Blankstone Sington

MARKET REPORT

Wednesday 1st April 2020

Market Headlines

US President Trump warned Americans to brace for some very painful weeks ahead during the pandemic, whilst Democratic Senators argued with the White House over a key provision in the $2tr rescue package.

UN Secretary General António Guterres warned that the coronavirus outbreak was the biggest challenge for the world since World War Two.

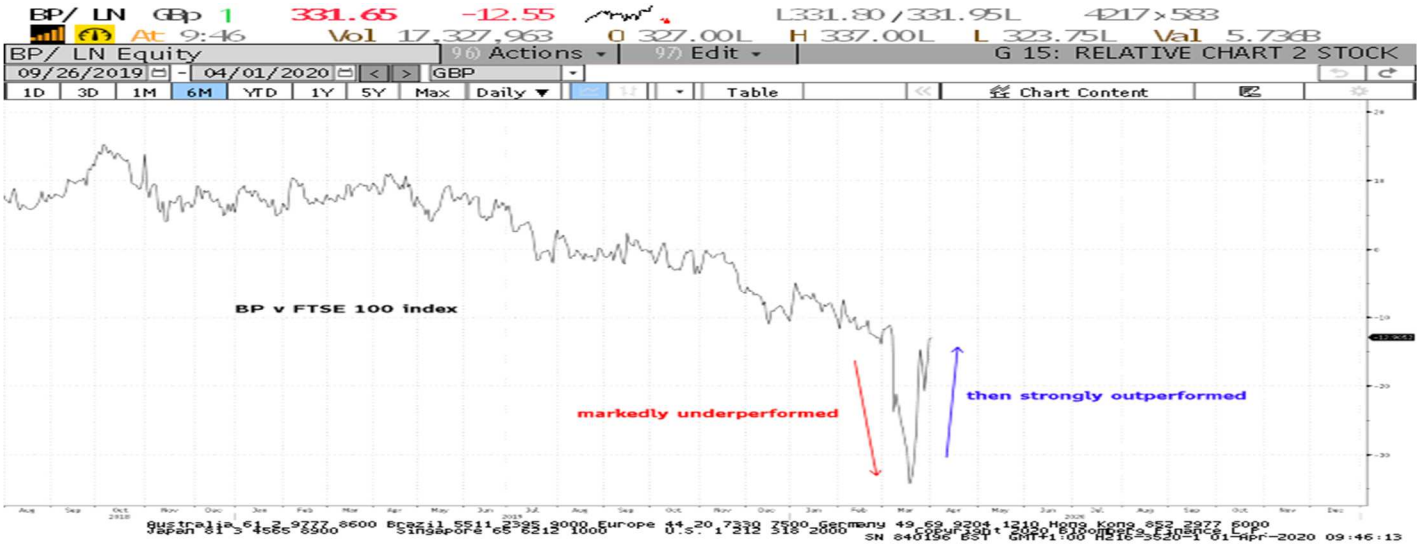
China's Caixin manufacturing purchasing managers index rose to 50.1 in March from 40.3 in February, ahead of forecasts, as factory production got back on track. Over 50 indicates expansion.

The S&P500 closed down 1.6% whilst in Asia the Nikkei 225 slumped 4.5%, the Hang Seng fell 2.5% and the Shanghai Composite dropped 0.6%.

The UK blue chip index opened deeply in negative territory as the banks scrapped their dividends to shore up their balance sheets as requested by the Bank of England.

