



Market Update – COVID-19

April 2, 2020 Close unless otherwise stated

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Our Views

- Markets sold off strongly but have been a little less volatile in the past few days. We have become less negative of late on equity and credit markets based on the strength of the policy response and valuation improvement. However, with much uncertainty on economic and corporate cash flow impacts, **we are not wholesale buyers of risk yet.**
- UK gilt yields have fallen to record lows. The Bank of England's QE program is now helping to keep yields at very low levels. While virus abatement may see yields bounce, our view is that **high hedge ratios should continue to be maintained.**

Actions for client portfolios

- **Some reallocation at the margin towards building equity and credit positions, especially if they have drifted underweight following recent market declines, is appropriate.**
- **A tranching or phased approach to this activity is appropriate given a likely continuation of periods of weakness, high volatility and higher trading costs.**
- **The search for diversification is less pressing now given market conditions.** The relative outlook for equities and credit has improved, though there are clear risks ahead.
- **Some underweight to duration may seem warranted at current yields but needs care in terms of size.** Yields may not move up very much even after the virus scare has passed.

What we are watching:

- When to move overweight equities. We have seen signs of some near-term reprieve from the gathering policy responses but there is insufficient basis as yet to mount a rebound that can be sustained for long.
- Relative value in credit markets. Recent moves have been large, and some value is starting to emerge for longer-horizon investors in spread markets.

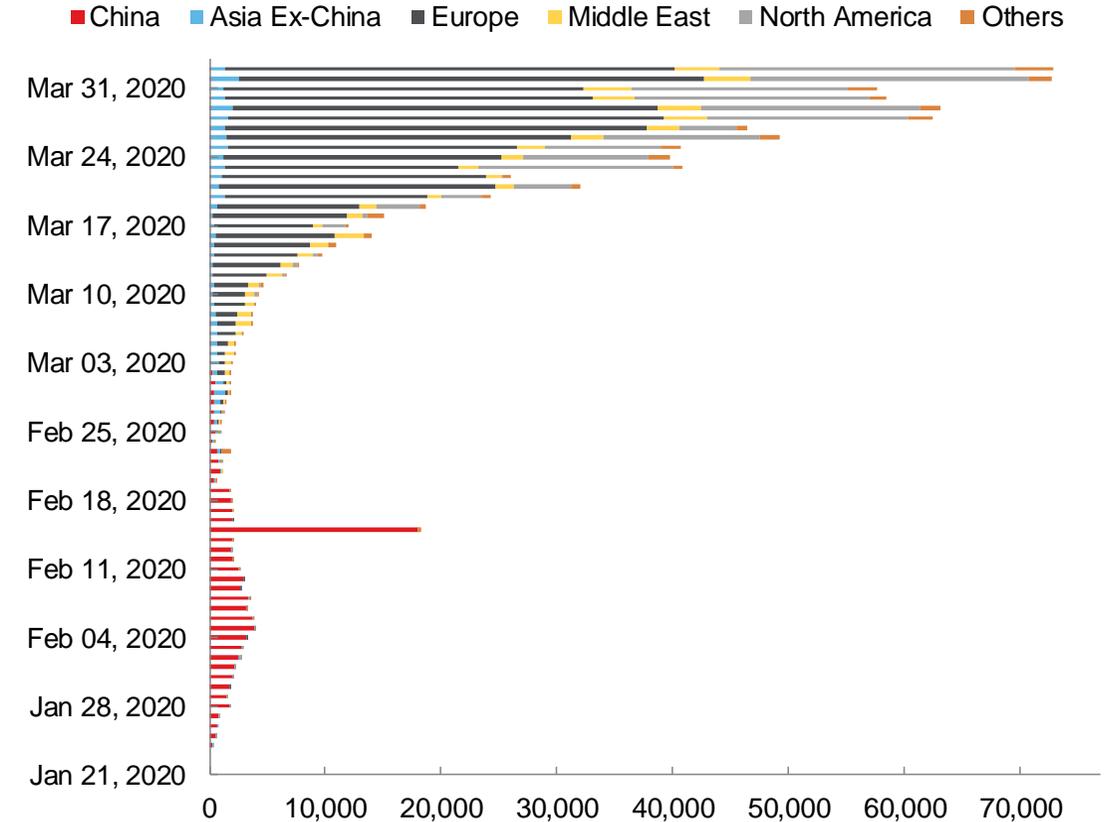
COVID-19 Update

Current Situation (2 April 2020)

