

28 April 2020

COVID-19: Impact on economies and financial markets

Latest news on COVID-19

- Advance reports of Purchasing Managers' Indices (PMI) for the Eurozone, the UK and Japan and Germany's Ifo Business Climate Index reveal continued economic contraction into April. Up to now, services sectors are generally more affected by the crisis than manufacturing.
- High frequency data out of China confirm our assumption of a gradual, U-shaped, recovery once lockdown measures are eased.
- Several negative outcomes of clinical trials dampened hopes for a fast availability of a treatment and pharmaceutical industry representatives are cautioning against too much optimism regarding a quick vaccine development.

Forecast revisions

- Switzerland's government expert group updated its economic forecast outside of the normal schedule. Instead of "just" -1.5% one month ago, it is now expecting real gross domestic product (GDP) to fall very sharply by 6.7% in 2020 in the wake of measures to contain the coronavirus.
- Last week, we revised our own projections. Below, we compare our 2020 assumptions for real GDP with the consensus estimates as of April 6 (average annual change in %; source for consensus data: Consensus Economics Inc., London):

US: -3.0% (Consensus: -4.0%)

Eurozone: -5.8% (Consensus: -5.7%)

Germany: -4.7% (Consensus: -5.0%)

France: -5.6% (Consensus: -5.4%)

United Kingdom: -4.2% (Consensus: -5.4%)

Switzerland: -3.1% (Consensus: -3.3%)

Forecast uncertainty remains extremely high. One example: in the consensus sample mentioned above, GDP growth forecasts for the Eurozone in 2020 range from -13.0% to -3.0%.

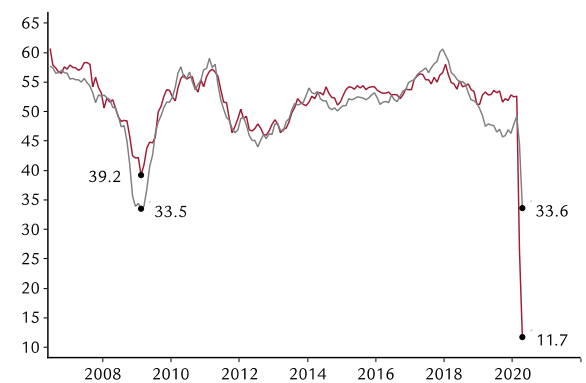
Developments in the financial markets

- Most equity markets were lower last week as the slowly improving pandemic statistics and the outlook of a gradual resumption of economic activity were offset by a sharp drop in oil prices and increasing nervousness about the risk of a second COVID-19 wave. Corporate credit was also weak.
- This pattern of changing sentiment is likely to persist as economic statistics, earnings and the virus-related news flow will remain volatile.
- Corporate bonds are seen to resume their recovery thanks especially to central bank support, while equity markets will stay very volatile.

Milestones to observe until May 5th

- *Medical:* More easing of restrictions in Europe. No renewed acceleration in confirmed cases.
- *Fiscal and monetary policy measures:* More details on EU recovery funds and parliamentary approval timeline.
- *Economic data:* April 29th: US 1st quarter GDP data; April 30th: China PMI, Eurozone 1st quarter GDP data; May 4th: PMI for Switzerland

Eurozone: services sectors most affected by the crisis



— Eurozone manufacturing PMI — Eurozone services PMI

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Swiss Life Asset Managers



Marc Brütsch
Chief Economist
marc.bruetsch@swisslife.ch
@MarcBruetsch



Michael Klose
CEO Third-Party Asset Management
michael.klose@swisslife.ch

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