

21 April 2020

## COVID-19: Impact on economies and financial markets

### Latest news on COVID-19

- First countries in Europe start to gradually ease public restrictions. Meanwhile, France and the UK have extended the lockdown measures into May.
- Encouraging news on early successes in the hunt for a treatment or a vaccine have boosted stock markets in the second half of last week.

### Will inflation follow the recession?

- Back in the years 2008 and 2009, ultra-loose monetary policy triggered inflation fears, which never materialised. Yet, similar fears resurface today.
- Low energy prices mean that inflation is set to come in very low in 2020 and investors still have time to assess future inflation risks.
- Medium-term, it is important to find diverging characteristics between the great financial crisis and the “corona-lockdown recession” to identify potential inflation risks.
- After 2008, austerity measures had a disinflationary impact. This time, fiscal and monetary policy are more coordinated, which is potentially inflationary.
- A partial deglobalisation seems a likely consequence of COVID-19. This does not necessarily trigger an inflation spiral as suppliers are not in the position to pass on higher production costs to their customers.
- The current economic crisis is often wrongly compared with situations at the end of a war which are followed by inflation: the supply shock caused by the lockdown results in an unprecedented underutilisation of otherwise intact capacities in infrastructure, manufacturing and on the labour market. The resulting output gap first needs to be closed, before accelerating inflation poses a major long-term risk.

### Developments on the financial markets

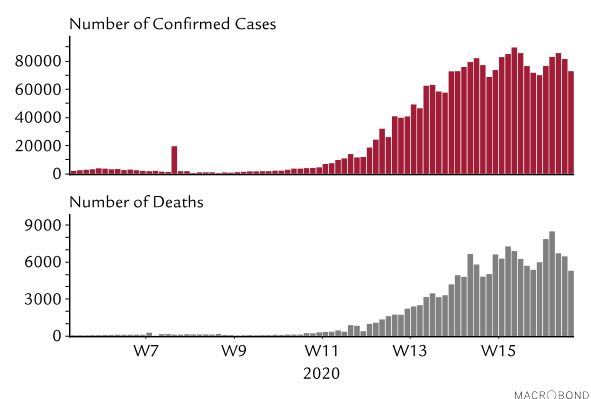
- Financial markets closed last week on a positive note, fuelled by slowing infection cases in Europe and optimism about treatments and vaccines. Above all, however, equity markets were lifted by plans to restart the European and US economies.
- The data flow, however, remains negative, keeping markets volatile. While earnings reports in the US were mixed, the outlook for companies remains bleak.
- It is therefore probably too early to increase portfolio risk significantly, but corporate debt offers now attractive spreads and the benefit of indirect central bank support

### Milestones to observe until April 27<sup>th</sup>

- *Medical:* No renewed acceleration in confirmed cases. More visibility of progress in the search for treatments or vaccines.
- *Fiscal and monetary policy measures:* Safety net put in place to further reduce market volatility.
- *Economic data:* April 23: Preliminary data for manufacturing Purchasing Managers' Indices for Euro-zone, UK and Japan. April 24: German ifo Index.

### COVID-19 cases: peak reached?

Daily increase in global COVID-19 cases and deaths (source: WHO)



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