



# FLASH BOURSIER

## FOCUS ON FIRST-QUARTER RESULTS

### Highlights:

### Equity markets on the up

### IMF forecasting a 3% drop in global GDP

### Overview

Latest figures seem to suggest that the growth rate of new Covid-19 cases is flattening, while news of governments preparing exit strategies from the lockdown is buoying financial markets. In the US, this blueprint has been dubbed "A Framework for Re-Opening America", dividing the country up into different zones that could be opened or would remain closed depending on the ongoing threat of widespread contagion. The extraordinary amount of support stemming from governments and monetary authorities at the moment is doing a great deal to curb volatility. Equity markets have even been rising in recent days, driven ahead by consumer, pharmaceutical and tech stocks. Tech is deemed more resilient in the current crisis, making it a prime beneficiary of the renewed risk tolerance among investors amid the apparent stabilisation of the pandemic. The QE splurge by central banks, in which the Fed has stooped to buying junk bonds, is propping up credit. Spreads have fallen sharply since the mid-March peak, which was caused by evaporating liquidity and concerns about a surge in defaults.

Well folks, it's reporting season, and the figures reported by groups will show the first effects of Covid-19. The signals are hardly comforting as yesterday US banks JP Morgan and Wells Fargo reported a plunge in profits coupled with massive loan-loss provisions. Profits fell 69% at JP Morgan while provisions exceeded \$8 billion. Johnson & Johnson has cut its guidance, although the share price is bolstered by a higher dividend and the prospect of a Covid-19 vaccine arriving in early 2021. The IMF is predicting an unprecedented global recession for 2020 in which

global GDP contracts by 3%, followed by a 5.8% recovery in 2021. The cumulative growth shortfall, estimated around USD 9 trillion, outweighs the combined size of the Japanese and German economies. In Europe, GDP is expected to fall by 7.5% in 2020 and in the US by 5.9%. In China, growth is forecast at 1.2% for 2020 and 9.2% for 2021. Obviously everything depends on how long the pandemic lasts, and that's still hard to foresee.

The Eurogroup of Eurozone finance ministers last week agreed on an emergency support package of some EUR 500 billion, which is quite achievements given that Italy and the Netherlands were previously digging their heel in. China's foreign trade figures came in higher than expected, with exports falling by only 6.6% year on year in March. China's central bank introduced stimulus in the shape of a RMB 100 billion loan facility at a rate of 2.95%. Oil prices are still under pressure, even though a production cut of 9.7 million barrels/day has been decided upon by OPEC and its allies. Surplus reserves remain huge. In this setting, gold continues to enjoy haven appeal, especially as inflation might be looming, as a corollary of central banks' actions.



Since early March the SMI has effortlessly retraced more than 60% of the downswing and ended last week in positive territory for the fourth week running. The recovery is firming up. We expect solid support to form around 9550 points after which the index is set to move to next focal points at 9690 and 9750 points, representing earlier supports.

### Key data

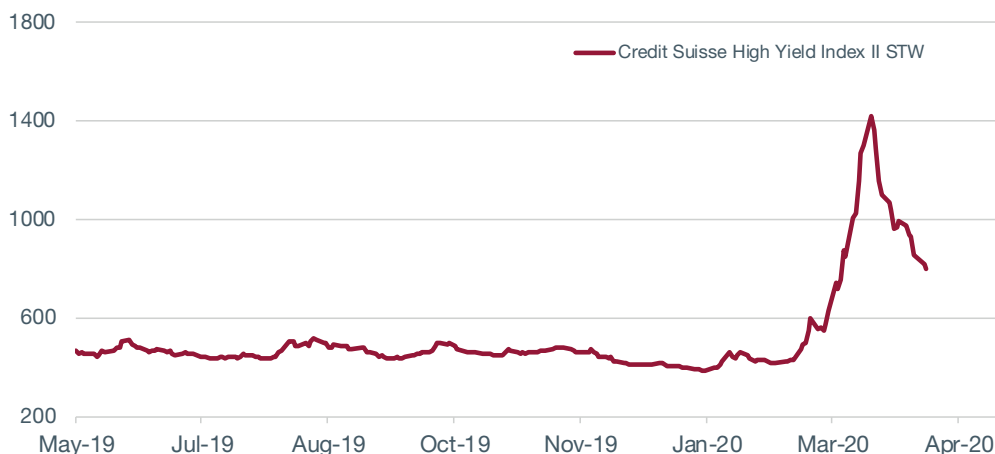
	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI EMERGING MARKETS
Latest	0.96	1.05	9'538.61	2'917.74	10'696.56	4'523.91	5'791.31	2'846.06	8'515.74	19'638.81	896.29
Trend	↓	➡	↑	↑	↑	↑	↑	↑	↑	↑	↑
%YTD	-0.68%	-2.85%	-10.16%	-22.09%	-19.27%	-24.32%	-23.22%	-11.91%	-5.09%	-16.98%	-19.59%



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### EASIER CONDITIONS IN CREDIT MARKET

Credit spreads over time (in basis points)



The credit market has perked up after taking a bashing in the second half of March. Credit spreads, measuring the excess return required by investors to hold bonds with counterparty risk, had surged to levels not seen since 2008 under the double-whammy of much higher default risk (given fears about the economy) and a thin market (following the wave of sell orders). The first element is the issuer risk; the second the bid-ask spread.

Recently, however, the markets have been pricing in a gradual return to 'business as usual' as an end to the lockdowns seems to be in sight. Investors are more upbeat: equity markets are rebounding (some indices have risen by more than 20% since their lows) and volatility is decreasing.

In this mood, fears surrounding the credit market are also easing and default risk is diminishing. Concurrently, markets are deepening as buyers return to the fray, which is reducing bid-ask spreads. Speaking of buyers, there is one that stands out from the pack: the Federal Reserve. Indeed, the Fed has announced that it will extend its buyback programme to high-yield bonds, primarily by investing in ETFs comprised of these bonds. Last Thursday, this news triggered the biggest rally in this market for more than a decade, as can be shown by the plummeting spreads in the above chart (bond prices move in the opposite direction to spreads).

#### Authors:

**Julien Stähli,**  
Head of discretionary  
management,  
MBF Boston University

**Jean-Paul Jeckelmann,**  
CIO, CFA

**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

f facebook.com/  
banquebonhote

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

twe twitter.com/  
alexvincent

ig instagram.com/  
banquebonhote

yt youtube.com/  
banquebonhote1815

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