Market Overview

Update

29 April 2020

- **Italy cut to BBB**
- **FOMC Wednesday**

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Italy cut to BBB:

Just over 3.1 million cases have now been reported globally, that's 2.4% higher than yesterday's overall number. Global fatalities are up by 2.9% to just under 217,000. Amidst the hit to economic activity and a worsening in the fiscal outlook Fitch made the surprise, unscheduled move in cutting Italy's sovereign rating one notch to BBB-, whilst the outlook was revised to stable from negative. This move will likely put upward pressure on Italian yields again following the relief in recent days after S&P's decision not to cut Italy's rating at the end of last week. In the broader European context the main story continues to focus on the relaxation of lockdown rules. Yesterday it was announced that both France and Spain would further reopen their economies on the 11 May. In France businesses other than restaurants, cafes and museums could reopen, public transport will also be resumed, whilst schools will see a phased reopening. In Spain the Prime Minister announced a phased return to a 'new normal', which would include the reopening of restaurants with outside terraces and some smaller shops during the first phase. Schools however may not reopen until September. Additionally an easing of restrictions was announced in both Portugal (3 May) and Greece (4 May). In the UK the current extended lockdown period is scheduled to end on the 7 May but speculation and rumours continue to swirl over a possible easing of restrictions.

FOMC Wednesday:

After two unscheduled meetings on 3 and 15 March, convened as the Covid-19 disruption (to financial markets and the economy) ramped up in the United States, the Federal Open Market Committee (FOMC) holds its regular April policy meeting today. The decision is due at 19:00 this evening and will be followed by Fed Chair Jerome Powell's post-meeting press conference. There will be no updated economic projections (i.e. don't expect a dot plot) this time. We suspect the Fed is looking forward to a slightly less frantic but by no means peaceful gathering. Indeed, comments from Fed participants in recent days suggest they have been reassured by the settling in market strains. Our expectation is that we will not see adjustments to the main policy stance announced. Indeed the Federal funds rate has already been lowered to its current 0-0.25% rate over the course of the two unscheduled March meetings. We expect it to be held at this level. The Fed has also put its QE programme back into operation and has since announced that it is effectively open ended. Guidance is likely to be sought from the Fed Chair Powell on what further policy support, if any can, be expected over the months ahead. Here again the Fed chief is unlikely to want to be precise. Our best guess is he will repeat comments such as those included in his 9 April speech on COVID-19 and the Economy where he said "we are doing all we can" and those included in statements as recent response initiatives have been deployed. These include a promise to "use its full range of tools to support the U.S. economy in this challenging time".

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