IMPERIUM CAPITAL

momentum

Global Matters Weekly

3 August 2020

Spaghetti Western

– Lorenzo La Posta

“Year 1862: amid the chaos of the American Civil War, the three gunslingers Blondie, Angel Eyes and Tuco (a.k.a. the Good, the Bad and the Ugly [1]) are competing to put their hands on a buried cache of gold, but onl– “…wait! I got it wrong. It was something like: “Year 2020: amid the chaos of a global pandemic, some industries thrive (the Good) as others go through a rough patch (the Bad), while countries, economies and societies strive to recover from their wounds (the Ugly)”. This year, the outcomes have been more extreme than most Hollywood creations. Let’s just hope there will be no sequel to this tragic period.

Consumer behaviours have always changed, but they never did so at such a speed

In the final scene of the movie, Blondie is pointing his gun at Angel Eyes: is he going to kill him? Consumer behaviours have always changed, but they never did so at such a speed. Online shopping was already eating away at high-street retail and streaming services had been attracting people away from cinemas for a while when the coronavirus hit. Lockdowns, social distancing rules and contagion fears have forced people to change their habits and rapidly adapt to a new normal, accelerating some pre-existing trends.

In general, e-commerce, logistics, videoconferencing, online gaming & entertainment and pharmaceuticals were the absolute winners at the expense of airlines, cruise ships, trains, cinemas, traditional retail and tourism & hospitality. Electronic Arts, a videogame maker, posted a spectacular 87% sales growth and 468% earnings growth compared to 12 months before; Amazon reported +40% in sales, +97% in earnings; Netflix +25% and +165%; PayPal +22% and +48%; eBay +7% and +58%; Domino’s Pizza +13% and +36%. Most companies in the latter group, instead, suffered large losses and, despite the financial aid received by governments, some have failed to survive. As conditions begin to ease and people go back to their pre-COVID lives, some earnings are flowing back to the most harmed sectors, but the permanent consequences of the pandemic are still to be evaluated. Certainly, there will always be demand for shopping, holiday, entertainment and transportation related services but the nature and intensity of the demand are evolving and this will ultimately determine who is going to survive in a post-pandemic world. Evolution and creative destruction are necessary and, after all, “when a man with a pistol meets a man with a rifle, the man with a pistol will be a dead man” [2].

no country was left unharmed

In the same scene, Tuco (the Ugly) is tied into a hangman’s noose: is he going to break free? While some companies managed to take advantage of this crisis, no country was left unharmed and all suffered severe humanitarian costs and vast economic damage. The United States saw their GDP contract as much as -9.5% over Q2 (the worst quarterly data since the late 40s) and the unemployment rate jump from 4.4% to 14.7% in April, to then retrace to a still elevated 11.1% as of June. European countries suffered worse economic contractions but displayed better employment data: Germany, Italy, France, Spain reported respectively -10.1%, -12.4%, -13.8% and -18.5% change in GDP (quarter-on-quarter) with unemployment rates at 4.2%, 8.8%, 7.7% and 15.6%. As lockdowns are lifted across the globe and economies go back to some sort of ’normality‘, businesses are doing as much as possible to recover some of the losses and return to profitability. Market sentiment is improving, as reflected in expansionary manufacturing PMI numbers: between 51.0 to 53.5 in July 2020 for the five countries, compared to 30.8 to 36.1 in April. Governments and central banks have offered enormous monetary and fiscal support to real economies and financial markets, but the long-term damage to businesses, consumers and institutions themselves is still being assessed and ultimately depends on many factors, some of which are still very uncertain (speed/length of recovery, potential second waves, progress with vaccines etc…).

Spoiler alert! In the actual movie finale, Blondie kills Angel Eyes and runs away with half of the treasure, Tuco breaks free and keeps the remaining half. We do not take sides when discussing which companies should survive, but we hope for the best possible outcome for people, economies and societies.

[1] “The Good, the Bad and the Ugly”, Sergio Leone, 1966

[2] “A Fistful of Dollars”, Sergio Leone, 1964

The **Marketplace**

- The US Dollar had its worst month for a decade
- Moderna has begun its late-stage vaccine trial on 30,000 people in the US
- Brent crude fell -0.1% ending the week at $43.3 a barrel
- Gold rose 3.9% to end the week at an all-time high of $1975.9 an ounce

Market **Focus**

US

- The Fed announced they are extending most of their emergency lending programs until the end of the year
- Senate Republicans and Democrats are negotiating the $1tn relief package despite both opposing large areas of the bill
- The Conference Board's consumer confidence measure fell 5.7 points to 92.6 against 95.0 expected
- An antitrust panel in front of Congress took place, with the CEOs of Facebook, Twitter, Alphabet and Amazon being questioned on their use of consumer data.
- Initial weekly jobless claims rose for a second straight week to 1.43m against 1.44 expected for the week ending 25th July
- Q2 GDP collapsed -32.9% (annualised rate) against the consensus of -34.5%
- Q2 earnings have largely surprised to the upside so far with a number of companies still yet to announce
- Against this backdrop, US equities rose 1.7% and government bonds returned 0.4% last week

