

For inquiries related to this article, please contact:

Alain.Marckus@bankfab.com

Christofer.Langner@bankfab.com

17 March, 2020

Investors start to see the economic impact of Covid-19

◆ Some markets turn positive as global stimulus drive intensifies.

◆ Economic data coming in, however, points at severe slowdown.

◆ Several countries revise down their growth expectations as border closures expand.

◆ New York manufacturing data points at a major downturn in the US, and President Donald Trump acknowledged that could be the case.

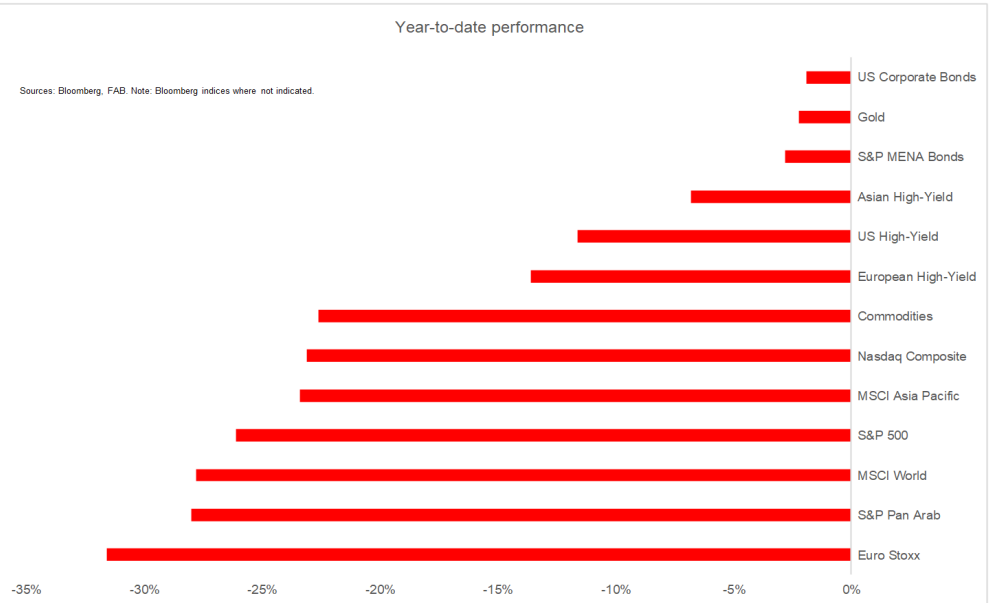
◆ Investors are still trying to gauge the total economic impact of the virus and risky assets remain under pressure.

◆ Governments around the world pledge nearly US\$1.2 trillion of fiscal stimulus to counter virus impact.

◆ FAB AAC remains underweight in equities and overweight in gold.

Governments in advanced economies have started to offer a glimpse of the impact of the new coronavirus and the picture is not pretty. The European Commission revised its growth forecast for 2020 from growth of 1.2% to a contraction of 1%. Similarly, President Donald Trump said yesterday that the US faces the risk of a recession as people are being asked to stay home and are consuming less.

The impact of the virus will only be seen in the March data, expected to be released in April. However, leading indicators derived from surveys among business owners and purchasing managers are starting to offer a glimpse of what to expect. Yesterday, the Empire Manufacturing index, which surveys



business conditions in New York, dropped 34.4 points to a negative 21.5, its biggest drop on record. In Europe, a similar measure of business confidence, the euro-area ZEW investor expectations index dropped to a negative 49.5 from a positive 10.4 in February. The level was the lowest since the European debt crisis of 2011 and the drop was one of the steepest in the index's history.

The US will have its own set of survey data next week, when the March purchasing manager and consumer sentiment indices are released. Given the reaction in the rest of the world, investors may want to brace for a very grim picture in these economic releases and potential market volatility on the back of them.

As good news goes, however, the fiscal stimulus drive continues to grow. As of today, governments across the world have already pledged nearly US\$1.2 trillion in help to consumers, small businesses and banks. That comes together with

Nearly all risky asset classes are negative for the year amid a major global deleveraging

continued monetary easing, as central banks increasing their asset purchase programs and reducing benchmark rates. Since Sunday, more than a dozen central banks have cut interest rates with nearly as many expected to do so by next week.

Central banks are also trying to stem what seems to be a technical sell-off as some of the most liquid markets, such as those for Treasury bonds or commercial paper, have seen reduced liquidity which is exacerbating price moves. The Fed has intervened in the Treasury market and Bank of America Merrill Lynch analysts predicted over the weekend that the central bank could also step into the commercial paper market. Until trading conditions normalize, however, volatility is likely to remain high.

Investment Strategy Update

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