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COVID-19: Impact on economies and financial markets

Latest news on COVID-19

- Pandemic cases have continued their downward trend or stabilised at rather low levels in most European countries except for the UK. A timid decline in new cases is visible in the US. More worryingly, Russia has become a new hotspot and cases have increased again rapidly in Iran, hinting at possible consequences if social distancing rules are not taken seriously.
- Daily tests in the US reached a new high at almost 320k. More testing is key to accompany the lockdown easing. However, this number is still well below most expert suggestions.
- The search for a vaccine is ongoing at record speed and some companies already started to precautionarily ramp up production capacities. While this development is positive, very high uncertainty remains and we caution against too much optimism.

Risk of a second wave and policy response

- With more and more countries easing containment measures, cases could start to increase again.
- However, with social distancing still in place, the healthcare system better prepared and the possibility for more tracking and tracing, the hurdles for renewed strict lockdowns get higher in our view.
- In fact, Germany's chancellor Angela Merkel and State Ministers announced on May 6th a relevant future corner stone: new containment measures should be implemented (locally) as soon as 50 new infections per 100'000 inhabitants within one week are observed. Compared to the levels at the time of previous measures, this new benchmark is much higher and only four out of 16 States have previously reached peaks above it (see chart). Currently, only three districts fulfil the new criteria.

Economic data

- Last week probably produced one of the economic data points that will enter history books to tell the story of the Corona crisis: in the United States, the unemployment rate jumped to 14.7% in April.

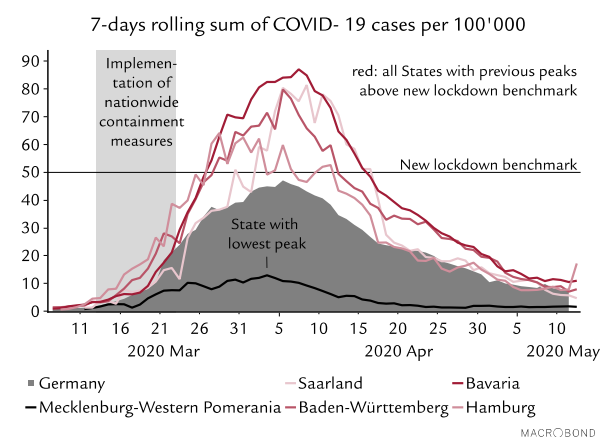
Developments in the financial markets

- Equity markets ignored the negative economic data of last week and registered a volatile but a positive week. Government bonds and credit eased a little, the exception being bonds of countries and companies profiting from the stabilizing oil price.
- Financial markets are forward-looking. The recent developments suggest that equity markets are now focusing on the expected recovery following the easing of lockdown measures around the world.
- This is a risky attitude, as the chances of a second wave contagion are still significant.
- We continue therefore to be cautious particularly on equities and prefer to selectively increase our credit exposure, while being aware of the significant risks ahead.

Milestones to observe until May 19th

- *Medical:* Data to show whether numbers of new cases re-accelerate after easing of containment measures in Europe.
- *Economic data:* May 13th: First quarter GDP data UK; May 14th: First quarter unemployment rate France; May 15th: April industrial production data China, first quarter GDP data Germany

Hurdle for next lockdown much higher?



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