Global	
Confirmed Cases	896,450 (72,839 new)
Deaths	45,525 (4,923 new)

Europe	
Confirmed Cases	503,006 (38,809 new)
Deaths	33,604 (3,515 new)

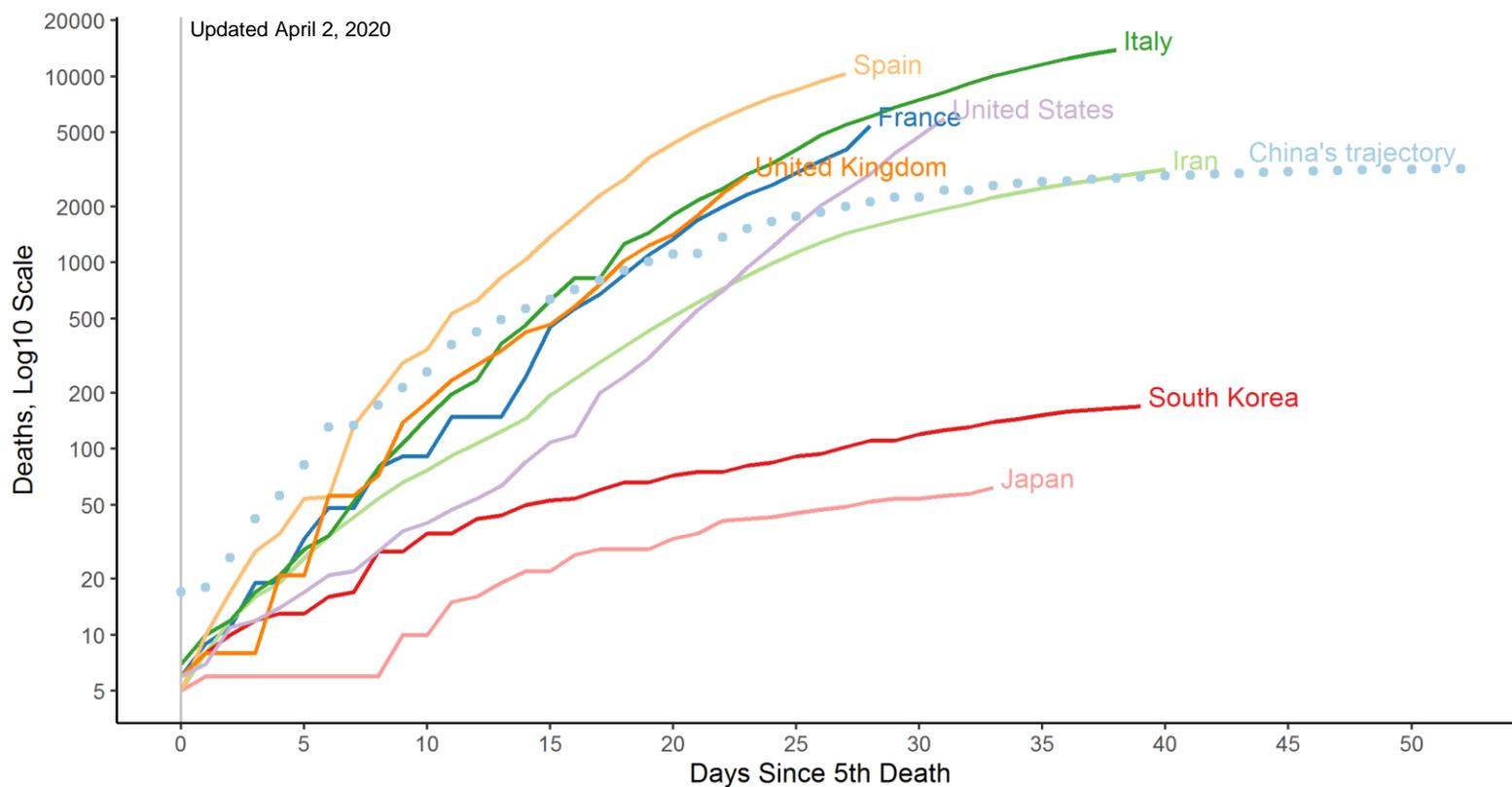
New COVID-19 Cases



Source: FactSet, World Health Organization, National Health Authorities. Regions not shown above, along with countries where there is not a significant COVID-19 outbreak has been categorized under "Other". Tables on the left updated in line with the WHO's new summary.

Trajectory of COVID-19 Death Toll

- The trajectory of the outbreak will be key in determining how long containment policies remain in place and how the economy fares.
- These measures appeared to have been effective in South Korea, Japan and China so far, but a “second wave” outbreak is a risk if containment measures are lifted.



