

COVID-19: 6 APRIL UPDATE

6 April 2020



Florent BRONES
Chief Investment Officer

IN A WORD:

At this morning's opening (6 April), the financial markets bounced back (Eurostoxx and CAC 40 at +3.5%), after a positive trading session in Asia (Nikkei +4%), and US futures are showing a rise of 4%. Risk indicators are contracting, both in terms of stock market volatility and credit spreads. Yet the latest economic data publications were appalling, especially the monthly jobs report in the US on Friday that revealed a huge number of job losses. As for the Purchasing Managers' Indices, the figures were bad but no longer surprised the markets.

This morning, three factors are helping the markets to look to the future with more optimism.

- 1) **The news about the Covid-19 pandemic is better, particularly in Europe.** Over the past week in Italy and over the past 2-3 days in Spain and France, the number of new infections and (sometimes) the number of deaths have been falling. It appears that the epidemic in Europe has reached a plateau. Asia (especially China) has entered a period of uncertainty of a few weeks, with lock-down remaining in place to avoid a second wave of new cases.
In the United States, however, news about the pandemic remains problematic.
- 2) **International negotiations are beginning to take place.** In March numerous domestic initiatives in fiscal and monetary policies were carried out, corresponding to massive interventions in order to tackle the global pandemic. This week, two international negotiations could materialise.

First oil. Negotiations between OPEC and Russia (perhaps extended to the US) are underway to reach an agreement to reduce oil production. Such an agreement would end the devastating price war. Mr Trump, in a tweet last week, spoke of a cut in production of 10 million barrels/day 'at least.' But the reduction in demand for crude oil exceeds 20 million b/d. An agreement is not certain, and moreover it cannot definitely resolve the situation in the oil market. This morning, oil prices are stabilising following the strong rebound last week.

Second, the ongoing negotiations about financing government deficits in the eurozone; deficits will rise sharply following the announcements of stimulus plans. Some countries want the eurozone to issue Eurobonds to pool the risks. Others only want the simple use of existing institutions (European Stability Mechanism and the European Investment Bank), which were strengthened during the 2011/2012 regional crisis and now have substantial strike power. A compromise solution is under discussion and the next Eurogroup meeting will take place on 7 April.

- 3) There has been an improvement in liquidity in the financial markets.** Due to central bank intervention, liquidity problems in the markets are diminishing; this is reflected in spreads and volatility indices that remain above their long-term averages but are moving away from their peaks. The issuance of Sovereign and Corporate bonds has reached very high amounts in recent days, demonstrating that the markets are in "business as usual" mode.

We stick to our message. In our view, we have entered a new phase, that of the horizontal bar of the U-shape profile that we had expected. The U-shape is a rough visualisation of the profile we expect for the economy, interest rates and stock markets. The phase of the collapse in the markets seems to be over and we have entered a stabilisation phase with volatility. The markets are digesting the bad news, and the bad news about the real economy is certainly not over. It is still impossible to give the timing of a market rally. **This timing will depend on news about the pandemic that is inherently unpredictable. There are opportunities to build up stocks with 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.



BNP PARIBAS
WEALTH MANAGEMENT