Market Bulletin

1 September 2020

Monitoring the global impact of Covid-19

Updated twice a week

Covid-19 has rocked the global economy and markets. Monitoring its impact requires a new dataset to that which we've traditionally used to track the economic cycle. In this tracker we provide the data we think investors should be focused on – the latest virus statistics, high-frequency activity and unemployment data. The charts are updated twice a week, with the latest version always available here.

Investment implications

This recession has been unusual for many reasons. For markets – the most striking feature has been the extent to which it has created winners and losers. Those companies that have provided the solutions to 'life at home' such as tech and e-commerce have seen revenues increase significantly. Industries that require close social proximity continue to suffer. Low interest rates have compounded the dispersion by providing an additional boost to growth stocks whose future revenues are now barely discounted (**EXHIBIT 1**).

Given second waves are increasingly evident it seems a vaccine will be required before life can truly return to normal. At this point we might expect to see a rotation from stocks in regions that are tech centric, such as the US, towards Europe and EM.

Time is, however, of the essence. The longer the period of weakness, the greater the risk of lasting scars such as unemployment. Extension of government support schemes will be essential to bridge the gap before a vaccine is viable.

At this stage, given the uncertainties, a relatively neutral asset allocation to risk with diversification across regions makes sense in our view. The tech-heavy US markets are likely to continue to outperform during a period of weakness but more value-orientated regions could bounce strongly if a vaccine becomes widely available.

Within both equities and credit, we favour an "up-in-quality approach", focusing on those companies with robust balance sheets who have the financial flexibility to survive this shock. Given significant further upside for US Treasuries and UK Gilts appears limited from here investors may wish to consider alternative diversifiers such as macro funds, or real assets if liquidity is not a requirement.
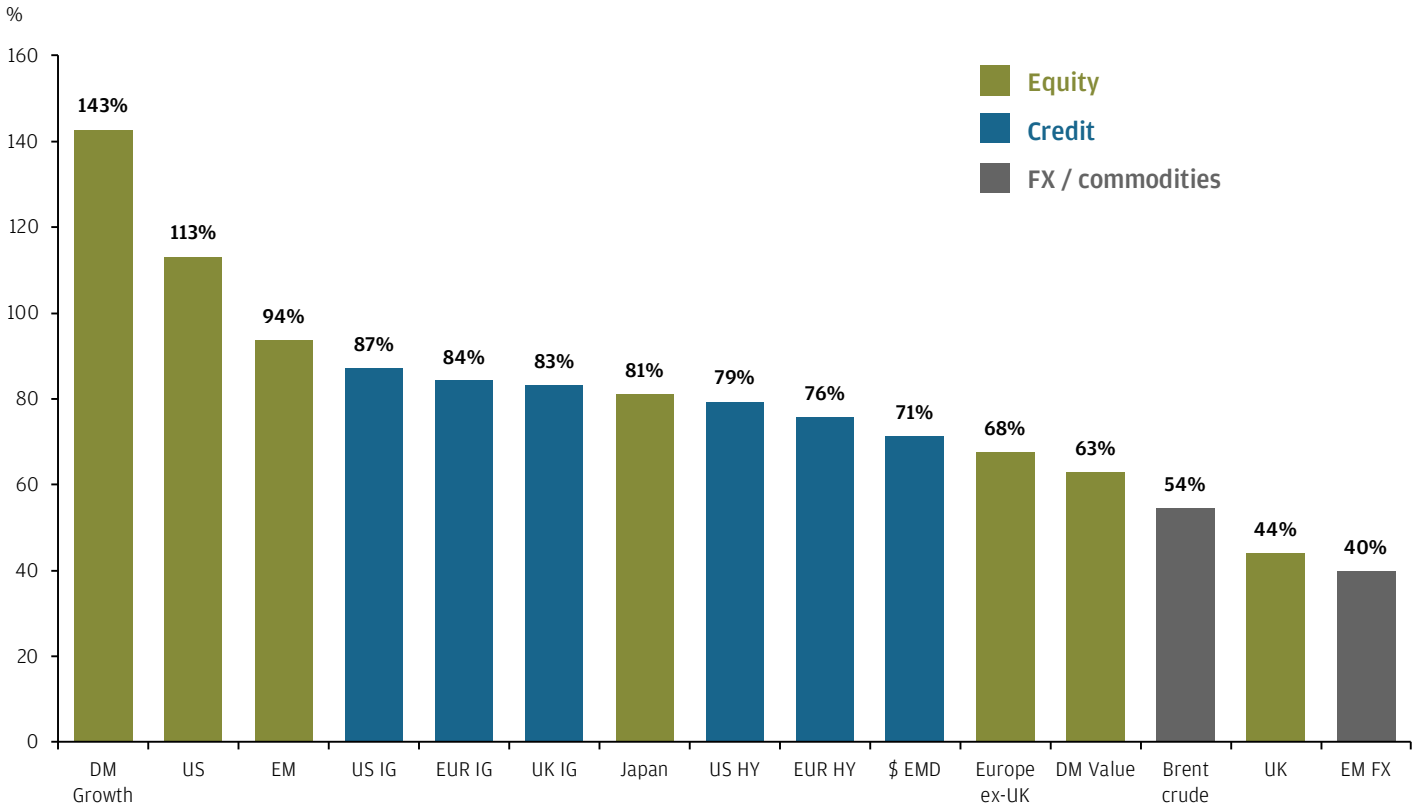
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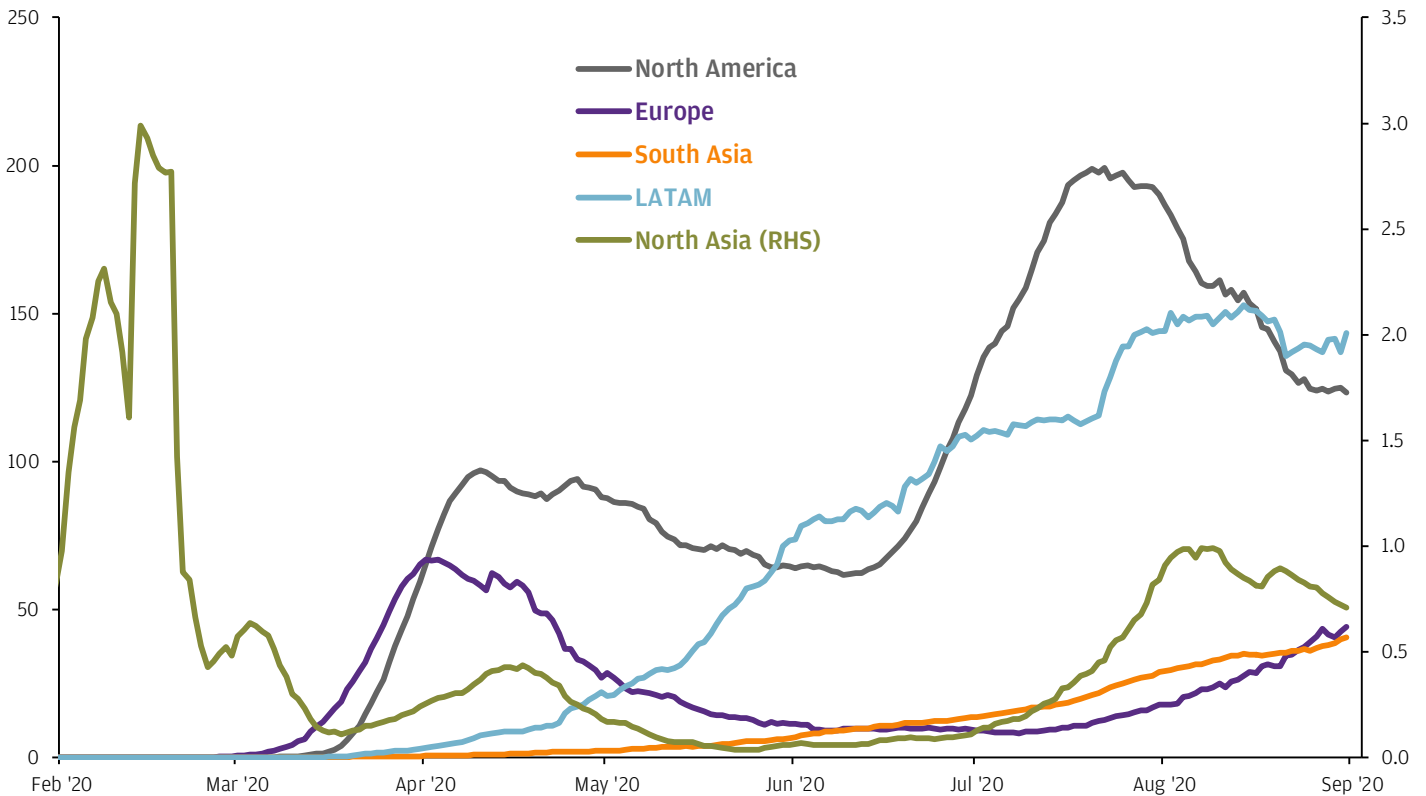J.P.Morgan
Asset Management

