

Confidence
must be earned

Amundi
ASSET MANAGEMENT

Latest From the Markets

26 March 2020

Economy and Markets

Yesterday the Lower House of the Bundestag, the German Parliament, approved the emergency plan - announced on Monday - including:

- additional budget of €156 billion;
- €100 billion economic stability fund of that may take equity in companies experiencing difficulties; €100 billion of additional credit for the public financing bank KfW;
- the ability to guarantee up to €400 billion in corporate loans.

Overall, these measures amount to about 10% of German GDP.

The plan, which sees Germany abandoning the principle of non-increase in debt, appears more urgent than ever in light of the sharply declining SME index indicators and yesterday's publication of the German IFO confidence index, where expectations fell from 93.1 in February to 79.7 in March, further signalling a rapid deterioration in the economic scenario.

The European Council is due to meet today. They will discuss the possibility of issuing "Coronabonds", a move currently opposed by some member states in Northern Europe, as well as using the European Stability Mechanism, which could grant aid of up to 2% of the GDP of the applicant states.

Last but not least, this morning the ECB announced that they would not limit purchases of securities under the new PEPP plan to 33% of the securities of each member country.

Yesterday evening the US Senate unanimously approved their extraordinary \$2 trillion plan - amounting to circa 10% of GDP. The bill now goes to the House of Representatives, where it is scheduled for Friday. The plan includes a 500 billion dollar fund to help the sectors most impacted, another 500 billion in cheques of up to 3,000 dollars to be paid directly to US citizens, 350 billion for loans to small businesses, 250 billion to support unemployment and 100 billion for hospitals and the health system.

Yesterday's Market Roundup

We have seen some confidence returning to stock markets over the last couple of days. Starting from the East, Australia closed up by +5.5%, while in Japan the Nikkei 225 were up by +8% - supported by the BOJ buying ETF shares. India also performed well at +7%, Korea at +5.7%, Singapore at +6%, Hong Kong at +3.8% and China at +2.7%.

This positive tone extended to Europe which, despite some hesitation mid-trading, closed on a positive note. The Eurostoxx50 index rose by +3.1%, regaining 2,800. Italy's FTSE MIB was up by +1.74%, while French CAC 40 and English FTSE 100 both stood out with an increase of about +4.5%.

The US markets experienced some fluctuation from a negative opening, to a sharp rise in mid-trading, to positive closure, albeit below the day's highs. The S&P 500 index ended the day up by +1.15%, the Dow Jones Industrials +2.4%, driven by Boeing rebounding by +24%, and the Nasdaq closed in slightly negative territory at -0.45%.

On bond markets, yields on the 10-year US Treasury and the corresponding German Bund rose slightly, while the Italian spread with Germany fell to 185 points. Spreads also narrowed on corporate credit.

There were no significant changes in oil, with Brent remaining around 27 dollars a barrel, while gold consolidated the recent increases. The US dollar depreciated slightly against the Euro at the end of the day, falling to 1.09.

Today's Opening Bell

Asian markets were patchy this morning, with the Japanese Nikkei 225 falling by -4.5% after three days of substantial increases. Australia and New Zealand were positive, with increases of +2.3% and +4% respectively. India was also good with +4%, while China, Hong Kong, Singapore and Korea are in fractional decline. Opening in negative by -2% for European futures while the future on the S&P 500 is indicated at -1%.

Our Outlook

- The extraordinary pincer movement by the central banks on one side and governments on the other, appears to be bringing some confidence back to the markets, as evidenced by the two-day rebound seen in risk asset classes.
- While the storm is still far from over, we believe the awareness that so much has been done to put safety nets in place, could bode well for a relatively rapid recovery as soon as the pandemic is under control.

IMPORTANT INFORMATION

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