Antipodean Advisory

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May 2020 Market Wrap — Monday 1 June 2020

Markets have moved from *Highway to Hell* in March to *Back in Black* in April and May!

After April's record performance equity markets cut lose from the noose and continued to rally in May, as markets anticipated relief from a COIVD-19 driven economic slowdown. U.S stocks have staged a furious rebound since late March leaving global markets behind.

Optimism about state and business reopening's and the potential development of a coronavirus vaccine has lifted the S&P 500 36% from its March low, cutting its losses for the year to 5.8%. The index rallied 3% last week to cap its best two-month stretch since 2009.

The Stoxx Europe 600, meanwhile, is down 16% in 2020, and Hong Kong's Hang Seng Index is off 19%.

Investors point to a booming technology sector and an unprecedented amount of stimulus from the Federal Reserve as reasons for the outperformance. Cumulative percentage changes year to date NYSE FANG +Index 22.1%, Nasdaq Biotech Index 11.7%, Nasdaq Composite +5.8%.

U.S. market dominance isn't a recent phenomenon. The S&P 500 has outpaced most other stock indexes around the world since the financial crisis. The index has climbed 350% since March 9, 2009, while the MSCI All Country World Index, excluding U.S. stocks, has gained 89%

What does it all mean?

- Market starting to reaffirm the view that the global economy bottomed in April
- Consumer activity has also been recovering since mid-April and this improvement has been sustained into May
- Evidence points to retail being a big contributor to both the recent equity rally and to the pro-cyclical rotation
- Besides vaccine developments, global and quick coordination of fiscal & monetary policy actions has helped 'cure' the financial markets
- In addition to the lack of visibility in economic data, companies globally have pulled financial guidance this quarter. While many have read this as a negative, the lack of clarity has allowed investors to 'dream the dream."

What are the implications for investors?

- The path to recovery is uncertain: Consumer behaviour is unlikely to normalize anytime soon as the trauma of the pandemic and lockdown is likely to persist in an unanticipated way. Execution risks around the delivery of de-containment plans, which will create uncertainty and thus bouts of market volatility, whilst unprecedented employment loss will generate durable 'slack'.

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- We have passed the worst in terms of economic data and have thus started the repair phase of the cycle, which is traditionally a period of strong returns for growth assets. Also, a Covid-19 vaccine could create upside risk.
- Short term equity market direction remains uncertain, but ever-growing monetary and policy stimuli; and/or a quicker than expected recovery could cause markets to overshoot. The opportunity cost of being underinvested in the early stages of the recovery can be massive and I continue to recommend gradually rebuilding growth assets within portfolios. Heightened volatility will provide opportunities to average in.

On a personal note, be safe and enjoy the simple things.

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	+6.99%	+2.29%	-11.06%
Nasdaq	+10.28%	+27.33%	+5.76%
S&P 500	+7.55%	+10.62%	-5.77%
Russel 2000	+20.71%	-17.19%	-21.45%
Europe 600 Index	+3.04%	-12.55%	-18.23%
UK FTSE 100 Index	+5.44%	-5.07%	-15.75%
Hong Kong Hang Seng	-6.83%	-14.64%	-18.55%
Japan Nikkei 225	+11.51%	+6.20%	-7.52%
China Shanghai Composite	-0.27%	-1.60%	-6.48%
ASX 200 (Australia)	+4.36%	-6.70%	-16.70%

Australian Dollar

	Close	52 week Range
AUD	0.6664%	0.6463-0.7082%

Government Bonds

	Close	52 week Range
US 3 Month	0.145%	-0.076-2.376%
US 10 Years	0.641%	0.380 – 2.179%
US 30 Years	1.398%	0.692 – 2.678%
Australia 10 years	0.899%	0.570-1.717%

Source: Wall Street Journal.