N° 552
30 March
2020

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

MARKETS BLOWING HOT AND COLD

Highlights:

Unprecedented fiscal splurge

PBoC makes expansionary move

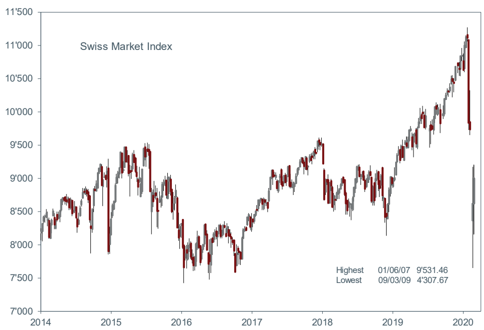
Overview

Financial markets are facing an unprecedented crisis and who knows how it will turn out. This is leading to violent price swings across all asset segments, from equities and corporate bonds to commodities and real estate.

The pace of new coronavirus cases seems to have slowed overall, which is encouraging. But the bad news will come from the next sets of economic and corporate earnings figures. According to the OECD, if the lock-down measures to contain Covid-19 are left in place for six months, economic output could shrink by a quarter. It is still very hard to see when Western economies will get back to business and, even then, how long it will take them to get back up to speed.

The unprecedented fiscal stimulus announced (USD 2 trillion in the US and EUR 750 billion in Germany, for example) last week gave markets an adrenalin boost. In particular, the S&P 500 rose by 10.3% and the Nikkei by 17%. In Japan, Shinzo Abe stated that fiscal stimulus measures will soon be outlined. In Switzerland, the SMI recovered last week by 4.5%, spurred on by insurers. Sovereign bonds have also performed well in the risk-off environment, seemingly encouraged by the prospect of mass quantitative easing from central banks. The ECB has removed the 33% limit on debt purchases from any one Eurozone country. Peripheral spreads have also narrowed. Spread have likewise narrowed for the US investment-grade bonds, which the Fed is allowed to buy up. China's central bank loosened conditions on Sunday, cutting the seven-day reverse repo rate from 2.4% to 2.2% – the lowest in five years.

However, stock markets have opened lower this week as news about the progressing coronavirus pandemic continued to send a chill down people's spines. The surge in US cases, with nearly 130,000 reported to date, definitely gives cause for concern. Medical authorities have estimated that the number of deaths could eventually rise to 200,000. Donald Trump has declared an extension to the lockdown and to the social distancing measures until the end of April. In a separate development, the European Council last week failed to agree on a joint response to the Covid-19 emergency. In keeping with the ECB's recommendations, banks must suspend share buyback plans and dividends, which is further putting pressure on share prices.



The SMI tested support at 8160 points last week but closed not far from the 200-day moving average at 8996 points. The technical configuration remains the same as last week, i.e. support at 8200 points and resistance at 9350 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	8'996.37	2'728.65	9'632.52	4'351.49	5'510.33	2'541.47	7'502.38	19'389.43	842.54
Trend	➡	➡	➡	⬇	⬇	⬇	⬇	⬇	⬇	⬆	⬇
%YTD	-1.54%	-2.36%	-15.26%	-27.14%	-27.30%	-27.21%	-26.94%	-21.34%	-16.39%	-18.04%	-24.41%

(Daten vom Freitag vor der Publikation)

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SCRAMBLING FOR CASH

Encouraged by a long period of overabundant liquidity amid rock-bottom yields, banks granted generous and abundant lines of credit to companies, thinking that they would never use them in full.

By the end of 2019, JP Morgan had granted nearly USD 367bn in credit facilities, equivalent to 13% of its balance sheet. But today, traditional corporate financing via bond issues or equity capital raising (IPOs), which until now was a formality even for midcaps, has become much more difficult.

The hazy outlook and fear of seeing banks renegotiating credit lines is now encouraging companies to hoard cash within their own four walls by drawing on existing credit facilities to build up a safety cushion.

Over the last three weeks, nearly 130 companies in Europe and the US have drawn on USD 124bn from their banks. In the 2008 crisis it was people withdrawing their personal savings; this time it is the companies that are doing it, but for different reasons. In this instance the rating agencies, which grade companies and therefore determine the level of credit they can borrow, are reviewing corporate ratings on a large scale.

The main rating agency, S&P Global, has already downgraded 121 companies and put more than 175 on credit watch with negative implications – which is not surprising. You have to go back to the Second World War to find an environment that, like today, has seen so many companies' revenues plunge to zero overnight.

The 2008 crisis caused revenues to plummet but did not wipe them off the board completely. Therefore, even if the banks are for now able to cope with these outflows, these massive withdrawals will undoubtedly undermine their ability to lend more – to finance the economic recovery, for example – so long as the withdrawn amounts have not been repaid.

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