Perspectives
Weekly update

15 April 2020

COVID-19: Impact on economies and financial markets

Latest news on COVID-19

- "We have passed the peak. But only if we can assume that there was just one mountain we had to climb over" (Daniel Koch, Swiss Federal Office of Public Health).
- While Europe reports a positive trend towards the flattening of the curve, the reoccurring rising number of cases in Singapore and Japan remind us of the risk of a second wave.
- Last week, Austria, Denmark, Norway and the Czech Republic announced steps to slowly ease their public restrictions, and other European countries are drawing up plans to follow.

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

- Based on the China blueprint, we assumed that output in Europe and the US would drop by around 10% to 20% in the first half 2020.
- Yet, data for Europe suggests that the initial supply shock may exceed our previous assumptions.
- In France, capacity utilisation fell to 56.1% in March (see chart).
- Switzerland's State Secretariat for Economic Affairs suggested that 2020 GDP growth may drop by significantly more than their official estimate of -1.5%, which had been published on March 19th.
- In China, economic activity is recovering. However, the pickup in consumption remains tepid, as indicated by weekly car sales that remain well below the long-term average.

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.
- 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.

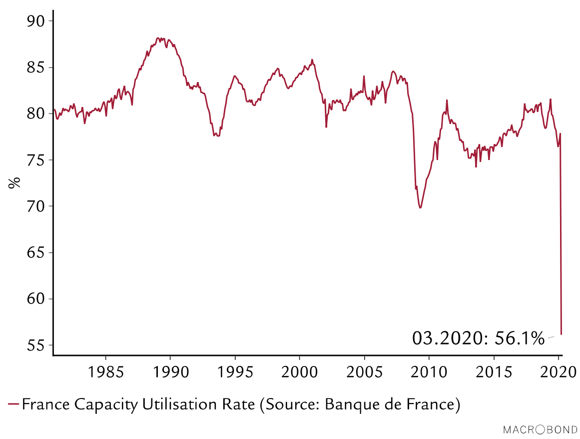
Developments on the financial markets

- Equity markets continued their recovery driven by fiscal economic and monetary policy measures and the view that the growth of the pandemic was slowing down. Credit spreads of both investment grade corporate and high yield bonds dropped further.
- The evolution of the pandemic continues to influence markets, especially as some countries in Europe are starting to tentatively lift restrictions. The situation in the US remains unclear as an apparent fall in the growth rate of new infections overlaps with the tense pre-election political climate.
- Markets are now shifting their focus on company earnings, as the first US companies are expected to report this week. Earnings and the guidance given by the CEOs will help to re-assess equity valuations and determine how volatile markets will be.

Milestones to observe until April 20th

- *Medical:* North America and UK reporting decrease in new cases. No renewed acceleration elsewhere.
- *Fiscal and monetary policy measures:* Safety net put in place should help to stabilise markets
- *Economic data:* April 17th: First quarter GDP data for China due to be published.

France: capacity utilisation rate collapses in March



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