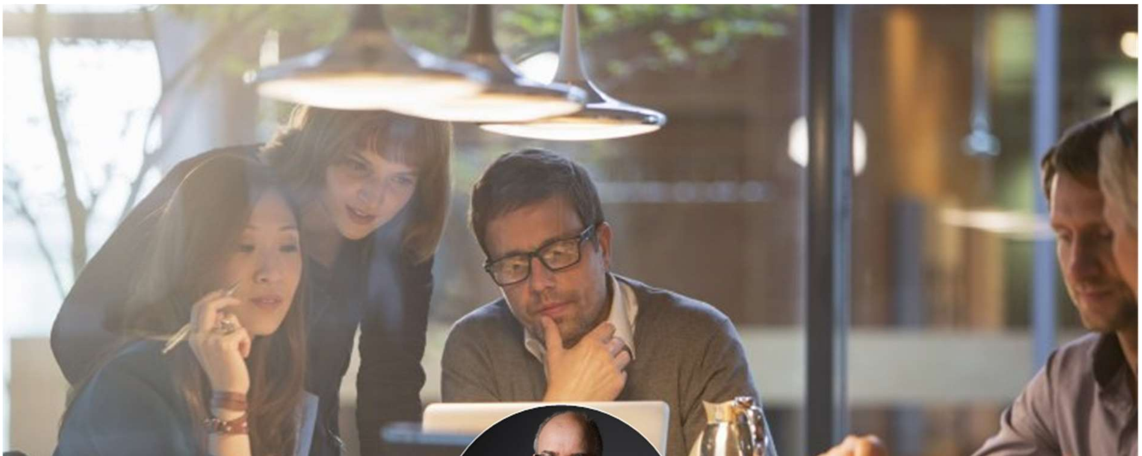
# COVID-19: 24 MARCH UPDATE

24 March 2020




Florent BRONES
Chief Investment Officer


**IN A WORD:**

**There is a strong rally on financial markets this morning (24 March); the Japanese stock exchange closed up 7%, the Eurostoxx was +4.5% at the time of writing and futures on the S&P500 were +4.6%). Risk indicators (volatility and credit spreads) are contracting. The triggers for this rally are some better news on the epidemic in Italy and the strong policy decisions by the Fed, and potentially the US Congress if the Republicans and Democrats reach an agreement.**

**The Covid-19 pandemic**

The number of new infections in China has been practically zero for several days. The authorities have announced a relaxation of containment rules in Wuhan, effective from 8 April. The Chinese economy could resume 'normal' levels during the second quarter.

In Europe, for the second day in a row, the number of new infections and deaths in Italy is falling; in other words, the strict containment measures, put in place on 11 March, are starting to have a big impact. This potential peak in the epidemic in the first-affected European country should be confirmed over the next few days. It would allow a potential peak to be anticipated in Spain, France and Germany within 8-12 days if the Italian pattern is repeated in these countries.

Many countries are adopting strict containment measures with 1.7 billion people around the world now forced to comply. Yesterday, for example, the United Kingdom and South Africa took decisions along these lines.

In the United States, however, decisions are being taken only at the local level. Some states (New York, California and Washington first, followed by others) have implemented partial containment that resembles the first measures implemented in Italy in early March (so prior to 11 March and its strict measures). It is feared that the authorities are underestimating the seriousness of the health situation, judging from the examples of China, South Korea and Italy. The United States is therefore a cause for concern.

**In terms of economic policy, the responses of governments and central banks are constantly rising**

The most recent news came from the United States. The Fed is taking up all the tools it previously used during the financial crisis of 2008/2009 by extending its scope of action to municipal bonds and commercial paper for example. It announced that the size of its intervention could be unlimited!

A massive plan ($2 trillion) is under debate in Congress. Yesterday, disagreement between Republicans and Democrats took its toll on financial markets. This morning hopes of an agreement dominated the scene. The programme will be finalised sooner or later, because the recession is coming and the US system for unemployment benefit needs to be adapted quickly. The liquidity problems of multiple SMEs and very SMEs are making such a programme urgent.