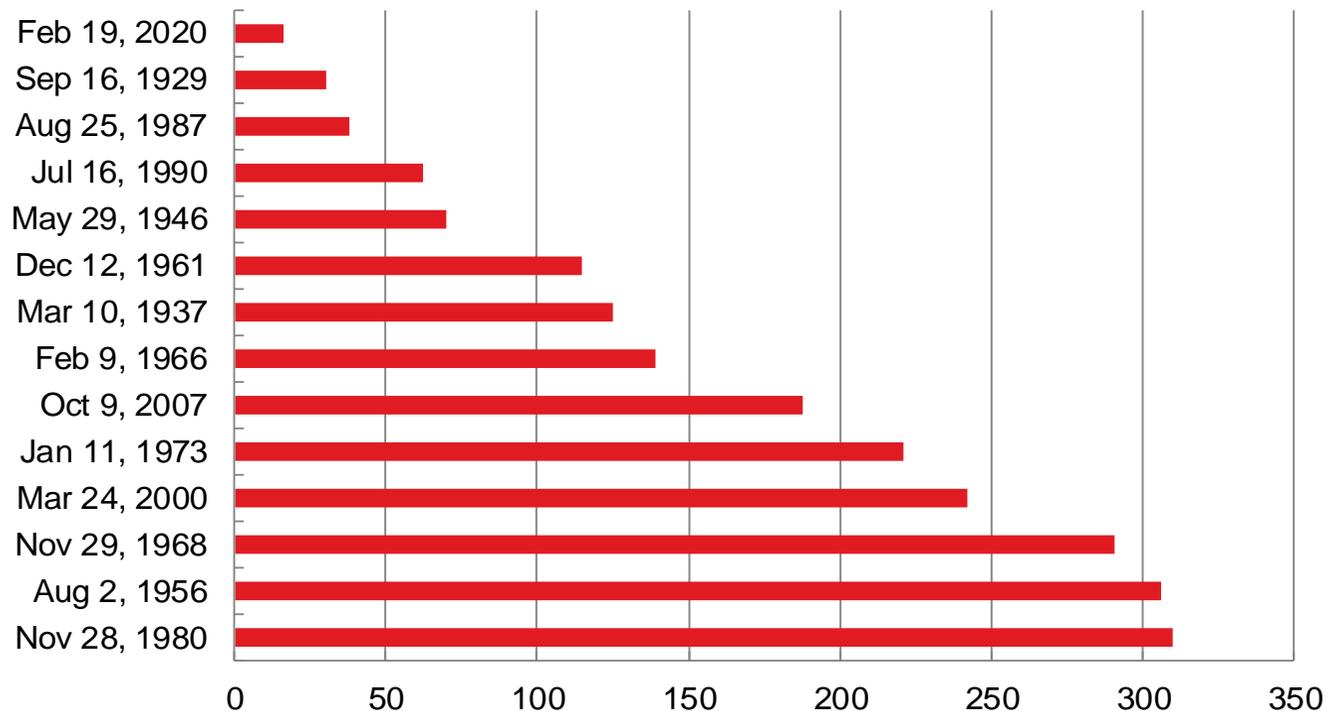
Source: Aon, John Hopkins University

The Fastest Bear Market Ever

- The S&P 500 took 16 days to close in a bear market

Number of trading days to close down 20% or more from its peak