EXHIBIT 1: PROPORTION OF 2020 LOSSES RECOVERED ACROSS ASSET CLASSES
%

Source: Bloomberg Barclays, FTSE, J.P. Morgan Global Economic Research, MSCI, Standard & Poor's, Refinitiv Datastream, J.P. Morgan Asset Management. Recovery calculated as total returns in local currency for equity markets (with the exception of EM which is shown in USD), spreads for credit, US dollar per barrel for Brent crude oil, and EM FX is shown versus USD. MSCI indexes used for equities except US: S&P 500 and UK: FTSE All-Share. Bloomberg Barclays indexes used for credit except $ EMD which is the JP Morgan EMBI Global Diversified Index. JP Morgan EM FX index used for EM FX. Past performance is not a reliable indicator of current and future results. Data as of 31 August 2020.

EXHIBIT 2: GLOBAL COVID-19 DAILY INCREASE IN CASES
Seven-day moving average, per million population

Source: Johns Hopkins CSSE, J.P. Morgan Asset Management. Cases include both laboratory confirmed and 'presumptive positive' cases. Europe includes countries in the EU27 plus Switzerland and the UK. North Asia includes data from: China, Hong Kong, Taiwan, Japan, and South Korea. South Asia includes data from: Bangladesh, India, Indonesia, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, and Vietnam. Data as of 31 August 2020.
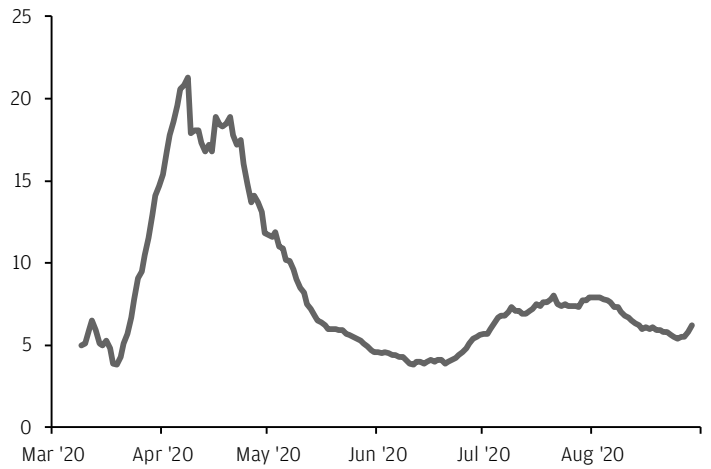
US