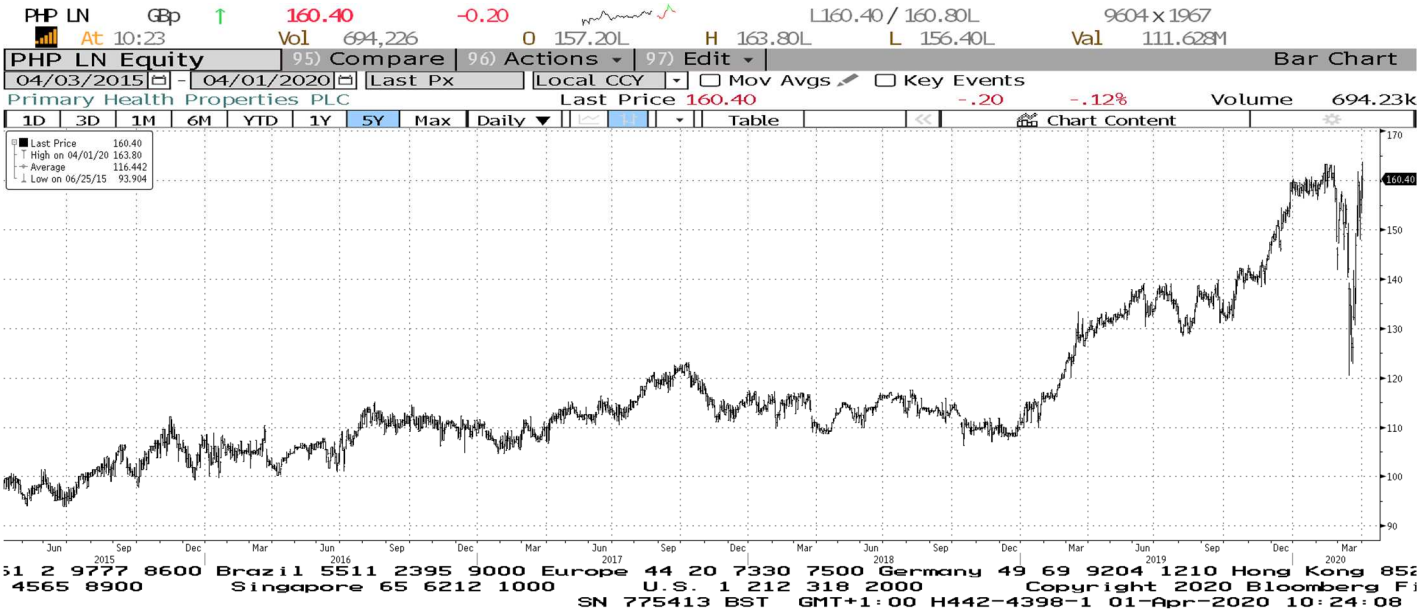
Investments on our buy list

BP (BP/) – the group announced the measures it had taken in response to the current crisis. Many are admirable – such as allowing emergency services vehicles to refuel for free at its service stations in the U.K., providing fuel vouchers to German healthcare workers, and promising job security for its employees in the short-term. It has also cut capex to preserve cash, whilst noting that it has $32 billion of cash and undrawn bank facilities available. The shares have outperformed since mid-March but for this to continue the oil price needs to rally. With Trump encouraging talks between the U.S. Russia and Saudi Arabia, there is a chance some kind of output cut may be negotiated.



