DZWMG Update – April 17, 2020

This week was marked by ongoing progress in the fight to contain the spread of the coronavirus and restart the global economy, a much needed global oil production agreement, and the kick off to the earnings season. We provide a summary below.

Coronavirus and exit strategies

Positively, the trend of decelerating new case counts across countries like Italy, Spain, and Germany continue, enabling them to slowly ease certain lockdown restrictions. Meanwhile, there are encouraging signs that North America may be close to entering this new phase, though it feels premature to say this conclusively. But, there remain other countries – the United Kingdom, France, Turkey, India, and Brazil for example – where new case count has not shown evidence of slowing. Furthermore, Japan and Singapore have seen a reacceleration in cases forcing an escalation of restrictive measures. Nevertheless, the question appears to be gradually shifting from "when will we see a peak in the rate of daily new cases" to "when, how, and to what degree will the lockdowns and social distancing measures get lifted"? The U.S. federal government unveiled a "3 phase" approach to easing its restrictions with guidelines and case trends and testing criteria. It also confirmed it is up to U.S. state governors to decide when and ultimately how take action.

The progress is encouraging given the outlook was relatively bleak just a few weeks ago. But, it remains to be seen how quickly people's behaviour may return to "normal" until effective treatments or vaccines are readily available. On this front, there have been encouraging developments as well but it is likely too speculative at this point to make any conclusions.

Oil agreement has limited impact for now

In March, oil prices fell dramatically as a result of a combination of the pandemic and a standoff between two of the world's largest oil producers: Saudi Arabia and Russia. Under meaningful pressure, they, along with a number of other oil producing countries, came to an agreement over the past week on coordinated production cuts that last through 2022. The market's reaction was muted as investors are rightfully preoccupied with weak demand that is occurring as a result of the global economic lockdown. But, this agreement is very important in that it should help avert a worst case outcome - breaching the global storage capacity - that could have resulted in even greater pressure on oil prices.

Earnings come in to focus

This week marked the start of the first quarter earnings season. Expectations are low and are even worse for the next quarter given anticipation the global economic weakness may persist for the bulk of April, May, and June. The U.S. banks were the focal point this week as several of them reported results. Unsurprisingly, they were not good. Most are building large reserves of capital in anticipation of future loan losses as unemployment rises and businesses customers may have difficulty repaying outstanding debt. Fortunately, the North American banking system is much better capitalized compared to the last recession which should help them weather this economic storm. The challenge for investors, and bankers, lies in trying to assess how long this one may last. Should it extend beyond the month of June, more reserves may be needed.

Hundreds of other companies are expected to report results and provide updated commentary on the economic backdrop in the weeks to come. It's hard to imagine these businesses having any more insight into when the economic challenges will subside. As a result, we continue to expect uncertainty and volatility to remain elevated for the time being.

Should you have any questions or concerns, please feel free to reach out.