

COVID-19: 3 APRIL UPDATE

3 April 2020



Florent BRONES
Chief Investment Officer

IN A WORD:

Financial markets have entered an intermediate phase in which volatility remains high but stock markets react less than before to bad economic news.

In terms of the Covid 19 pandemic, trends in recent days are continuing. There are few new cases of infections in Asia, the peak of the epidemic dates from the beginning to mid-March depending on the country. In Europe, the number of confirmed new infections is increasing, but less rapidly than before. It is even starting to shrink in Italy where there has been better news for several days. The number of deaths remains high and on the increase. But it seems quite clear that the peak of the epidemic in Europe is close, three to four weeks after the implementation of harsh containment measures.

In the United States, on the other hand, new infections continue to increase very rapidly, and we are still in the expansion phase of Covid19. Containment measures are neither national nor strictly applied. The peak of the epidemic looks far away.

Economic news is bad, worse than many anticipate. Yesterday, the number of new jobless claims in the United States doubled by contribution last week. Three figures to measure the extent of the deterioration in the US labour market: two weeks ago, 280,000 jobless claims, last Thursday 3.3 million, yesterday 6.65 million. This afternoon, the important monthly employment report will shed new light on this deterioration.

Another significant piece of economic data was the announcement by the German government that it would reduce its forecast GDP by 8% in the first half of the year, leading to a 5% drop in

activity for the year as a whole. Never since the Second World War has such a contraction in activity been observed.

This morning, purchasing manager indices for services for March were published in Europe; they hit new records at -17.4 in Italy, -27 in France, -29.7 at the European level. The level below 50 indicates a recession ahead; the lowest levels in previous recessions were around 40. An index below 30 indicates a severe recession in services, which are assumed to be less cyclical than industry. The economic cost of containment is very important!

Yet this bad economic news was more than offset yesterday by the rebound (+20%!) of oil prices. A tweet from U.S. President Trump sufficed: negotiations seem to be under way between OPEC, Russia (and even the United States) to reduce oil production by at least 10 million bbl/day. These negotiations were neither confirmed nor denied, and this morning the announcement of a virtual OPEC meeting on Monday 6 April allows for a continued rise in oil prices. Yet the decline in demand for crude globally is closer to 25 to 30% because of containment measures (global production of around 100 mb/d). 10 million barrels would not be enough.

Financial markets remain under pressure: risk indicators are high but far from their mid-March highs. For example, volatility on the US stock market index, the VIX, peaked at 82 on 16 March, and now trades at 51, but moved between 10 and 20 during 2019. We could multiply the examples with V2X, or CDS on credit, or spreads on liquidity. Markets are tight, but risk appetite is slowly returning; it is clear that issues of good quality corporate bonds are being bought, issues that are starting to pick up again on recent days. The market is once again becoming active.

In our view, we have entered a new phase, that of the horizontal U bar we expect, with the U being a crude visualization of the profile we expect for economies, interest rates and stock markets. The phase of sharp decline seems to be over; we entered the phase of stabilisation with volatility. Markets digest bad news. The timing of the rebound phase remains unclear to date. **This timing will depend on news about the pandemic that is inherently unpredictable. There are opportunities to accumulate from a medium to long term investment perspective, but the short term remains uncertain.**



THE INVESTMENT STRATEGY TEAM

France

Florent BRONES
Chief Investment Officer

Asia

Prashant BHAYANI
Chief Investment Officer, Asia

Grace TAM
Chief Investment Advisor, Asia

Belgium

Philippe GIJSELS
Chief Investment Advisor

Xavier TIMMERMANS
Senior Investment Strategy, PRB

Alain GERARD
Senior Investment Advisor, Equities

Pol TANSENS
Head of Real Estate Strategy

Luxembourg

Guy ERTZ
Chief Investment Advisor

Edouard DESBONNETS
Investment Advisor, Fixed Income

Switzerland

Roger KELLER
Chief Investment Officer

DISCLAIMER

This marketing document is provided by the Wealth Management business of BNP Paribas, a French public limited company with a capital of € 2,499,597,122, registered office 16 bd des Italiens 75009 Paris - France, registered at RCS Paris under number 662,042,449, authorised in France, under the number 662,042,449, approved in France by the Autorité des Marchés Financiers (AMF). As a marketing document, it has not been produced in accordance with regulatory constraints to ensure the independence of investment research and is not subject to the prior transaction ban. It has not been submitted to the AMF or other market authority. This document is confidential and intended solely for use by BNP Paribas SA, BNP Paribas Wealth Management SA and companies of their Group ('BNP Paribas') and the persons to whom this document is issued. It may not be distributed, published, reproduced or revealed by recipients to other persons or reference to another document without the prior consent of BNP Paribas.

This document is for informational purposes only and does not constitute an offer or solicitation in any State or jurisdiction in which such offer or solicitation is not authorised, or with persons in respect of whom such offer, solicitation or sale is unlawful. It is not, and should under no circumstances be considered as a prospectus. The information provided has been obtained from public or non-public sources that can be considered to be reliable, and although all reasonable precautions have been taken to prepare this document, and, in the event of any reasonable precautions, the accuracy or omission of the document shall not be recognised. BNP Paribas does not certify and guarantees any planned or expected success, profit, return, performance, effect, effect or profit (whether from a legal, regulatory, tax, financial, accounting or other point of view) or the product or investment. Investors should not give excessive confidence in theoretical historical information relating to theoretical historical performance. This document may refer to historical performance; Past performance is not a guide to future performance.

The information contained in this document has been drafted without taking into account your personal situation, including your financial situation, risk profile and investment objectives. Before investing in a product, the investor must fully understand the risks, including any market risk associated with the issuer, the financial merits and the suitability of such products and consult its own legal, tax, financial and accounting advisers before making an investment decision. Any investor must fully understand the characteristics of the transaction and, if not otherwise provided, be financially able to bear the loss of his investment and want to accept such risk. The investor should remember that the value of an investment as well as the income from them may fall as well as rise and that past performance is not a guide to future performance. Any investment in a product described is subject to prior reading and to an understanding of the product documentation, in particular that which describes in detail the rights and duties of the investors and the risks inherent in an investment in that product. In the absence of any written provision, BNP Paribas does not act as an investor's financial adviser for its transactions.

The information, opinions or estimates contained in this document reflect the author's judgement on the day of his drafting; they must not be considered as authority or be substituted by anyone in the exercise of his or her own judgement and subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity will be liable for any consequences that may arise from the use of the information, opinions or estimates contained in this document.

As a distributor of the products presented in this document, BNP Paribas may receive distribution fees on which you can obtain further information on specific request. BNP Paribas, its employees or Directors may hold positions in or relationship with their issuers.

By receiving this document you agree to be bound by the above limitations.

© BNP Paribas (2020). All rights reserved.

