

The month ahead – May 2020

After a bumpy start to the year, equity markets bounced back with a strong April, with markets in the US, New Zealand and Australia rising as much as 10% and trading to their highest levels since mid-March.

However, as global COVID-19 (coronavirus) cases surpass 3 million and the economic fallout still looking severe, we remain cautious.

As we head into May, the focus will continue to be on coronavirus and the impact on the global economy. Economic data, improvements on the health front and central bank meetings are just a handful of key themes and events ANZ is following this May.

US EMPLOYMENT SECTOR DATA

The first piece of noteworthy economic data on the calendar will be the US employment report for April, released 8 May. The monthly nonfarm payrolls report is the barometer for the US jobs sector, and after a negative reading in March – the first monthly job loss in over 100 months – it is looking like a second monthly decline is on the cards. As for the unemployment rate, most economists see it rising to somewhere between 5% and 10%.

Elsewhere on the employment front, US weekly jobless claims data will serve as another ongoing barometer of the sector with more than 25 million people filing for unemployment benefits in the five weeks ending 18 April.

OTHER KEY ECONOMIC DATA POINTS

There is a host of economic data, both in New Zealand and offshore, that will give us a closer insight into the economic damage coronavirus has had on various sectors. Some key data points we are tracking in May include:

- 4 May: China Caixin PMI (Purchasing Managers' Index), a gauge of the manufacturing and service sector
- 14 May: Australian employment report
- 14 May: New Zealand visitor arrivals
- 15 May: China retail sales and employment report
- 16 May: US retail sales, industrial production and Michigan consumer sentiment
- 28 May: US first-quarter GDP (revised)

A POTENTIAL PEAKE IN CORONAVIRUS CASES

On the health front, there have been some signs of plateauing of coronavirus cases in major hotspots, including Italy, Spain, France and New York City. However, with a highly-transmissible infectious disease, and so much still unknown, we will continue to monitor the outbreak, looking for signs these hotspots have in fact peaked.

WHAT HAPPENS WHEN BUSINESSES REOPEN?

On the heels of the plateauing number of coronavirus cases, countries have begun slowly opening up businesses and lifting restrictions on the movement of people. As this plays out, we will be closely monitoring the extent of the pickup in economic activity and spending, especially given the sharp decline in retail spending over the past two months and the surge in unemployment.

Furthermore, as these restrictions ease, we will be looking for any potential pickup, or 'second wave' of cases as the economy looks to restart.

CENTRAL BANK MEETINGS

In May, both the Reserve Bank of New Zealand (13 May) and Reserve Bank of Australia (5 May) will meet to set monetary policy. With both central banks having aggressively cut rates earlier in the year, investors may focus on the communication and any forward guidance offered by either central bank. However, in saying this, a rate cut by either central bank is not off the cards.

In May, central banks in the UK and China will also meet.

WE SEE LONG-TERM VALUE

As of 30 April, we hold an overweight position in international equities. While volatility remains elevated, we feel the first-quarter selloff reached levels where quality companies were trading at attractive prices on a long-term basis.

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