N° 550
16 March 2020

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH
BOURSIER

THE FED GIVES ALL IT HAS

Highlights:

Non-essential activities put on hold in several countries

Cascade of rate cuts by central banks

Overview

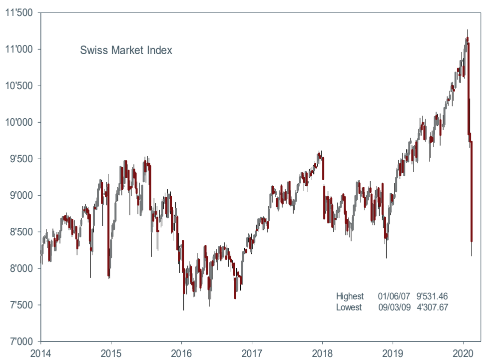
The Covid-19 pandemic and its increasing impact on the global economy, as more and more European countries suspend all non-essential activities, have pushed risk assets over the cliff edge. The Fed's decision yesterday smacks of desperation, as it cut the benchmark rate by a full percentage point to a range of between zero and 0.25%. This marked the second time in just two weeks that it had taken emergence measures. Monetary policies everywhere are at full throttle but instead of reassuring, they are stoking the mood of panic.

Italy and Spain have banned short selling in many securities in a vain attempt to halt the fall. In corporate bonds, spreads are back at 2008 levels, in the midst of the financial crisis. A sign of intense stress and liquidity shortages in markets, tensions are also mounting in government bonds, with a rise in long-term yields last week. In particular, the yield on 30-year US Treasury bonds has risen, while the yield on the 10-year Italian government bond is back at 2%. There are simply no more buyers. Real estate funds and gold, which have so far held up well, are also cracking under the pressure. The flow of negative news is triggering capital flight from all market segments as participants scramble for hard cash – another sign of capitulation.

In an effort to support the economy, the Fed is going to buy USD 700bn worth of treasury bills and mortgage-backed securities. Other central banks have also cut their rates. As part of a coordinated effort, they are also committed to shoring up liquidity in currency markets subject to strong fluctuations. The dire reaction on the stock markets reflects growing doubts among investors. If the Fed gives all it has but that doesn't work, what will then support the system? Governments will no doubt have to show better coordination quickly to put in place supportive fiscal policies.

In Switzerland, indirect investments in real estate mirror the bond market. The SWITT index is down 11% from its peak. Liquidity has dried up and small transaction amounts – just CHF 200,000 in the space of a day – can trigger falls in excess of 4%. The speed with which premiums have melted away, with some small funds now trading at a discount, shows that we are in a phase where investors are dumping everything.

In this context, we believe that financial markets are by and large fairly valuing the economic impact of the pandemic, which should be transitory. However, as panic mode still dominates, it is early to proceed with a strengthening of the equity component within portfolios.



The SMI has punched through all short-term supports and is this week due to test the 2016 low, marked by support between 7500 and 7700 points.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI EMERGING MARKETS
Latest	0.95	1.06	8'367.56	2'586.02	9'232.08	4'118.36	5'366.11	2'711.02	7'874.88	17'431.05	891.19
Trend	➡	➡	⬇	⬇	⬇	⬇	⬇	⬇	⬇	⬇	⬇
%YTD	-1.54%	-2.62%	-21.19%	-30.95%	-30.32%	-31.11%	-28.85%	-16.09%	-12.23%	-26.32%	-20.05%

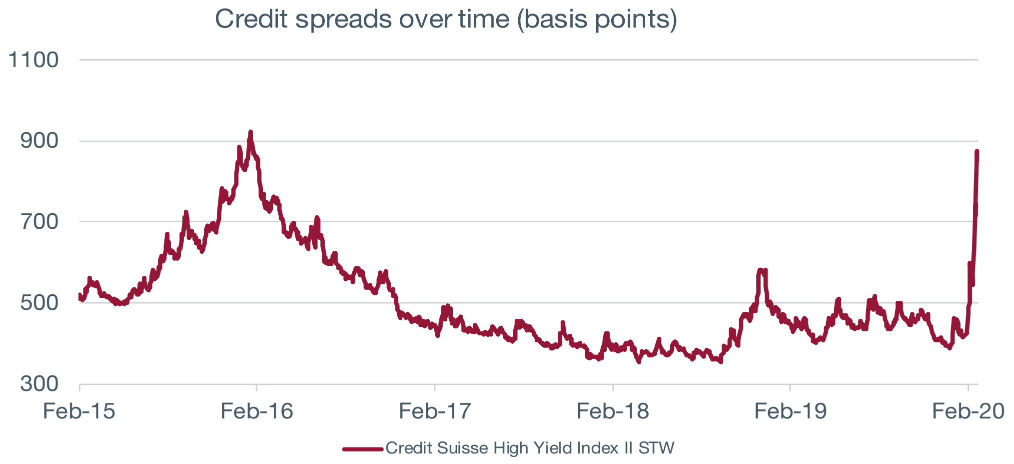
(Daten vom Freitag vor der Publikation)

N° 550
16 March 2020

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

HIGH-YIELD BONDS



Credit spreads have widened considerably in response to the market stress.

The low level of interest rates since the 2008 financial crisis provided cheap financing to businesses, which took advantage of the situation to borrow ‘on the cheap’.

Brisk demand from yield-seeking investors, who shifted their focus to high-yield bonds, compressed these spreads in recent years, and the absence of stress in these markets caused some to forget the underlying risk tied to corporate issuers.

The equity component inherent in high-yield bonds has therefore been back on investors’ radar screens during the cataclysmic trading sessions of the last few days.

The iShares iBoxx High Yield ETF (representing more than USD 13bn in assets) has lost almost 12% in the space of a few sessions. The index that this ETF replicates also has an oil component, hit by Saudi Arabia’s recent actions.

Authors:

Jean-Paul Jeckelmann,
CIO, CFA

Julien Stähli,
MBF Boston University

Françoise Mensi,
Ph.D in Economics.

Pierre-François Donzé,
M. Sc. in Economics

Valentin Girard,
CFA, MScF Université de Neuchâtel

Karine Patron,
MScF Université de Neuchâtel

Contact:

Banque Bonhôte & Cie SA
2, quai Ostervald
2001 Neuchâtel / Switzerland
T. +41 32 722 10 00
contact@bonhote.ch
www.bonhote.ch

facebook.com/banquebonhote

linkedin.com/company/banque-bonh-te-&-cie-sa

twitter.com/alexnvincent