EXHIBIT 3: US COVID-19 DAILY INCREASE IN CASES AND TESTING POSITIVITY

New cases per million population, 7-day moving average
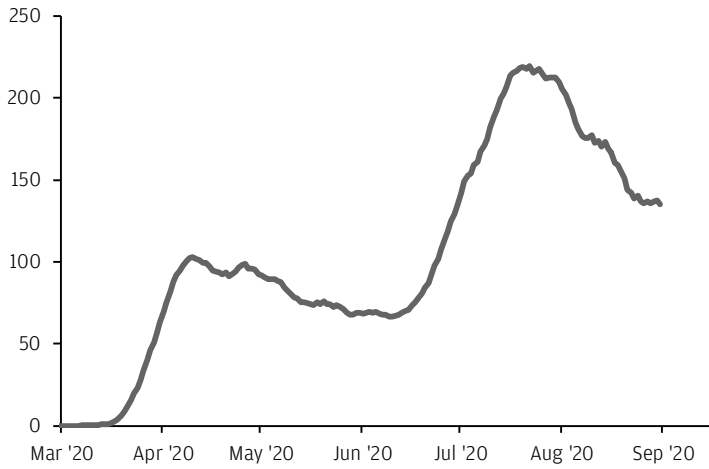
Percentage of Covid-19 tests that are positive, 7-day moving average

Source: Johns Hopkins CSSE, Our World in Data, J.P. Morgan Asset Management. Cases include both laboratory confirmed and 'presumptive positive' cases. Data as of 31 August 2020.

EXHIBIT 4: US TRAVEL AND NAVIGATION APP USAGE AND GOOGLE COMMUNITY MOBILITY

Travel and navigation app usage, % of 2019 average
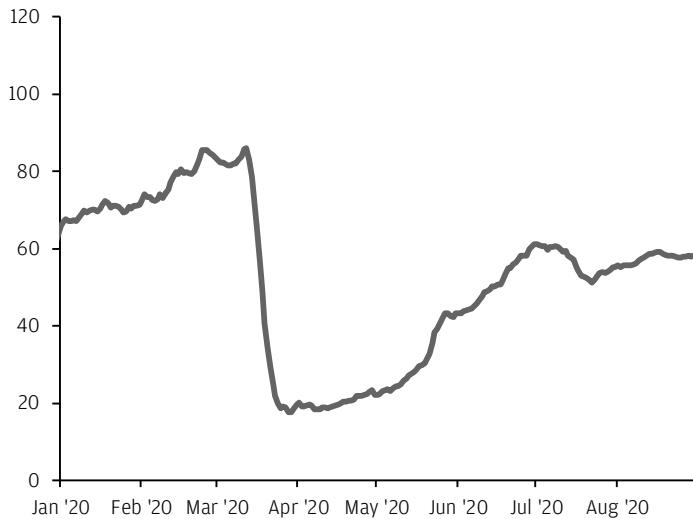
Google community mobility, % from baseline activity
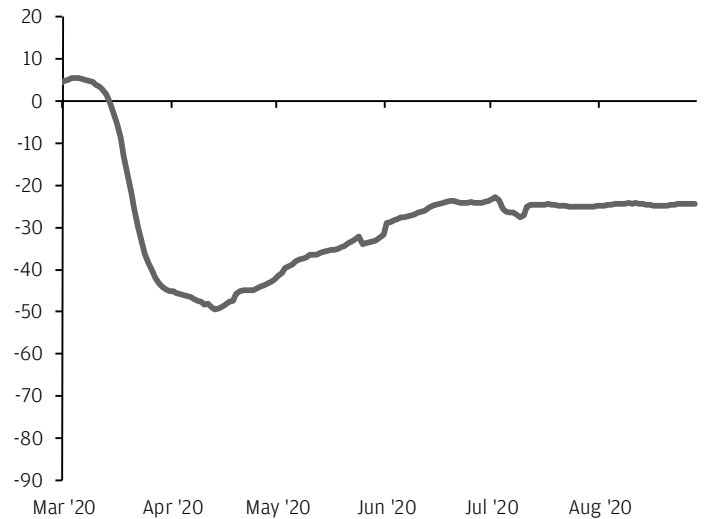
Source: App Annie, Google, J.P. Morgan Asset Management. Google community mobility data is an average of scores for workplaces, transit stations and retail and recreation. Travel app usage data as of 30 August 2020 and Google community mobility data as of 28 August 2020.

