

31 March 2020

COVID-19: Impact on economies and financial markets

Latest news on COVID-19

- Last week, China further lifted restrictions, including a travel ban introduced in January. Meanwhile it suspended the entry of foreign nationals to prevent a second coronavirus wave.
- Numbers of infected persons rose further in Europe, albeit at a slightly lower pace. While the Czech Republic seems most advanced in the efforts to flatten the curve of new cases, health care systems in Italy, Spain and parts of France remain under severe stress.
- The UK & the US have announced more lockdown measures, triggering another downward revision of 2020 GDP forecasts for both economies.

Base case: Recession, followed by a U-shaped recovery (Probability: 50%)

- Based on the China blueprint, we assume that output in Europe and the US drops by around 20% to 10% in the first half 2020. Output is set to return to end 2019 levels by end 2020 at the earliest.
- Fiscal and monetary policy measures help to partially prevent a longer-lasting demand shock.
- Last week, Switzerland started its 20 billion CHF state-funded lending program to small businesses. 30'000 companies have already applied for loans.
- In the US, where short-time working schemes are unknown, a record number of 3.3 million people applied for unemployment benefits in calendar week 12 (see chart).

Alternative scenarios

- In an adverse scenario (30% probability), a renewed financial crisis unfolds. A second wave of COVID-19 infections in Asia poses an additional risk. Equity markets fail to recover, and GDP follows an L-shaped path in the second half of 2020.
- The optimistic scenario (20% probability) would be triggered by a rapid decline in new cases, or news on the availability of broader testing, treatments or vaccines.

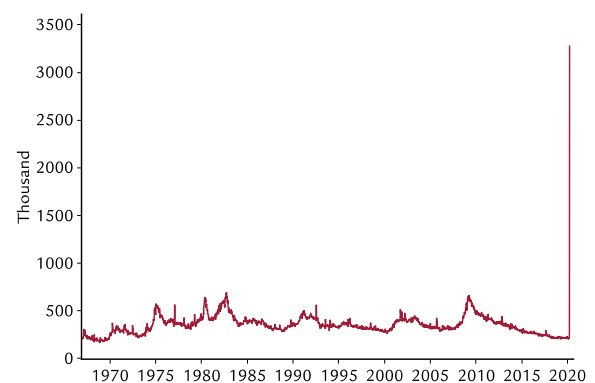
Developments on the financial markets

- Markets recovered last week. Government and corporate bonds as well as equities reacted positively to the bold monetary and fiscal measures.
- Equity markets have reached attractive levels for investors with a longer-term horizon. However, in the short-term markets will remain volatile as the focus shifts back to the evolution of the virus, particularly for economic heavy weights UK & US, where further negative news must be expected.
- High quality corporate bonds are likely to continue their recovery thanks to the support of central banks, but investors will need to cope with significant volatility here as well.

Milestones to observe until April 6th

- *Medical:* Europe reporting decrease in new cases.
- *Fiscal and monetary policy measures:* Steps towards issuance of a “Coronabond” (common “Euro-bond”) to support fiscally weak Italy.
- *Economic data:* Another surge in US jobless claims. In China, coal consumption data expected to confirm pick-up in activity. Rebound of China’s PMI is the most important milestone.

US: sharp rise in initial jobless claims



— US: Initial Jobless Claims, seasonally adjusted

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