Europe

- The Euro area composite PMI was 54.8 for June against 51.1 expected
- Germany's GDP for Q2 was -10.1% against -9% expected – its biggest drop in 50 years
- The broader Euro area quarterly GDP fell by -12.1%, the largest decline on record
- European corporate earnings were mostly downbeat in Q2
- A rise in Covid-19 cases in Spain led to travel warnings, including a 14 day quarantine imposed on people in the UK for those returning from the country
- European equities fell -3.3%

UK

- The government agreed a deal with Sanofi and GlaxoSmithKline for 60 million doses of their Covid-19 vaccine
- London Heathrow airport announced their aim to test arrivals for Covid-19 by September if it can get government approval
- Approximately 10,000 people were given a dose of the AstraZeneca and University of Oxford experimental vaccine after an early study exhibited promising results
- UK equities fell -3.7%

Asia/Rest of The World

- Hong Kong is considering postponing September's legislative elections as the current outbreak is not yet under control
- Japan lowered its GDP growth forecast for the fiscal year ending March 2021 to a -4.5% contraction
- China reported over a hundred new cases overnight for the first time since the outbreak in Wuhan was brought under control

Past performance is not indicative of future returns.

Source: Bloomberg. Returns in local currency unless otherwise stated.

Asset Class/Region	Currency	Currency returns			
		Week ending 31 July 2020	Month to date	YTD 2020	12 months
Developed Market Equities					
United States	USD	1.7%	5.6%	2.0%	11.3%
United Kingdom	GBP	-3.7%	-4.5%	-21.5%	-20.7%
Continental Europe	EUR	-3.3%	-0.7%	-9.8%	-2.5%
Japan	JPY	-4.9%	-4.0%	-11.9%	-1.9%
Asia Pacific (ex Japan)	USD	1.8%	7.9%	1.3%	9.0%
Australia	AUD	-1.6%	0.5%	-10.0%	-9.9%
Global	USD	0.6%	4.8%	-1.3%	7.2%
Emerging markets equities					
Emerging Europe	USD	-2.3%	2.3%	-22.9%	-15.4%
Emerging Asia	USD	2.4%	9.7%	5.8%	16.9%
Emerging Latin America	USD	0.4%	10.9%	-28.1%	-25.2%
BRICs	USD	1.2%	9.6%	1.3%	10.3%
China	USD	1.8%	9.4%	13.3%	24.5%
MENA countries	USD	0.9%	1.7%	-14.9%	-16.4%
South Africa	USD	-2.2%	6.0%	-19.6%	-18.3%
India	USD	-1.2%	8.6%	-12.9%	-7.4%
Global emerging markets	USD	1.8%	8.9%	-1.7%	6.5%
Bonds					
US Treasuries	USD	0.4%	1.3%	10.6%	12.5%
US Treasuries (inflation protected)	USD	0.8%	2.5%	9.1%	11.1%
US Corporate (investment grade)	USD	0.2%	3.3%	8.4%	12.4%
US High Yield	USD	0.8%	4.7%	0.6%	4.1%
UK Gilts	GBP	0.5%	0.4%	10.3%	10.2%
UK Corporate (investment grade)	GBP	0.4%	2.0%	5.3%	6.7%
Euro Government Bonds	EUR	0.4%	1.1%	3.2%	2.2%
Euro Corporate (investment grade)	EUR	0.3%	1.5%	0.3%	-0.3%
Euro High Yield	EUR	-0.2%	1.7%	-3.6%	-1.2%
Japanese Government	JPY	0.2%	0.4%	-0.7%	-1.6%
Australian Government	AUD	0.3%	0.3%	4.4%	3.7%
Global Government Bonds	USD	1.1%	3.3%	8.1%	9.2%
Global Bonds	USD	1.0%	3.4%	7.2%	8.7%
Global Convertible Bonds	USD	1.4%	4.8%	9.9%	14.1%
Emerging Market Bonds	USD	0.4%	3.5%	3.0%	3.9%

Source: Bloomberg. Past performance is not indicative of future returns

Asset Class/Region	Currency	Currency returns			
		Week ending 31 July 2020	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	4.9%	4.0%	-15.7%	-11.5%
Australian Property Securities	AUD	-0.8%	0.6%	-22.4%	-26.0%
Asia Property Securities	USD	-1.3%	-1.1%	-19.5%	-15.7%
Global Property Securities	USD	2.5%	3.1%	-17.3%	-11.7%
Currencies					
Euro	USD	1.3%	4.9%	5.0%	6.0%
UK Pound Sterling	USD	2.5%	5.8%	-1.2%	7.2%
Japanese Yen	USD	-0.1%	1.9%	2.6%	2.6%
Australian Dollar	USD	0.8%	3.7%	1.7%	3.9%
South African Rand	USD	-2.1%	2.1%	-17.9%	-16.7%
Swiss Franc	USD	1.0%	3.7%	5.8%	8.4%
Chinese Yuan	USD	0.6%	1.3%	-0.2%	-1.3%
Commodities & Alternatives					
Commodities	USD	-0.1%	5.2%	-21.7%	-18.3%
Agricultural Commodities	USD	0.8%	3.6%	-7.8%	-2.9%
Oil	USD	-0.1%	5.2%	-34.4%	-33.6%
Gold	USD	3.9%	10.8%	29.8%	38.7%
Hedge funds	USD	0.1%	1.3%	0.1%	3.6%

Source: Bloomberg. Past performance is not indicative of future returns

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