EXHIBIT 5: US UNEMPLOYMENT BREAKDOWN AND INITIAL AND CONTINUING CLAIMS

US unemployment breakdown, thousands of people

Temporary layoffs

Permanent layoffs
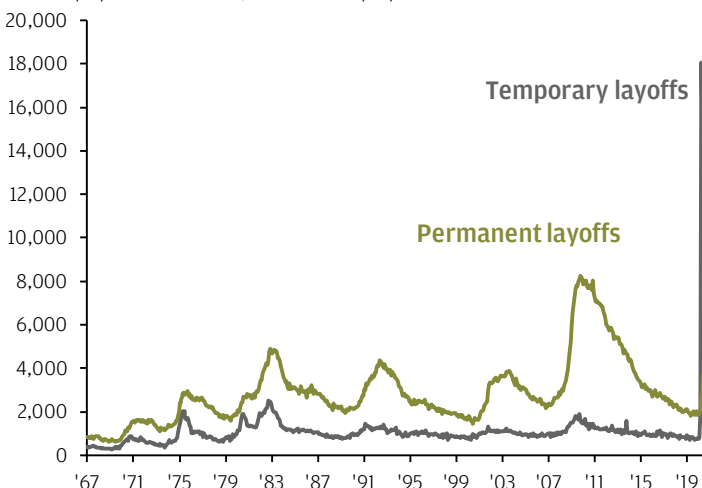
Weekly initial and continuing claims for unemployment insurance, thousands of people

Continuing claims

Initial claims
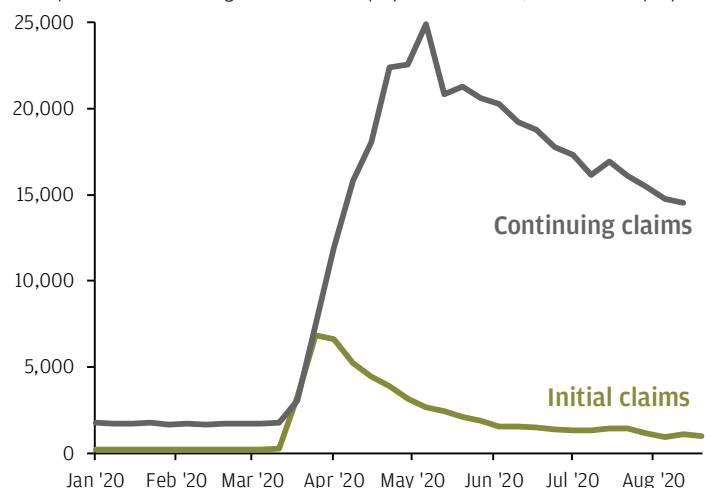
Source: BLS, Refinitiv Datastream, J.P. Morgan Asset Management. Data as of 22 August 2020.
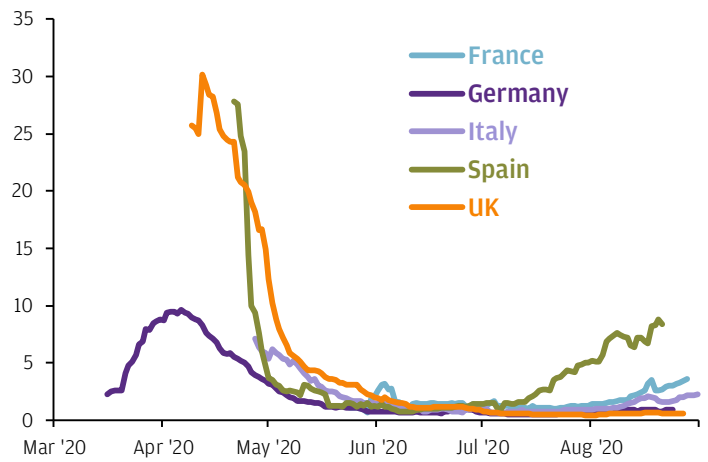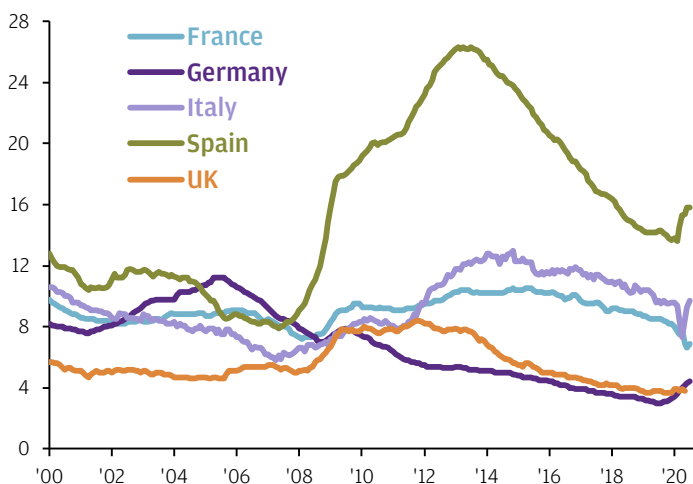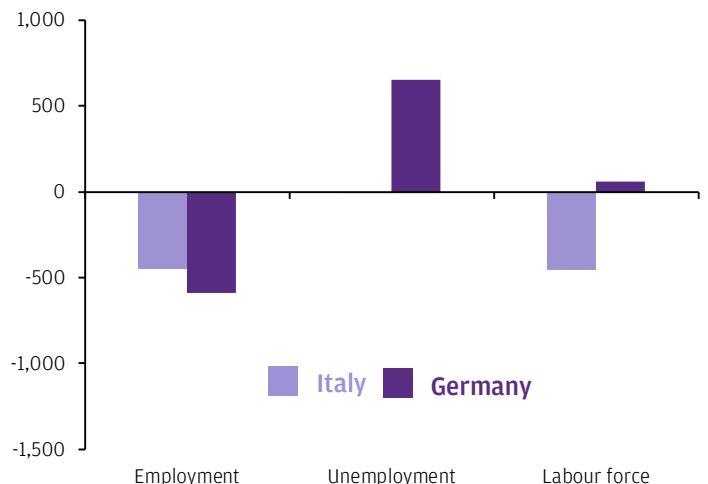
Europe

