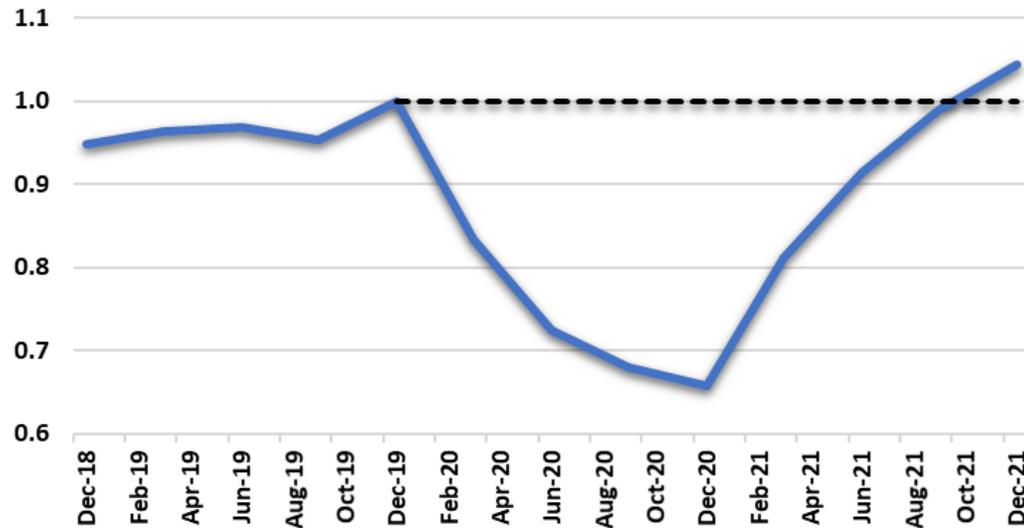
Sources: Bloomberg, Credit Suisse.

# Earnings Estimates

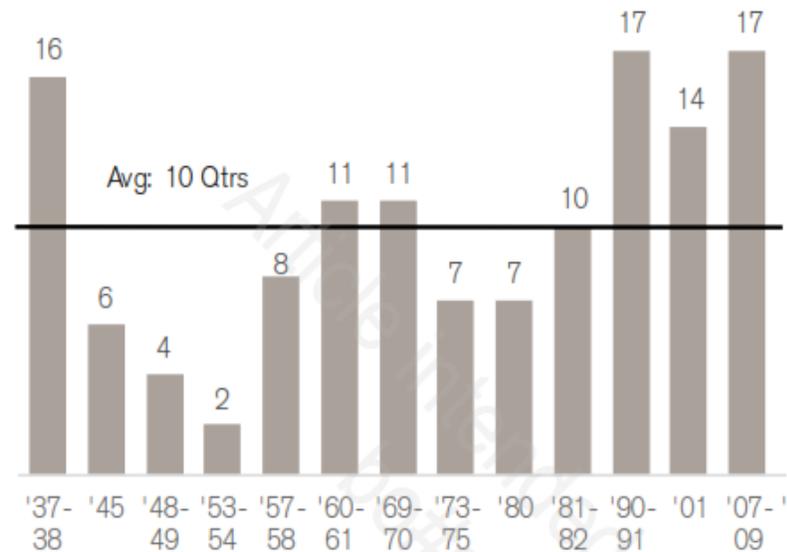
- And consensus is that the US regains its pre-virus earnings peak in Q4 2021, 8 quarters after peaking at year-end 2019

- Which would be a much quicker recovery than from past recessions, especially the more recent occurrences

