BLACK OAK

FAMILY OFFICE

Economic Review – February 2020

Fear of a worldwide-uncontrolled spread of the coronavirus and its impact on the global growth weighed heavily on financial markets in February. Equity markets fell significantly whereas assets like government bonds, gold, the Japanese yen and the swiss franc fulfilled their safe haven role.

- After a start the month on a strong note. The S&P 500 Index indeed set a new record high on robust economic data and President Trump's acquittal in the final impeachment vote, US equities. However, a rising number of coronavirus cases prompted one of the sharpest US stock market sell-offs in history later in the month, raising concerns over supply chain disruption and economic growth. Amid a broad market sell-off, all areas of the market were lower, with energy and financials among the hardest hit. Utilities – traditionally more defensive – also struggled.

- European markets also experienced a sharp fall in February with coronavirus worries weighing on shares. Concerns overs its impact on the travel and business activity fragilized the eurozone economy and raised fear of a recession. The MSCI EMU Index lost -7.9%. In response to the coronavirus worries, European Central Bank President Christine Lagarde said the central bank is monitoring the situation, adding that the crisis is not so far having a lasting impact on inflation and so does not require a central bank response as yet.

- The Japanese market has not been immune from the coronavirus situation and fell 10.2% in February, with almost all of the decline occurred in the last four days of the month. During those four days, the Japanese yen appreciated sharply, fulfilling its traditional role as a safe haven at times of uncertainty.

- The spread of the coronavirus increased fears of a global recession, pushing down government bond yields with US 10- and 30-year Treasury yields hitting record lows. he 10-year German government bond yield fell to -0.61%, from -0.44%, and the UK's 10-year bond yield fell to 0.44% from 0.52%. Meanwhile, the Italian 10-year yield increased from 0.92% to 1.13% and Spain's rose from 0.23% to 0.28%, selling off in the final week of the month. Investment grade corporate bonds were to some extent cushioned by falling global yields, but substantially underperformed government bonds. High yield corporate bonds were weak, with US energy hit particularly hard, given the sharp fall in oil prices.