Source: Bloomberg

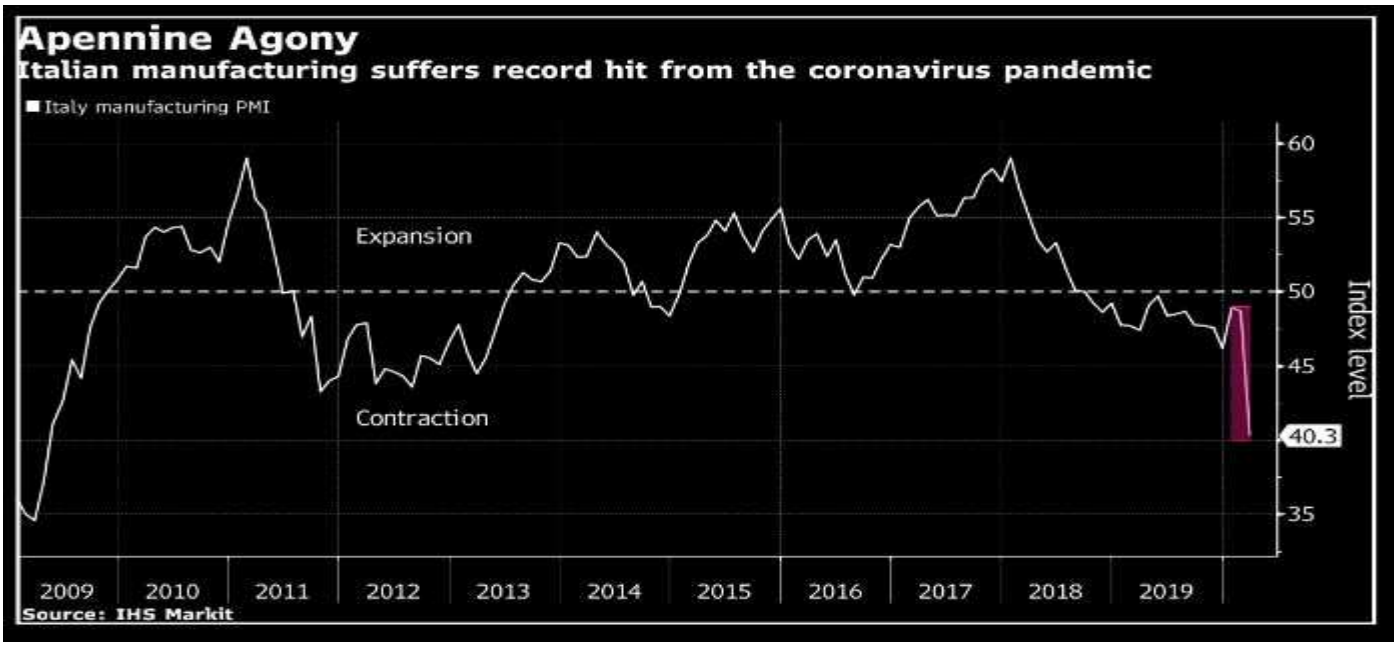
Primary Healthcare Properties (PHP) – In an update PHP said that it is actively working with the NHS and GP tenants to assist in efforts to combat Covid-19. They anticipate that the crisis will highlight important role of primary healthcare in provision of health services and moving services away from busy hospitals. Unlike other peers in the REIT sector, reaffirmed the Q2 dividend 1.475p will be paid in May and further payments will continue as normal. For the Q1 2020 rent period, 79% has been received, which is in-line with the prior year, and the balance expected within two weeks. As at end-March the loan-to-value was 44.8%, at the upper end of what we are comfortable with (ideally prefer below 40% but GP centre values are inherently resilient). That hasn't stopped volatility in the share price as investors liquidated assets they could sell rather than those they wanted to sell. They have recovered strongly to stand near historic highs, significantly outperforming the sector and testament to its asset quality and strength of tenant (effectively the UK government). Dividend yield is main driver of returns given the very extended share price. More inclined to take some profits rather than add to positions.



Source: Bloomberg

Chart of the day

Italian manufacturing suffered a record drop in output in March, when the entire country went into lockdown to contain the coronavirus pandemic. Italy's northern industrial heartland was one of the first places to see a surge in cases, and localised quarantine came into force in late February. The March Purchasing Managers Index for Italy fell to 40.3, the lowest since 2009, from 48.9 in February. Only 11% of survey respondents reported an increase in production on the month.



Source: Bloomberg

Recap of yesterday

Kantar announced that in the four weeks to 22 March UK supermarket spend rose 20.6% year-on-year to £10.8bn, a record for grocery sales.

Imperial Brands jumped 10.7% as is said the pandemic had so far had no material impact on its performance and current trading remained in-line with expectations. It had secured a new €3.5bn multi-currency credit facility in a bid to boost its liquidity.

Royal Dutch Shell rose 6.2% as it warned of impairment charges in the $400-$800m range for the first quarter due to the slumped slump in oil prices due to the outbreak and the price war between Saudi Arabia and Russia. With new credit facilities it had access to over $40bn of liquidity.

Smiths Group added 8.1% as it said it had delayed the demerger of its medical division whilst it focused on the delivery of ventilators and other critical care devices. It said no interim dividend will be paid, with cash conservation key, whilst sales for the six months to the end of January rose 8%.

WPP gained 5.5% as it suspended its final dividend and share buyback to strengthen its balance sheet, withdrew guidance, as the spread of the virus impacted performance in March. It noted it had total liquidity of £1.8bn.

Online portal

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