Date of Market Peak



Source: Aon Calculations, S&P, FactSet

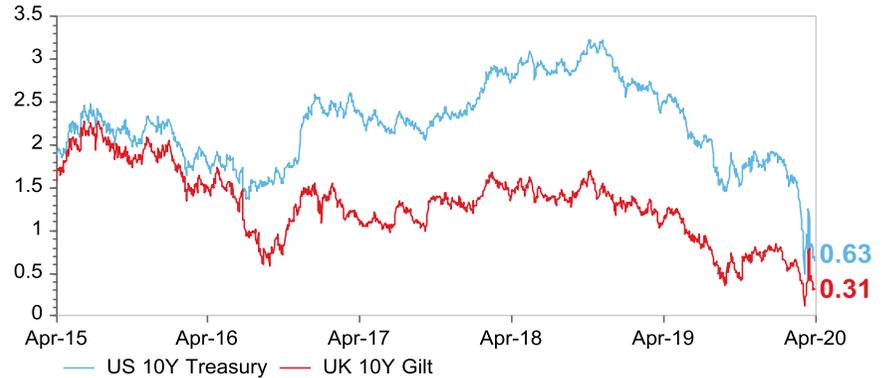
Market Reactions

Equity Market YTD (GBP terms)



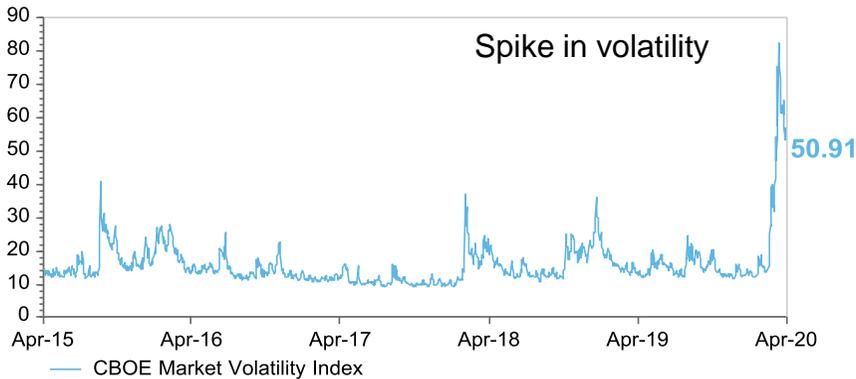
Source: FactSet

Government Bond Yields (%)



