

Brooks Macdonald – Daily Investment Bulletin 06.04.2020

Please see below for the latest bulletin.

In addition, Edward Park, our Deputy Chief Investment Officer, provided a market update last Friday. The link to the presentation followed by 10 minutes of Q&A is here: <https://vimeo.com/403720926>. Attached are the slides used during the webinar.

What has happened

All eyes are on the duration of the lockdown and that's why it's so important to look at the impact as China, Hong Kong and Singapore lift the shroud over economic activity. New case growth has picked up in those regions but it's how countries can tackle new cases whilst still progressing with economic liberalisation that will be the important read across to Europe and the US.

What does this mean for Europe

When the lockdowns do end we might see broad loosening of rules followed by periods of restrictions as new case growth picks up. There has been much debate as to the shape of economic activity caused by the virus. At the optimistic end is the V shaped recovery which implies a short sharp drop followed by a rebound that recaptures most of the postponed growth. A U shaped recovery implies a slower rebuild and longer overall duration. Should lockdowns only be lifted very gradually over a prolonged period this will make a U shaped recovery the base case for markets. Markets have rallied this morning due to the slowdown in new cases in Italy and Spain and equities pricing in an end to the most severe restrictions. Investors will be happy to look through some of the operational unknowns of easing restrictions if there is at least a sign that the virus is coming under control at a headline level.

Is European wide stimulus finally on the horizon

The Eurogroup are meeting tomorrow for a video conference to discuss fiscal stimulus on a more centralised basis. At the EU Council meeting last month painfully little progress was made but there are press reports that a more substantial package may be on the table. The plan is said to include healthcare funding, credit guarantees and a form of wage guarantee scheme. In total this is expected to equate to around 4.5% of Eurogroup GDP which is a substantial step if agreement can be found. The package is expected to be funded through standard European bonds and could be the first sign of coordination ahead of further stimulus.

What does Brooks Macdonald think

The debate has shifted markedly over the last few days from the extent of the downturn to how lockdowns can be exited once prudent to do so. That has itself lifted sentiment despite a void of information available. We expect the country-by-country policy to vary but the overall path to reopening to be caveated with either tracking application & contact tracing or some form of immunity test. This yet again highlights the importance of the antibody test, if a subset of the population is immune they can go back to work and start rebuilding the economy, should we see pleasing steps towards widespread antibody testing this would undoubtedly add to this more constructive tone.