Financial Markets and Updated Economic Forecasts
as of 4/27/2020

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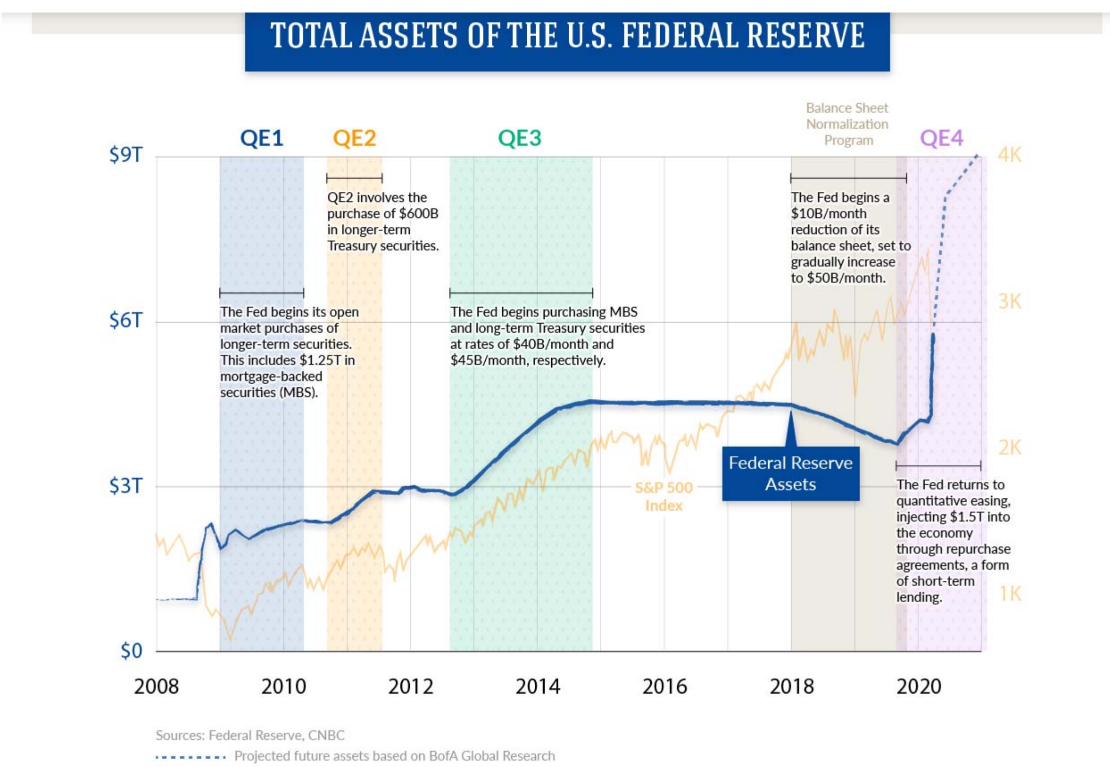
Capital Economics

The following are comments from Capital Economics economist Neil Shearing on the effect of supply and demand as a result of Covid-19 and recovery prospects for each.

“As lockdowns are lifted, the supply potential of most economies should be restored relatively quickly; firms will re-open and people who were temporarily laid off or took unpaid leave will go back to work. Of course, this will not be possible if lots of previously solvent firms go to the wall during the shutdown. Indeed, some business failures are unavoidable. But as long as the substantial government support in the forms of loans and grants proves effective, we do not envisage a big permanent reduction in supply. And people are unlikely to lose their skills during only a short period of unemployment.

The picture surrounding demand is more complicated. Demand should rebound as lockdowns are lifted and some of the restrictions on spending imposed by the shutdowns ease. But several factors are likely to prevent a swift recovery to pre-virus levels. The balance sheets of some households and businesses will be impaired by the crisis, uncertainty will persist, and confidence will remain fragile. Behaviors may change too. Even if shops, cinemas, restaurants, and theatres re-open, individuals may be reluctant to gather in public spaces, thus depressing demand for these services.”

Fed Watch



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U.S. Markets

Both equity and bond market volatility have subdued over the past few weeks as investors have taken comfort in the massive size and scope of the Federal government's rescue and assistance plans for business and individuals alike. Even as unemployment claims have continued to climb and companies report lower first quarter 2020 earnings, investors seem to be looking past the damage of the shelter in place orders. Investors are instead focused on reopening the world economy, the speed at which demand will resume and the technological advancement of medical science to solve the biological crisis.

A separate but highly connected issue is the price of oil which has always been highly subject to the delicate balance of supply and demand. The immediate issue is where to store all the oil the world is still pumping, but further out the calendar is the question of how much oil the world will need on a daily basis. Directionally, the market's daily price action has been highly correlated to the news cycle surrounding the price of oil. Positive oil news has generally lead equities higher and bonds lower.

Energy makes up about 8% of the U.S. GDP and the industry employs nearly 11 million people. The implications for longer term GDP are significant. Compare this to arts, entertainment, recreation, accommodation and food services that represents about ½ the GDP output at 4.2%. This is not to imply the latter is not as important. In the short term, accommodation and food services, maybe more important since it accounts for 14 million jobs. The difference is the speed at which the two very different sectors recover while the energy industry is also facing longer term structural changes via renewables.

Economic News and Outlook

Economic forecasts continue to show wide variances of opinion. The following are projections on GDP and the unemployment rate released on Friday from two major investment banks. JP Morgan is considerably more negative on both GDP and employment than is Citigroup.

	1Q 2020	1Q 2020	3Q 2020	4Q 2020	1Q 2021	2Q 2021
GDP						
JPMorgan Chase	(9.9%)	(40.0%)	23.0%	13.0%	12.0%	6.0%
Citigroup	(2.2%)	(27.7%)	23.0%	9.4%	3.4%	2.1%
Unemployment						
JPMorgan Chase		20.0%	14.0%	8.8%	7.3%	6.8%
Citigroup	4.4%	9.5%	6.6%	5.8%	4.6%	4.2%

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Global Interest Rates (as of 9:00 am on 4/27/2020) and One Month Change

10 Year Government Rates		
Mexico	6.86%	(25 bps)
India	6.15%	+2 bps
Greece	2.16%	+67 bps
Italy	1.75%	+43 bps
South Korea	1.58%	n/a
Portugal	1.04%	+38 bps
New Zealand	0.98%	(9 bps)
Singapore	0.98%	(36 bps)
Spain	0.91%	+38 bps
Australia	0.90%	(1 bps)
U.S.	0.64%	(5 bps)
Canada	0.58%	(16 bps)
Hong Kong	0.41%	(19 bps)
U.K.	0.30%	(7 bps)
France	0.03%	+8 bps
Japan	-0.05%	(5 bps)
Netherlands	-0.18%	+5 bps
Germany	-0.45%	+2 bps
Switzerland	-0.49%	(10 bps)