Markets in a Minute

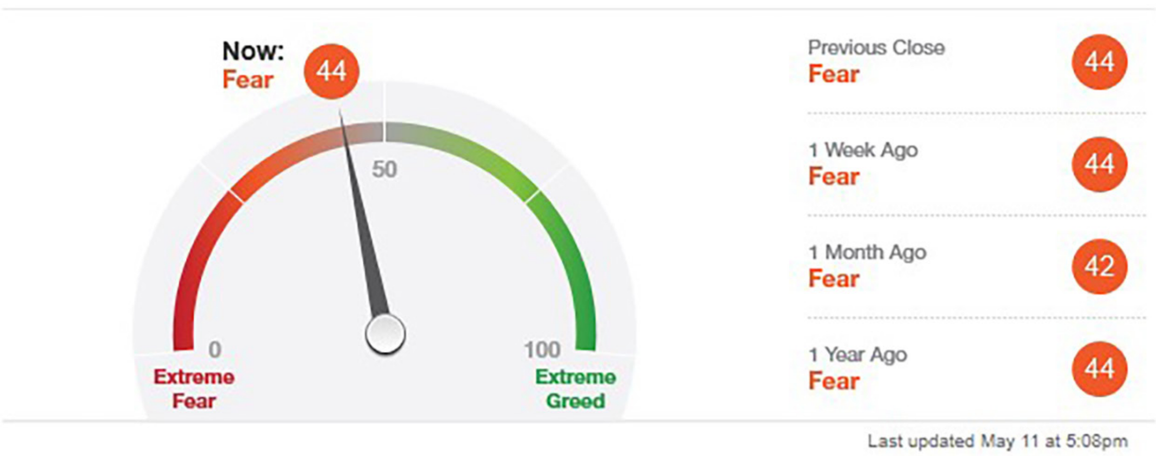
12 May 2020

Fear and greed index

Investors are becoming gradually less fearful as the initial shock of the pandemic and lockdown subsides. Markets have rebounded, focusing on the eventual recovery rather than the continual stream of poor economic data.

The fear & greed index, produced by CNN, is now reading 44, officially in “neutral”, as confidence in an eventual recovery grows and investors look to put more money back to work in the stock market. The gauge has been trending towards greed for several weeks now.

What emotion is driving the market now?



Source: https://money.cnn.com/data/fear-and-greed/

Markets looking for hope

- Global markets trended up last week, continuing on from their best April in a decade and in America’s case, the best month since 1987, as optimism was boosted by more countries expanding their lockdown-lifting measures.
- UK investors were upbeat as they looked ahead to Boris Johnson’s Sunday night address in which he said he would lay out a plan to lift lockdown.
- The bullish mood has faded to risk-off sentiment since the beginning of the week as news emerged of setbacks in some re-opening economies. The infection rate in Germany has risen just days after lifting some restrictions, while new Covid-19 clusters emerged in South Korea and China.
- Although UK shares eked out gains yesterday, markets across Europe closed down and US indices were mixed. Today, markets in Asia closed down across the board as worries about a second wave in the region intensified.

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Boris Johnson outlines a slow return to normality

Boris Johnson's national address on Sunday night was scant on detail but set out a "roadmap" for the gradual easing of restrictions. There was also confusion as Scotland, Wales and Northern Ireland disagreed with Johnson's new approach, meaning different rules may apply in each devolved nation.

On Monday, the government released a 50-page document that detailed the measures. These include:

- From tomorrow, those that cannot work from home should go to work if their employers are allowed to open. This applies to around 5m people in the construction and manufacturing sectors, along with food production, logistics, distribution, and scientific research in laboratories.
- Those who can work from home are being asked to do so for the "foreseeable future".
- People are being encouraged to wear cloth face coverings when in crowded places or on public transport.
- Some non-essential shops and schools will be allowed to open from 1 June, with schools opening in phases according to age.
- Employers will be encouraged to allow employees to work in staggered shifts to avoid overcrowding in the workplace.
- All arrivals into the UK will be required to self-isolate for 14 days, except arrivals from France and the Republic of Ireland.
- Hospitality such as hotels, pubs and restaurants, and most 'non-essential businesses' remain closed until at least July. They will only be allowed to re-open if they can comply with the government's "Covid secure" guidelines, which will be released this week. It is thought most pubs and restaurants will not be able to open until August or "significantly later", because people will not be able to observe sufficient social distancing.
- The government will re-impose restrictions if the infection rate begins to rise again.

