

COVID-19: 14 APRIL UPDATE

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Florent BRONES
Chief Investment Officer

IN A WORD:

Stock markets posted a decline of 32% in a little over a month between their mid-February highs and their lows of 23 or 24 March, according to the index. Equity markets have since rallied by more than 20%, +25% in the US and +20% in Europe, driven by several positive factors. We take stock of the situation after the long Easter weekend.

- 1) **The Covid-19 pandemic** is taking its expected course. In **Asia**, the number of new cases remains low. Fears are focused on the risk of a second wave, which the authorities are monitoring very carefully. For now, the bulk of new cases are imported. In **Europe**, the situation remains worrying; new infections and deaths have reached a (high) plateau, and their number is beginning to decrease slowly. The peak of the epidemic appears to have been reached, but the decline is slow and needs to be confirmed. In European countries, including those badly hit, confinement periods have been extended. Moreover, a new development is that the authorities are starting to talk about post-lockdown scenarios in a bid to get the economy back on track as soon as the health crisis is under control. **In the United States**, it would appear that, in recent days, a plateau of the number of cases and deaths has begun to take shape in the worst affected States, notably New York. This positive and somewhat faster-than-expected development must be confirmed.
- 2) On Thursday 9 April, **the Fed announced a new raft of measures** to the tune of \$2.3 trillion, again a colossal amount. The aim is to support small businesses (Main Street, not only Wall Street) and municipalities via loans with lighter collateral constraints.



The Fed will also intervene in the credit market, particularly in the High Yield segment, something which is new. It will be able to directly buy bonds issued by the States to help them face health care expenses.

- 3) Over the weekend, **eurozone governments found a compromise** to finance €500 billion of public debt via existing institutions (European Stability Mechanism or ESM and the European Investment Bank), so without Eurobonds, i.e. without fully pooling the risks. Conditions for granting loans by the ESM will be less harsh than in the past, thanks to the request of the southern European countries.
- 4) **An agreement between the wider OPEC and Russia to reduce oil production** has been approved; it covers the cut of 9.7 million barrels per day, plus a reduction in production in the US, Canada and Brazil. In these three countries, the States do not commit, but private companies are scaling back on their investments so the reduction in production will be mechanical. The oil markets responded well to the deal and prices rose, despite the uncertainty in the short term due to a lack of storage capacity. We maintain our assumption of a gradual return to around \$45/55 per barrel in the second half of the year thanks to the rebound in oil demand, which in turn is based on our scenario of a return to growth in the global economy.
- 5) **A few economic data publications in China** are heading in the right direction today; the return to a trade balance surplus, after a deficit in January and February, and the recovery in distributed credit growth show that economic activity is on the path to normalisation. The pattern of a return to normality in China needs to be monitored closely as it will serve as an example for other countries during their post-lockdown period.

Should we conclude that the markets have bottomed out in this stock market cycle? Usually, bear market lows occur in two stages; first a decline (followed by a rebound) and secondly another low. In the past, the correction occurred over several weeks, or even months. In this bear market, several things are unprecedented: a) the brevity of decline, just over a month; b) the cause of the decline, a pandemic that locks down half the world's population, and a deep recession. Some observers use the term 'recession by decree'; c) the massive response in terms of economic policies, all governments and central banks apply the 'whatever it takes' attitude.

So, could this bear market already be over, without a double-bottom base? We believe that it is not, given that the health situation is still uncertain, particularly in the United States, as companies will start publishing their first quarter results, and their 'guidance' is likely to be very negative, because downward revisions to economic and earnings growth forecasts are just beginning. **Opportunities to reinforce positions with a medium- to long-term investment perspective are not over, 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

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