Forthcoming economic figures will start to reveal the extent of the recession. We will watch, in particular, the publication of PMIs today in Europe and the United States. These PMIs could reach new historical lows.

| | *Tax measures* | *Monetary policy measures* |
|---|---|---|
| **Germany** | Easy access to short-term employment<br>Support for corporate liquidity through tax deferrals<br>State loan guarantees to the most vulnerable companies (€500 bn)<br>Development of existing guarantee systems provided through public bank KfW<br>Additional expenditure of €1 bn for the Ministry of Health<br>Increase in public investment in 2021-24 (€12 bn)<br>**Awaiting approval: €350 bn (10% of GDP)**<br>€150 bn to limit the economic impact of the coronavirus and a €200 bn fund for loan guarantees and equity investments in companies | The ECB has taken strong measures similar to those taken in the 2008 crisis:<br>Increase in the bond purchase programme by €750 bn (6% of eurozone GDP) bringing the total package to €1.1 trn<br>Purchase of Greek sovereign debt and short-term corporate bonds (commercial papers)<br>The ECB will accept loans from small and medium sized companies as collateral<br>Refinancing facility (TLTRO) for commercial banks (negative rate -0.25% or very negative -0.75%) |
| **France** | Subsidies for short-term employment<br>Late payment of taxes and social security contributions<br>Suspension of the new tax on the use of temporary contracts<br>Increase of loan guarantee schemes for SMEs (€300 bn)<br>Solidarity Fund for small businesses | |
| **Italy** | **Tax package of over €25 bn**<br>Postponement of all tax payments until 31 May<br>Compensation of 60% of corporate property rental costs<br>Mortgage adjustment for the self- employed<br>Commercial loan guarantee scheme (measure not detailed to date)<br>Increased support for short-term employment<br>Household support for childcare<br>Debt repayment holiday<br>Support for the health care system (€1.5 bn) | |
| **Spain** | **Fiscal package of €17 bn**<br>Tax and social security credits<br>State loan guarantees (€100 bn)<br>Debt repayment holiday<br>€3.8 bn in government support to the health care sector | |
| **UK** | **£30 bn fiscal package**<br>£12 bn (0.5% of GDP) for targeted support measures (£5 bn emergency fund to support utilities, £7 bn of measures to help households and businesses)<br>£18 bn earmarked to longer-term measures to be implemented later this year<br>**But also:**<br>£20 bn of tax cuts and grants to corporates £330 bn of government-backed loans to corporates<br>Debt repayment holiday<br>**£50 bn of additional measures**:<br>-Take over 80% of the wages of workers whose jobs are at risk.<br>-Deferral of VAT payment for the next quarter (£30 bn)<br>-Unlimited 12-month interest-free loans for businesses<br>-£7 bn in additional social aid<br>-£1 bn in assistance to tenants | **The Bank of England cut rates by 100bp to historical low levels (0.1%)**<br>Resumption of the bond purchase programme for £200 bn<br>Support programme in the short maturity corporate bond market |

| | | |
|---|---|---|
| **USA** | **1st fiscal package voted by the Congress (6 March) of $8.3 bn** for US health authorities (CDCP, PHSSEF and NIH)<br>***Awaiting Senate approval*** :<br>-**Emergency programme ($300-500 bn)** for the payment of employees on forced unpaid leave, sick leave and unemployment benefits<br>-**Fiscal package of $2-2.5 trn**<br>Direct financial assistance to households, loans to small and medium enterprises and support to the hardest-hit industries and large companies (i.e. airlines) and hospitals | **The Fed cut rates by 150bp to 0-0.25%**<br>**New programme of bond purchasing and lending to companies** (unlimited volume and extended scope)<br>$300 bn credit program for businesses (purchases of corporate bonds in the primary - PMCCF- and secondary market -SMCCF) and households (support for student loans and consumer credit markets)<br>Support measures to reduce stress in the commercial paper market<br>The Fed launches a programme to support money market mutual funds<br>New launch of financing facilities for large corporates<br>Resumption of a dollar swap policy with other central banks to ensure dollar liquidity |

**Sources: Financial Times, UBS, Deutsche Bank, les Echos, BNP Paribas**

In terms of financial markets, risk indicators eased this morning; volatility (VIX and V2X) fell, credit spreads narrowed, and bond markets were calmer with small variations in yields. But fear may take the upper hand soon, and we do not think the period of high volatility is over yet.

We stick to our message: economic policy instruments are very powerful and should not be underestimated. We still expect a U-shaped profile for economies, interest rates and stock markets. Valuation levels for risky assets are attractive today, but the valuation does not give the timing of the rally. This timing will depend on news about the pandemic that is inherently unpredictable. Opportunities are emerging 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