EXHIBIT 6: EUROPE COVID-19 DAILY INCREASE IN CASES AND TESTING POSITIVITY

New cases per million population, 7-day moving average
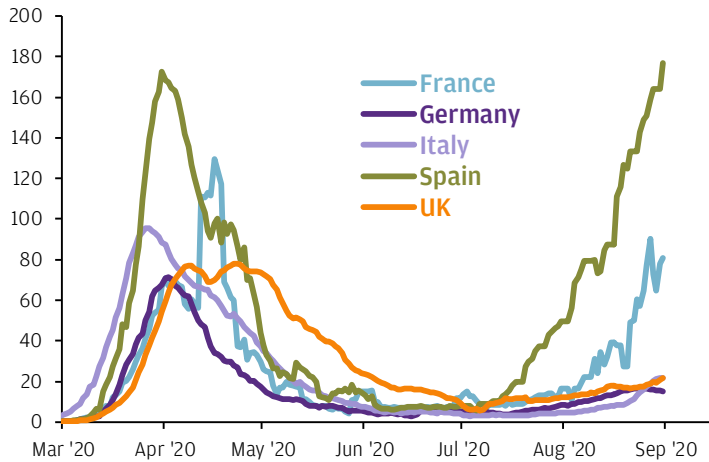
Percentage of Covid-19 tests that are positive, 7-day moving average

Source: Johns Hopkins CSSE, Our World in Data, J.P. Morgan Asset Management. Cases include both laboratory confirmed and 'presumptive positive' cases. Data as of 31 August 2020.

EXHIBIT 7: EUROPE TRAVEL AND NAVIGATION APP USAGE AND GOOGLE COMMUNITY MOBILITY

Travel and navigation app usage, % of 2019 average
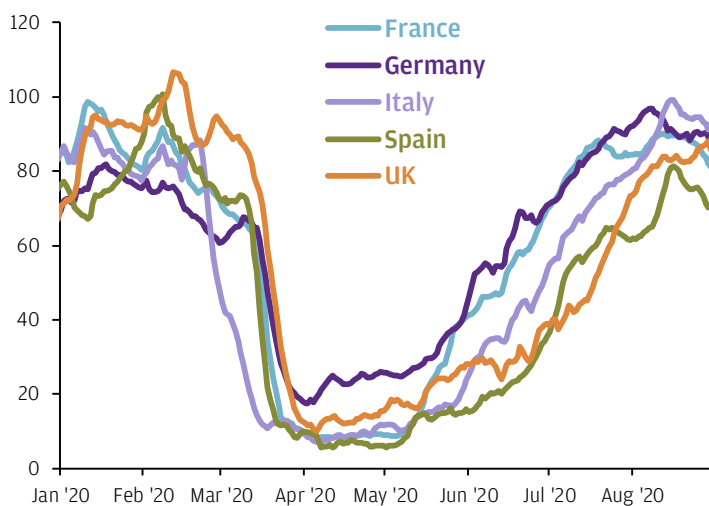
Google community mobility, % from baseline activity
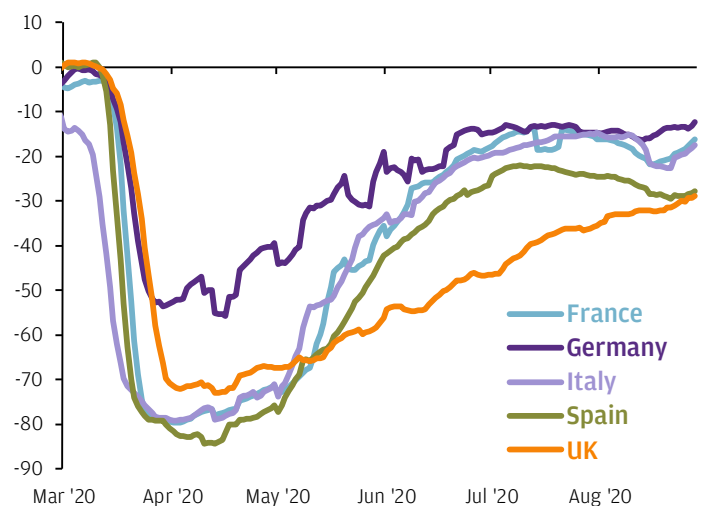
Source: App Annie, Google, J.P. Morgan Asset Management. Google community mobility data is an average of scores for workplaces, transit stations and retail and recreation. Travel app usage data as of 30 August 2020 and Google community mobility data as of 28 August 2020.