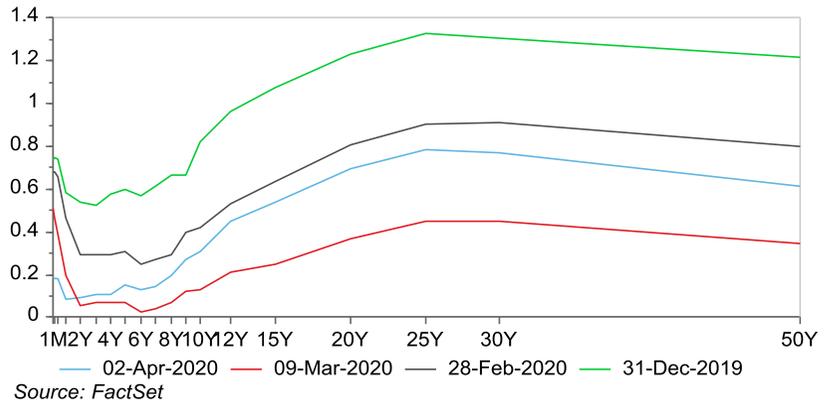
Source: FactSet

VIX



Source: FactSet

UK Gilt Yield Curve



Source: FactSet

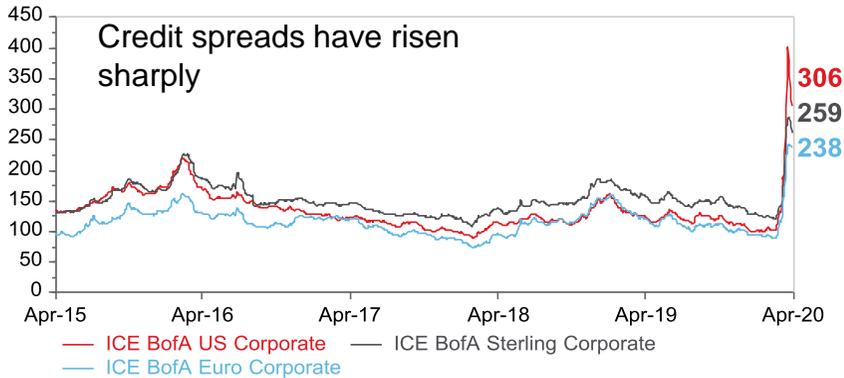
Past performance is no guarantee of future results.

3 April 2020

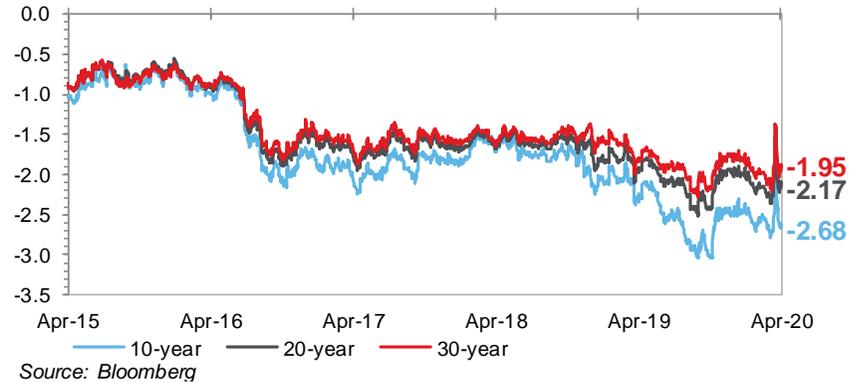
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Market Reactions

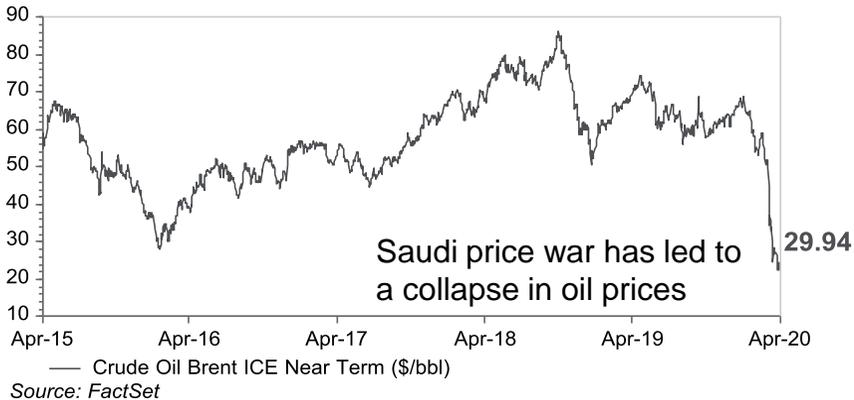
Investment Grade Credit Spreads (bps)



