



# FLASH BOURSIER

## LIFTING OF LOCKDOWN MEASURES SETTING THE TONE

### Highlights:

**Business contraction far worse than in 2008**

**Consumer mood key to the recovery**

### Overview

Markets have held their gains in recent days despite figures showing that the crisis is deeper than anticipated as demand for goods and services tanks. These are once-in-a-lifetime events. Even the most seasoned investors were stunned when the WTI oil contract for May (expiring on 20 April) fell to minus 40 dollars last Monday, something which had never been seen before. In effect, this meant having to pay to avoid taking delivery of the oil, considering the shortage of storage capacity in relation to the breakneck surge in supply. As the Covid-19 pandemic shows signs of slowing, investors have refocused on the planned steps to lift restrictions. This is now very much the leitmotiv in financial markets.

Recent stats point to a double-digit contraction in GDP amid a collapse in labour markets and a deflation trend. Business is plunging at a much faster rate than during the 2008 financial crisis. The latest Euroland PMI clocked in at 13.5 – its worst level since its launch in 1998. In Germany, the Ifo business climate indicator has tumbled to an all-time low of 74.4. GDP could contract by 7.5% this year, according to the IMF. In the US, durable goods orders collapsed by 14% year on year in March. Most recently, some 26 million new claimants signed on for unemployment benefits.

Yet despite the plummeting business indicators, aggressive fiscal policies and central bank support continue to underpin equity and

credit markets. The ECB is now accepting high-yield bonds as collateral for credit extended to banks. It has been hoovering up government bonds to keep a lid on the yield curve. This news has led to a decrease in credit spreads for peripheral Eurozone members, with the yield on Italian 10-year BTPs easing to 1.8%. S&P has for now left Italy's rating on BBB but with a negative outlook. This morning the Bank of Japan announced the removal of its limit on the purchase of government bonds (previously 80 trillion yen per year). It will also step up purchases of corporate bonds. The Fed, which meets this week, will probably provide an update on monetary actions taken so far, together with its economic outlook.

Judging by stockmarket indices, investors seem to be banking on a V-shaped recovery. But key will be the attitude of consumers, who may hesitate to return to the shops (as in Sweden despite the city centres remaining open). Considerable uncertainty surrounds the expected duration of the recession, which gives reason for caution as to investment choices.



After consolidating solidly around 9600-9700 points, the SMI will have to break through the 9785 points amid high volumes if it wants to avoid a potential reversal pattern that could propel it back to 9600 points. If the positive trend can continue, the first focal point will be 9890 points followed by 10000 points.

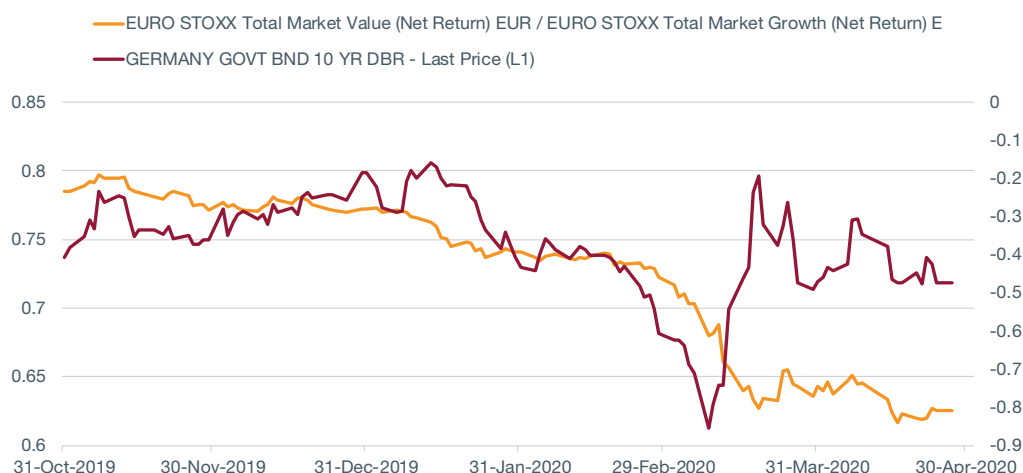
### Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI EMERGING MARKETS
Latest	0.97	1.05	9'625.65	2'809.07	10'336.09	4'393.32	5'752.23	2'836.74	8'634.52	19'262.00	879.41
Trend	➡	➡	⬆	➡	⬆	➡	⬆	⬆	⬆	➡	➡
%YTD	0.66%	-3.00%	-9.34%	-24.99%	-21.99%	-26.51%	-23.74%	-12.20%	-3.77%	-18.58%	-21.11%



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### EUROPE: VALUE STOCKS AT HISTORICAL LEVELS



Historically, when markets recover, those stocks hit hardest during the preceding downturn often spearhead the rebound. But today, value stocks – i.e. stocks with attractive valuations – have never been so cheap compared to growth stocks, even when contrasting the current period with the Great Depression.

In the current configuration, value stocks are going for a song while growth stocks have become extremely pricey. The situation is particularly striking in Europe, where the gap is even widening.

In the past, the performance of value relative to growth stocks has been shaped by inter-

est rates (see chart). Since the beginning of March, interest rates have begun to rise, but value stocks have not followed suit.

The European Value Index is so far this year down 32% whereas growth stocks have fallen by only 16%.

Compared to the dotcom bubble of the early 2000s, when growth stocks were patently overvalued, the bias here clearly stems from an undervaluation in value stocks.

Could this be the beginning of a turnaround?

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