EXHIBIT 8: EUROPE UNEMPLOYMENT RATES AND ITALIAN AND GERMAN EMPLOYMENT DETAIL

Europe unemployment rates, %

Change between July and January 2020, thousands of people

Source: (Left) Eurostat, Refinitiv Datastream, J.P. Morgan Asset Management. (Right) Bundesagentur für Arbeit, Italy National Institute of Statistics, Refinitiv Datastream, J.P. Morgan Asset Management. Germany labour force data is calculated as the sum of employment and unemployment. Data as of 31 July 2020.
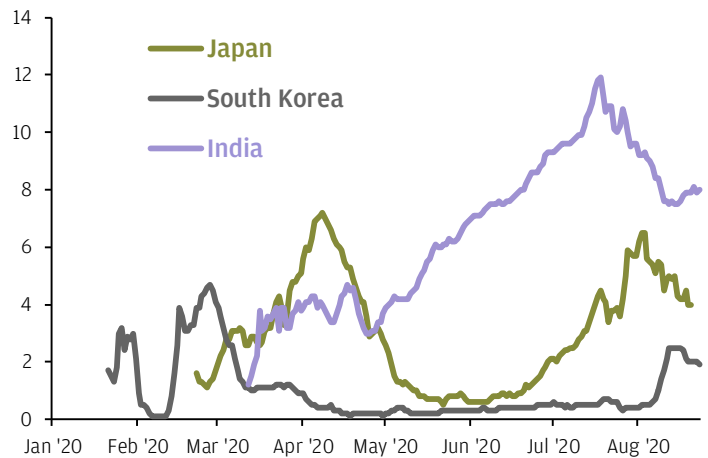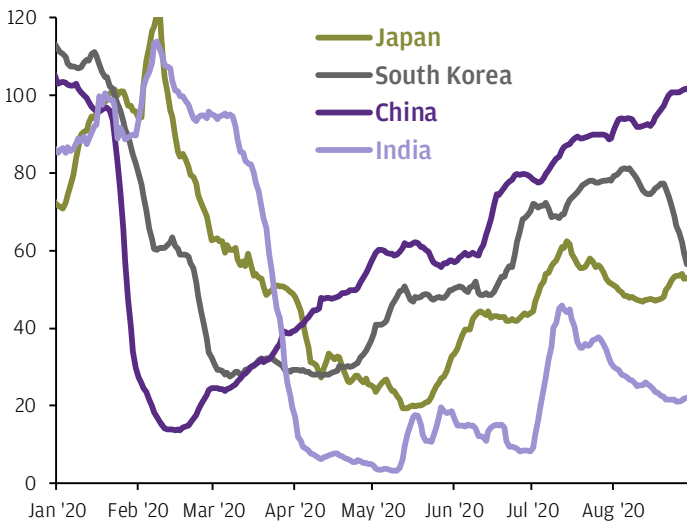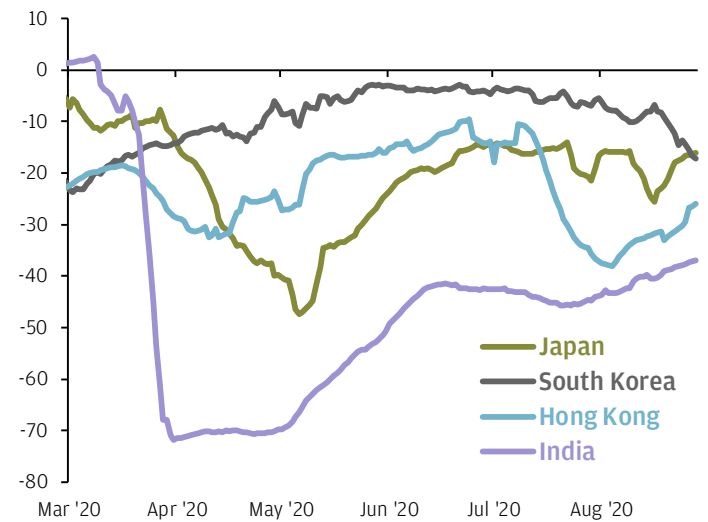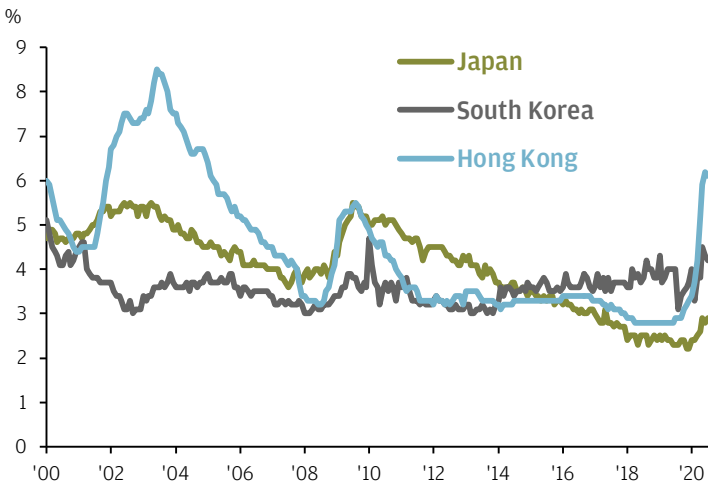
Asia

EXHIBIT 9: ASIA COVID-19 DAILY INCREASE IN CASES AND TESTING POSITIVITY

New cases per million population, 7-day moving average
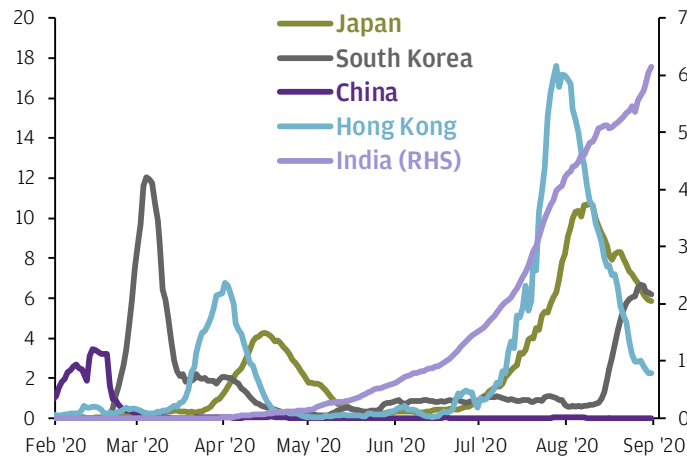
Percentage of Covid-19 tests that are positive, 7-day moving average

Source: Johns Hopkins CSSE, Our World in Data, J.P. Morgan Asset Management. Cases include both laboratory confirmed and 'presumptive positive' cases.
Data as of 31 August 2020.

