Brooks Macdonald – Daily Investment Bulletin 09/04/2020

Please see below for the latest bulletin.

Also, please join us for the third of our webinar series on the implications of the coronavirus on economic activity and financial markets **this afternoon at 3pm. Link: https://bit.ly/2JIfrdx**

This webinar will focus on:

- How are economies and new cases reacting to the lockdowns?
- What can we learn from China's easing of lockdown restrictions?

What has happened

We have held an underweight position to European equities for a long while now due to scepticism that fiscal spend could be mustered to combat the poor economic growth in the south of the Eurozone. However, even we felt that the coronavirus outbreak would see the turning on of taps with the burden being shared by the wider Eurozone given the current crisis is a global problem. Yesterday showed that the philosophical differences between a fiscally conservative North and an economically curtailed South continue. The political impact of this should not be underestimated, these differences are being supercharged by the huge economic and social impact of Coronavirus in Italy and Spain. Whilst Italians are still broadly supportive of EU membership, faith in the Euro currency has been wavering and a lack of agreement on unconditional fiscal support could entrench this further. This is particularly true now that Mario Salvini is not part of the government but waiting in the wings. Debates continue today however the political stakes could not be higher.

What does the Bank of England announcement mean

The Bank of England has announced that it will directly finance the extra government spending as a result of the coronavirus outbreak. The alternative option would see the Treasury issuing gilts to finance the increased spending which would damage market liquidity. If the government wants to issue an increased quantity of gilts it will need to offer an improved yield for its debt. As part of the coronavirus response the government may need to issue several hundred billion of gilts, to do so would suck liquidity out of the system that is now sorely needed to fund corporate debt.

What does Brooks Macdonald think

Funding the UK government's coronavirus budget deficit via the Ways & Means Facility makes perfect sense as it delays the squeeze on market liquidity that large scale gilt issuance brings. As with many of the measures we are seeing in the current environment they may not be particularly fiscally transparent or conform to 'best practice' but they are responding to the economy's needs. Despite the political chicanery at the Eurogroup markets have been buoyed by improving new case growth globally and continue their climb today. The markets are expecting 4.5 million new filings for US unemployment benefit when the weekly numbers are revealed later today, as long as the coronavirus case numbers stay under control we believe the market can continue to ignore this data.