COVID-19: 19 MARCH UPDATE

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Florent BRONES
Chief Investment Officer

Volatility levels in the markets are still very high and short-term uncertainty huge. Trading on 18 March was rather challenging as prices for almost all financial assets fell and safe havens were few and far between. Shares plunged, bond yields rose (meaning a decline in the value of bonds), oil hit new record lows ($25 per barrel of Brent, rebounding this morning by more than $2). Even gold dropped, as in previous days! The dollar continues to play its role as a safe haven. This morning (19 March) was relatively calm (dips on Asian stock markets, a rebound in European markets and in oil prices, stable US futures).

With regards to the Covid-19 pandemic, the situation continues to deteriorate in Europe, the epicentre of the epidemic at present, with a jump in the number of infections and deaths. However, a positive precursor sign is that the pace of the increase is slowing down in Italy and Spain, something which will be confirmed over the next few days.

Two pieces of bad news today: some Asian countries are seeing another rise in the number of infections, this time from abroad (Europe and the United States). Although we are talking about a small number of cases, it is enough to intensify fears of a second outbreak. Moreover, reported infections are soaring in the United States (+45% yesterday) and the United Kingdom (+35% yesterday), two countries which seem to be lagging Continental Europe by a few days.

The various responses in terms of economic policy are accelerating and intensifying. Yesterday, the ECB increased the size of its bond-buying programme (QE, Quantitative Easing) to €750 billion. It specifies that this huge amount may be further increased, if necessary. It will buy public (including Greek) and private securities. And it extends this programme to commercial paper, following the Fed's example. Finally, it expands the list of eligible collateral.

The Fed has implemented further measures, including expanding the list of eligible collateral, and ensuring the smooth functioning of the US money market. These tools were used during the financial crisis of 2008/2009, albeit on a smaller scale.

We note intervention from other central banks, for example, in Australia (a QE programme targeting a low bond rate target) and in South Korea (a traditional QE programme).

	Tax measures	***Monetary policy measures***
Germany	Easy access to short-term employment Support for corporate liquidity through tax deferrals State loan guarantees to the most vulnerable companies (EUR 500 bn) Development of existing guarantee systems provided through public bank KfW Additional expenditure of €1 bn for the Ministry of Health Increase in public investment in 2021-24	The ECB has taken strong measures similar to those taken in the 2008 crisis: Increase in the bond purchase programme by EUR 750 bn (6% Eurozone GDP) bringing the total envelope to EUR 1.1 bn Purchase of Greek sovereign debt and short term corporate bonds (commercial papers) The ECB will accept loans from small and medium sized companies as collateral Refinancing facility (TLTRO) for commercial banks (negative rate -0.25% or very negative -0.75%)
France	Subsidies for short-term employment Late payment of taxes and social security contributions Suspension of the new tax on the use of temporary contracts Increase of loan guarantee schemes for SMEs (EUR 300 bn) Solidarity Fund for small businesses	
Italy	Tax package of over €25 bn Postponement of all tax payments until 31 May Compensation of 60% of corporate property rental costs Mortgage adjustment for the self- employed Corporate loan guarantee scheme (measure not detailed to date) Increased support for short-term employment Household support for childcare Debt repayment holiday Support for the health care system (EUR 1.5 bn)	
Spain	**Fiscal package of €14 bn** Tax and social security credits State loan guarantees (EUR 100 bn) Debt repayment holiday €3.8 bn in government support to the health care sector	
UK	**£30 bn fiscal package** £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) £18 bn earmarked to longer-term measures to be implemented later this year **But also:** £20 bn of tax cuts and grants to corporates £330 bn of government-backed loans to corporates Debt repayment holiday	The Bank of England cut rates by 50bp Support programme in the short maturity corporate bond market
USA	Fiscal package of $1.2 trn $300 bn of small business loan provisions $200 bn of stabilization funds Tax postponements for individuals and businesses that make up the rest of the $1.2 bn stimulus	The Fed cut rates by 150 bp to 0-0.25% New programme of bond purchasing and lending to companies ($700 bn) Support measures to reduce stress in the commercial paper market The Fed launches a programme to support money market mutual funds Relaunch of financing facilities for large corporates Resumption of a USD swap policy with other central banks to ensure USD liquidity

Sources: Financial Times, UBS, Deutsche bank, BNP Paribas

This central bank and government intervention is having an immediate impact on bond markets, and we are seeing a steepening of yield curves. Short-term rates remain low, close to 0 or negative in Europe and Japan, as central banks are amplifying monetary expansionary measures. The long ends of the curves, on the other hand, have risen as issues by various governments will accelerate. Bond markets are starting to price in an economic recovery; this is the U-shaped pattern expected to materialise for economies, interest rates and stock markets.

The risk of a credit crunch is still present. Liquidity conditions in some market segments are deteriorating. In short, "fire sales" are taking place and fuelling volatility. Some UK real estate funds (REITs) have just taken the decision, supported by the authorities, to gate temporarily to avoid selling at heavy discounts.

We stick to our core message. Even today, panic-stricken fear makes people forget that economic policy tools are very powerful. But the timing of the rebound will depend on news about the pandemic that is, by nature, unpredictable. Finally, investors should watch for opportunities for the medium- to long-term horizon.

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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