EXHIBIT 10: ASIA TRAVEL AND NAVIGATION APP USAGE AND GOOGLE COMMUNITY MOBILITY

Travel and navigation app usage, % of 2019 average

Google community mobility, % from baseline activity

Source: App Annie, Google, J.P. Morgan Asset Management. Google community mobility data is an average of scores for workplaces, transit stations and retail and recreation. Travel app usage data as of 30 August 2020 and Google community mobility data as of 28 August 2020.

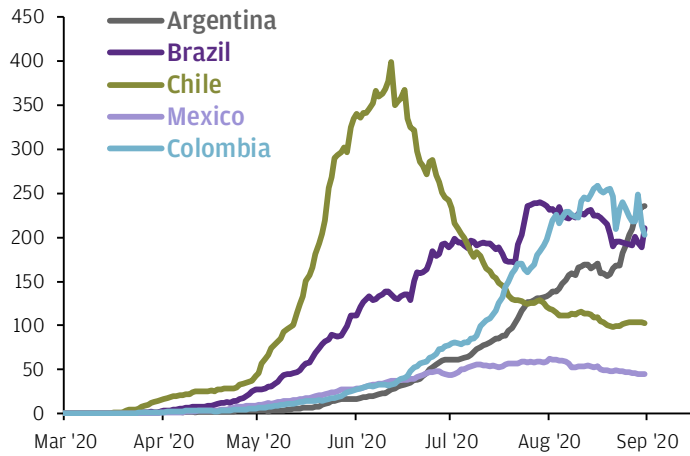**EXHIBIT 11: ASIA UNEMPLOYMENT RATES**

%

Source: Hong Kong Census and Statistics Department, Japan Statistics Bureau, Refinitiv Datastream, Statistics Korea, J.P. Morgan Asset Management.
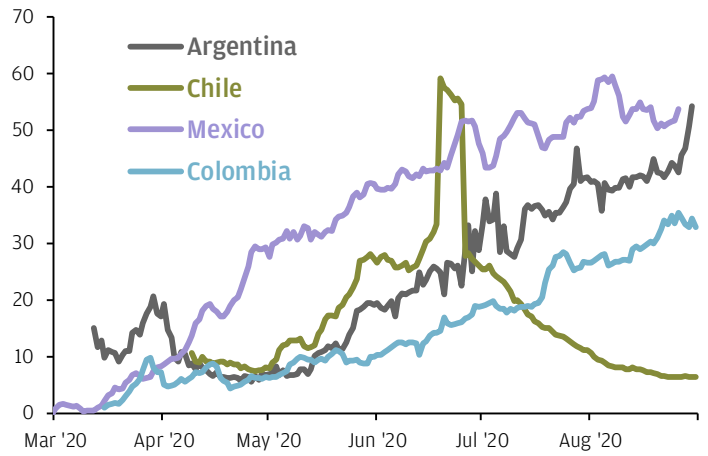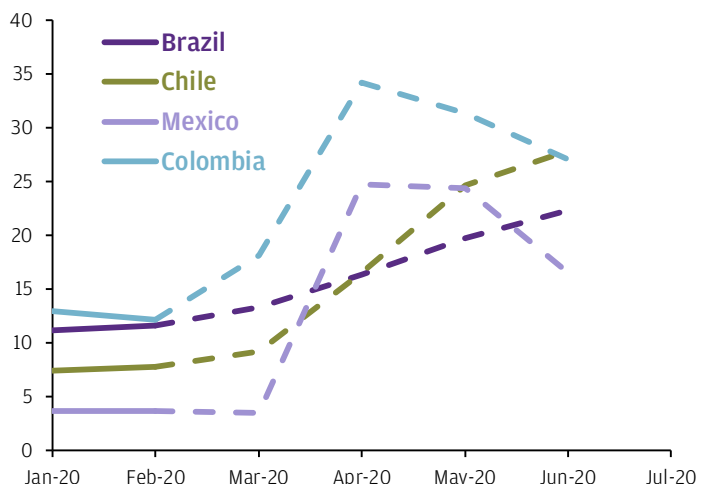Data as of 31 July 2020.

Latin America

EXHIBIT 12: LATIN AMERICA COVID-19 DAILY INCREASE IN CASES AND TESTING POSITIVITY

New cases per million population, 7-day moving average

Percentage of Covid-19 tests that are positive, 7-day moving average

Source: Johns Hopkins CSSE, Our World in Data, J.P. Morgan Asset Management. Cases include both laboratory confirmed and 'presumptive positive' cases. Data as of 31 August 2020.