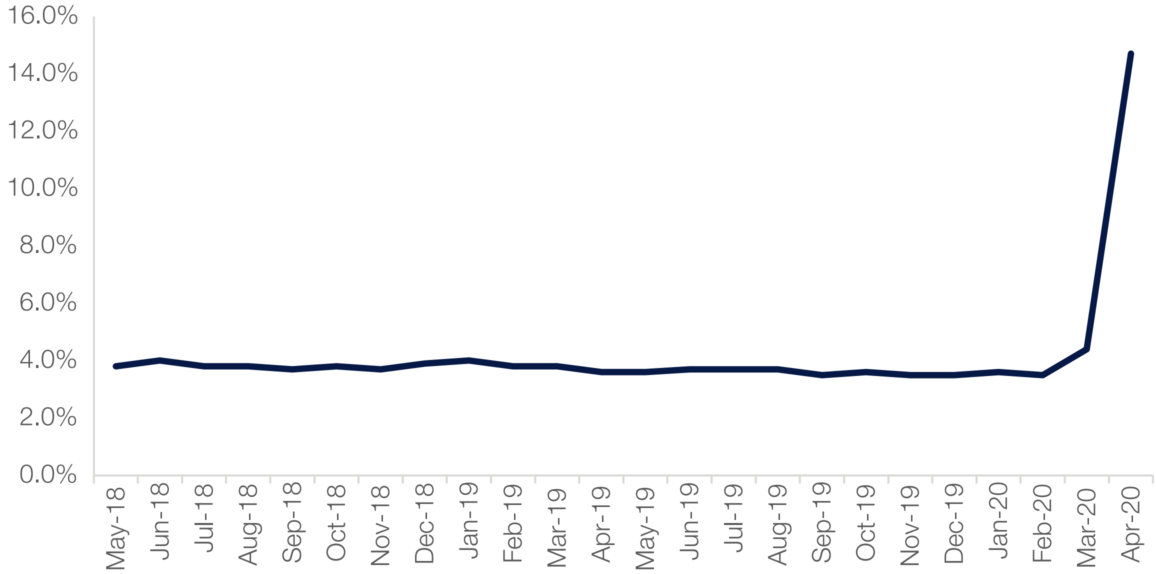
America increasingly polarised

- While UK investors waited on Boris Johnson's announcement, America is facing pressure from the White House to reopen while many state governors want to keep the lockdown in place. New York has suffered a third of US deaths and is thankfully showing a decline in the spread of the disease but that is masking the fact that the situation in other states is still worsening, even as they start looking to reopen.
- The situation in the US is complicated by the fact that it has cultural and organisational challenges to overcome; it places a great emphasis on freedom which makes lockdowns more jarring than in the more authoritarian and compliant parts of Asia.

More stimulus on the way…

- The furlough scheme to pay wages for employees hit by the coronavirus will be extended until the end of October. Chancellor Rishi Sunak has announced that the scheme will continue to pay 80% of workers' wages up to a maximum of £2,500. But, from August, the government will require employers to share the cost of the scheme with the government. It will also allow employers to bring workers back on a part-time basis. The idea is to encourage firms to bring back staff gradually, slowly building up capacity and adapting as they go while reducing the huge cost for the Treasury.
- China has also promised "more powerful" stimulus measures in its quarterly report, released on Monday, in a bid to offset the impact of coronavirus. It did not go into more detail but analysts expect it could involve more direct cash injections for SMEs to help boost employment.
- While this is in line with the global trend of central banks showing more enthusiasm for purchasing corporate debt to help companies through the crisis, the EU was thrown a curve ball by the German constitutional court last week, insisting that the ECB conducts a "proportionality assessment" on its bond-buying programme. The ruling is not directly related to the 750bn euro pandemic emergency purchase programme – a key plank in its stimulus efforts to help the eurozone economy. But it may make the ECB think twice before expanding it further.

US unemployment figures



Source: US Department for Labor

Hope for labor market in the US despite data

While it has been a terrible month for US employment market, the US non-farm payroll report, released on Friday, was not as bad as expected. The economy lost 20.5m jobs in April - less than the 22.1m that was forecast. The U.S. unemployment rate rose to a post-war high of 14.7%. However, the majority of the job losses are expected to be temporary, with most being re-employed when the economy opens up again.