**S&P 500 TTM Earnings (As Reported)**



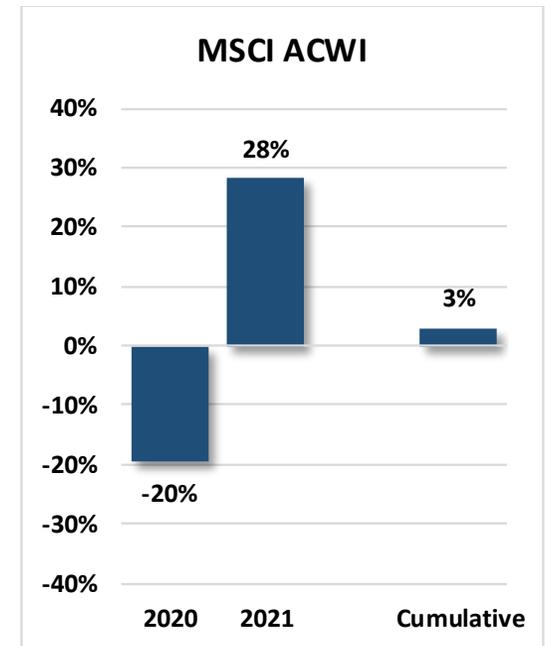
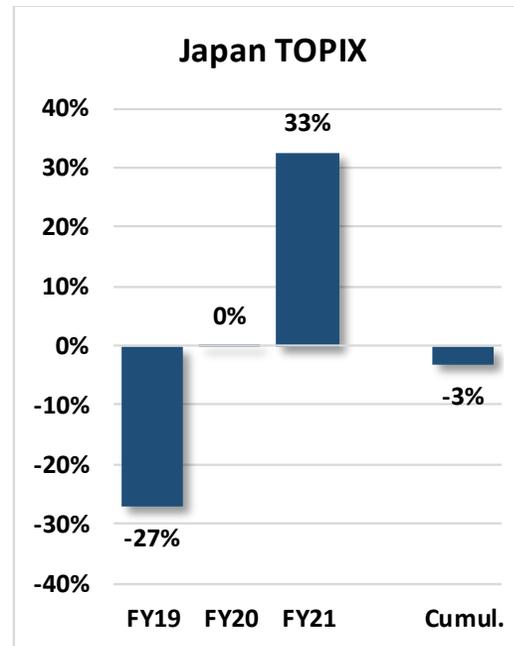
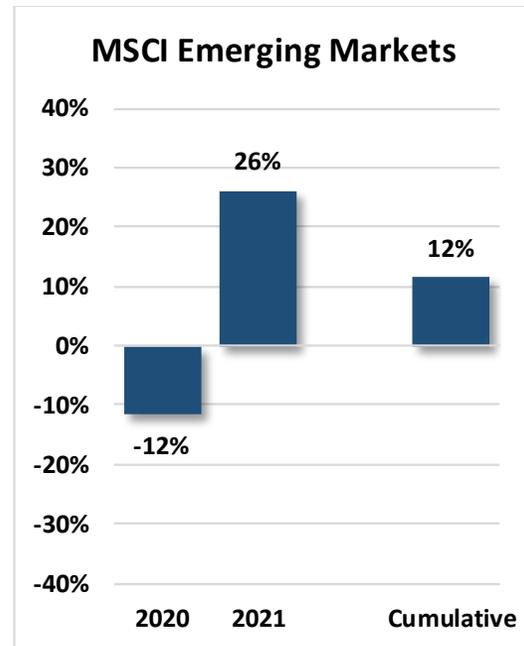
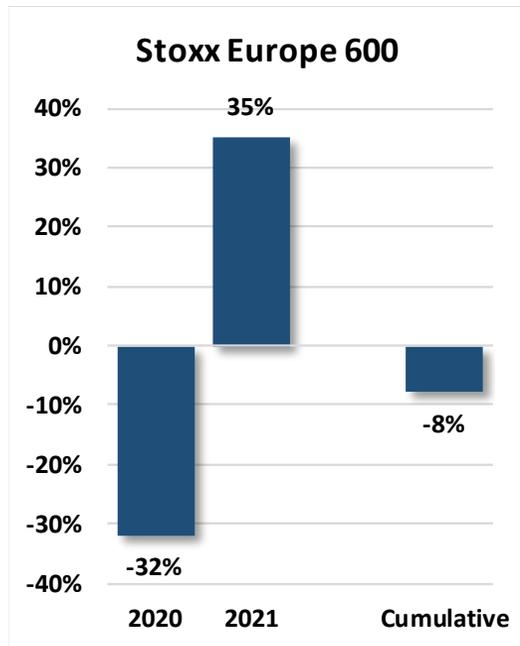
**Number of Quarters for Trailing LTM EPS to Return to Prior High**



Sources: S&P 500, Credit Suisse.

# Earnings Estimates

Estimates for 2020 and 2021 follow a similar pattern around the world with the most optimistic forecasts for Emerging Markets.



Source: Goldman Sachs.

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