MARKETS REMAIN MUTED FOLLOWING BIGGEST CRASH SINCE 1987

This week we continue to adapt to our new normal, the constant cat and mouse of coronavirus effects and policy responses. The markets are adapting too. A series of negative headlines around infections, jobs and economic activity prompted little response, suggesting we may have reached an uneasy equilibrium. This will likely persist unless things take either a dramatic turn, either with infection rates continuing to climb despite social distancing – meaning draconian measures will be needed and for longer; or we will see the tide begin to turn and a viable exit strategy from social distancing is closer than we thought.

Elsewhere, the oil price was buoyed by talk of a resolution to the spat between Russia and Saudi Arabia that has been driving the sudden spike in oil production. Given that this news arrived via Donald Trump's twitter account we'll take it with a pinch of salt, but as the world runs out of storage capacity we're getting close to oil being at zero. Both sides might view this as a step too far.

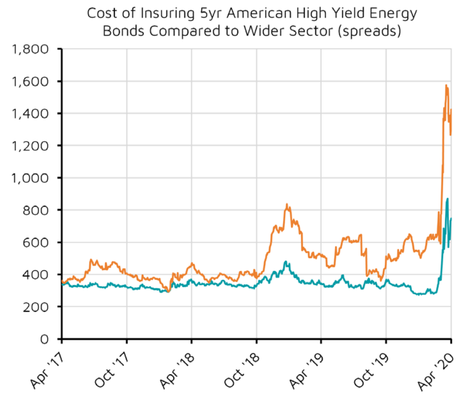
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-1.61%	-3.92%	-8.09%	-1.90%	-1.06%	-0.08%	-0.05%	+15.04%	-0.31%	-3.31%	-1.46%

BONDS: COMPANIES RETURN TO DEBT MARKETS, BUT SHALE REMAINS LOCKED OFF

Global corporate bond issuance spiked to near record levels in March as companies with good credit ratings bolstered their cash reserves. Investment grade companies (BBB rating or higher) including Pfizer, Disney and Carnival raised more than $244bn despite higher borrowing costs. AA-rated Exxon also joined in, paying a hefty premium to raise $8.5bn, as the integrated oil giant struggles with a slump in oil prices. However, junk-rated shale oil companies remain shut out from the market over widespread fears of default. This week, North Dakota's largest shale company, Whiting, filed for bankruptcy.

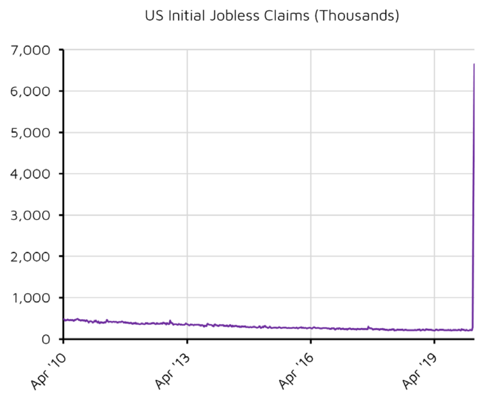
In sovereign debt markets, the UK was among a number of countries whose credit rating was cut as Covid-19 continues to damage global economies. The UK was downgraded from AA to AA- with a negative outlook. Nevertheless, bond investors remain sanguine as long as the UK remains investment grade and borrowing costs for the UK remain near record lows.



GLOBAL: THE US AND CHINA - A TALE OF TWO CONTRASTING ECONOMIES

This week's economic soft data for the US and China displayed life pre and post-coronavirus peaks. In China, the March Caixin Manufacturing PMI (index which shows the direction of economic trends in the manufacturing and service sectors) rebounded to 50.1 from 40.3 in February at the peak of the crisis. Anything above 50 indicates expansion while below signals contraction of activity. Services continued to remain in contractionary territory.

The US now has the greatest number of coronavirus cases and its PMI numbers are weakening, although the brunt of the pain is expected to be reflected in next month's figures. Other leading indicators of US economic health also paint a bleak picture. Housing purchases have stalled and unemployment claims in the last two weeks have shot up 10 million. In comparison, during the credit crunch, unemployment levels peaked at 665,000 in a week at the peak of the recession.

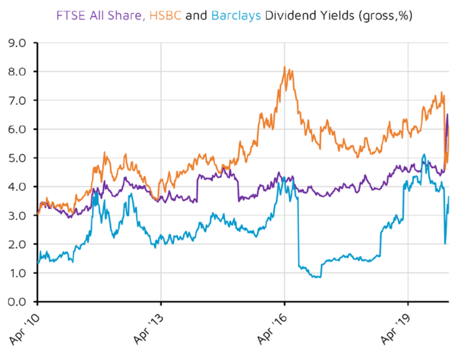


BANKS: CENTRAL BANKS URGE DIVIDEND CUT TO HELP ECONOMY

UK retail banks suspended dividends this week after the Bank of England urged lenders to exercise prudence and scrap planned payments and instead focus on supporting the economy this year.

Between them, Lloyds Banking Group, Barclays, HSBC, Santander and Standard Chartered will hold onto £15.6bn earmarked for shareholders. The delay of these payments is a blow to income investors who are having to contend with widespread dividend cuts.

A similar picture is seen in Europe as the banking regulator puts pressure on EU lenders to halt dividend payments and share buybacks potentially saving €30bn. US banks haven't yet felt the same heat but with a labour market in free fall and the number of coronavirus cases still rising it's only a matter of time before dividends are also suspended.



Data Sourced from FE Analytics, and Bloomberg Finance LP