EXHIBIT 13: LATIN AMERICA TRAVEL AND NAVIGATION APP USAGE AND GOOGLE COMMUNITY MOBILITY

Travel and navigation app usage, % of 2019 average
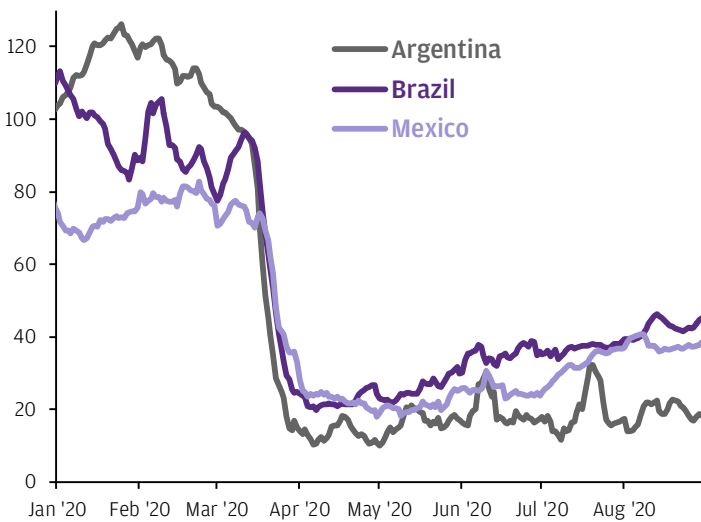
Google community mobility, % from baseline activity
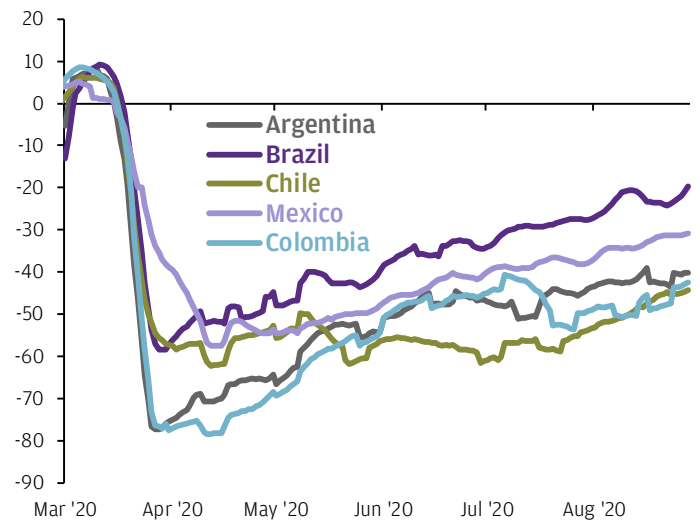
Source: App Annie, Google, J.P. Morgan Asset Management. Google community mobility data is an average of scores for workplaces, transit stations and retail and recreation. Travel app usage data as of 30 August 2020 and Google community mobility data as of 28 August 2020.

EXHIBIT 14: LATIN AMERICA OFFICIAL AND SHADOW UNEMPLOYMENT RATES

Official unemployment rates, %
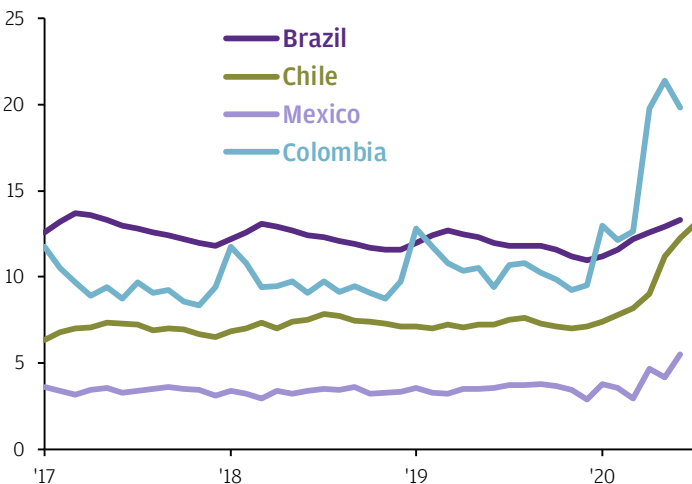
Shadow unemployment rates, %

Source: DANE, FactSet, IBGE, INEGI, INE, Central Bank of Colombia, J.P. Morgan Asset Management. Shadow unemployment rates are calculated based on the assumption that participation rates are kept constant since February 2020. Data as of 31 July 2020.

The tracker explained

Market performance

In the face of the biggest economic crisis since the Great Depression, the market reaction has been highly differentiated between asset classes. Some asset classes have clearly benefitted more from the nature of the policy announcements, while other asset classes have been more challenged by the new economic environment.

We show the extent to which different equity, credit, commodity and FX markets, have recovered from their maximum drawdowns earlier on in the year. For equity markets we show the proportion of the maximum total return drawdown this year that has been recovered. For credit markets we show the proportion of the maximum spread widening this year that has been recovered. For Brent crude oil and emerging markets FX we show the proportion of the maximum decline in the price this year that has been recovered.

Virus statistics

Following how the health crisis is evolving in each country is a key component in understanding an economy's ability to recover. Since the outbreak of the Covid-19 crisis, it has become clear that a country's ability to reopen its economy can be significantly affected by the state of the health crisis. This is because a higher prevalence of the virus in a country can lead to governments implementing more containment measures, such as travel restrictions or the shutting of bars and restaurants, in order to limit the health impact of the virus. A higher prevalence of the virus can also cause businesses and individuals to exercise more caution, which can limit the extent to which activity can normalise.

We are therefore closely watching both the increase in new cases and the testing positivity ratios for each country, in order to understand how the prevalence of the virus is evolving. A low testing positivity ratio indicates that a country is carrying out a large number of tests relative to the number of infections in the community. This means that there is a good understanding of exactly who has the virus and subsequent outbreaks are more easily contained from these levels.

High-frequency activity data

The unique nature of the Covid-19 crisis has meant that economic activity is significantly influenced by how much people are physically going out and about. In order to understand this we need to follow alternative data sources to the historical economic releases, and so we use high-frequency activity data that can help us understand in real time the extent to which economies are getting back to normal.

We show travel and navigation app usage, which looks at data from over 600 travel and navigation apps globally, including Google Maps, Uber, Airbnb and Booking.com, and helps us to understand the extent to which consumers are getting back to normal. The charts compare app usage relative to the average for 2019.

We also show Google community mobility data which uses consumers' anonymised location data to see how much consumers are visiting different places. We use an average of the scores for visits to workplaces, transit stations, and retail and recreation places as a gauge of economic normality. The charts show activity level relative to a baseline calculated from a five-week period at the beginning of this year.

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