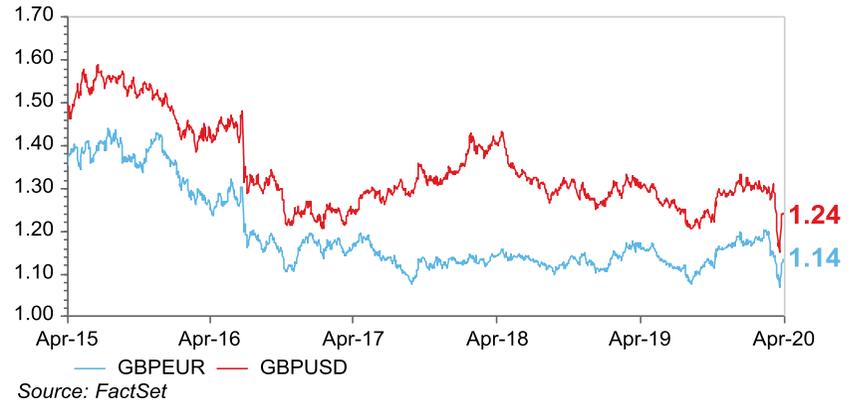
Real Yields (%)



Brent Crude Oil Spot Price



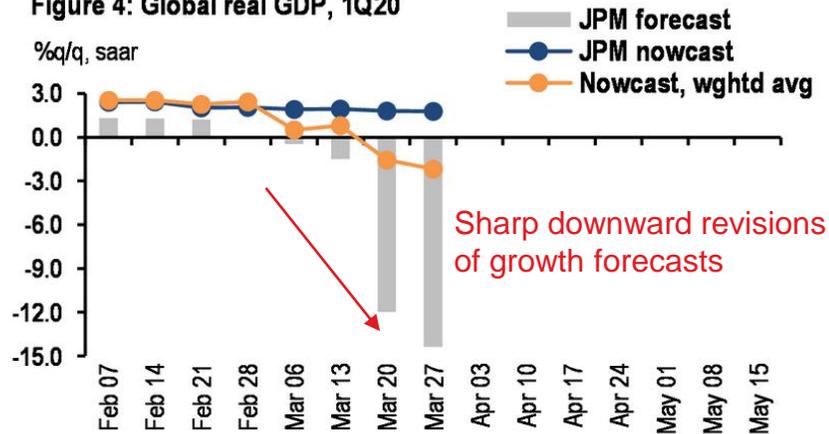
Sterling has fallen sharply but has recovered some of its losses



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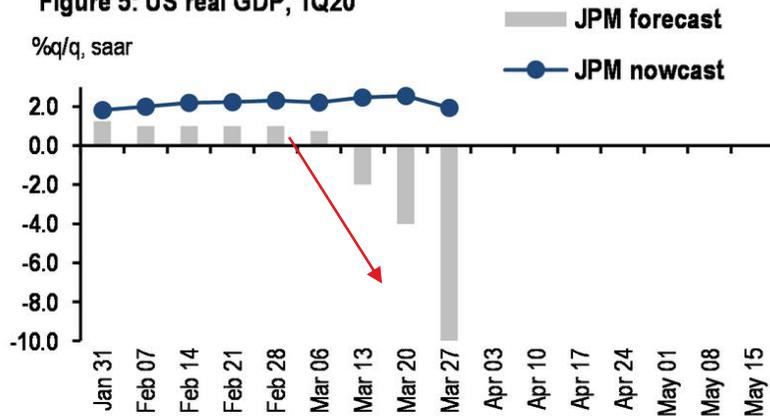
Economic Path is Very Uncertain

Figure 4: Global real GDP, 1Q20



Source: J.P. Morgan

Figure 5: US real GDP, 1Q20



Source: J.P. Morgan

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The Economic Costs Rack Up

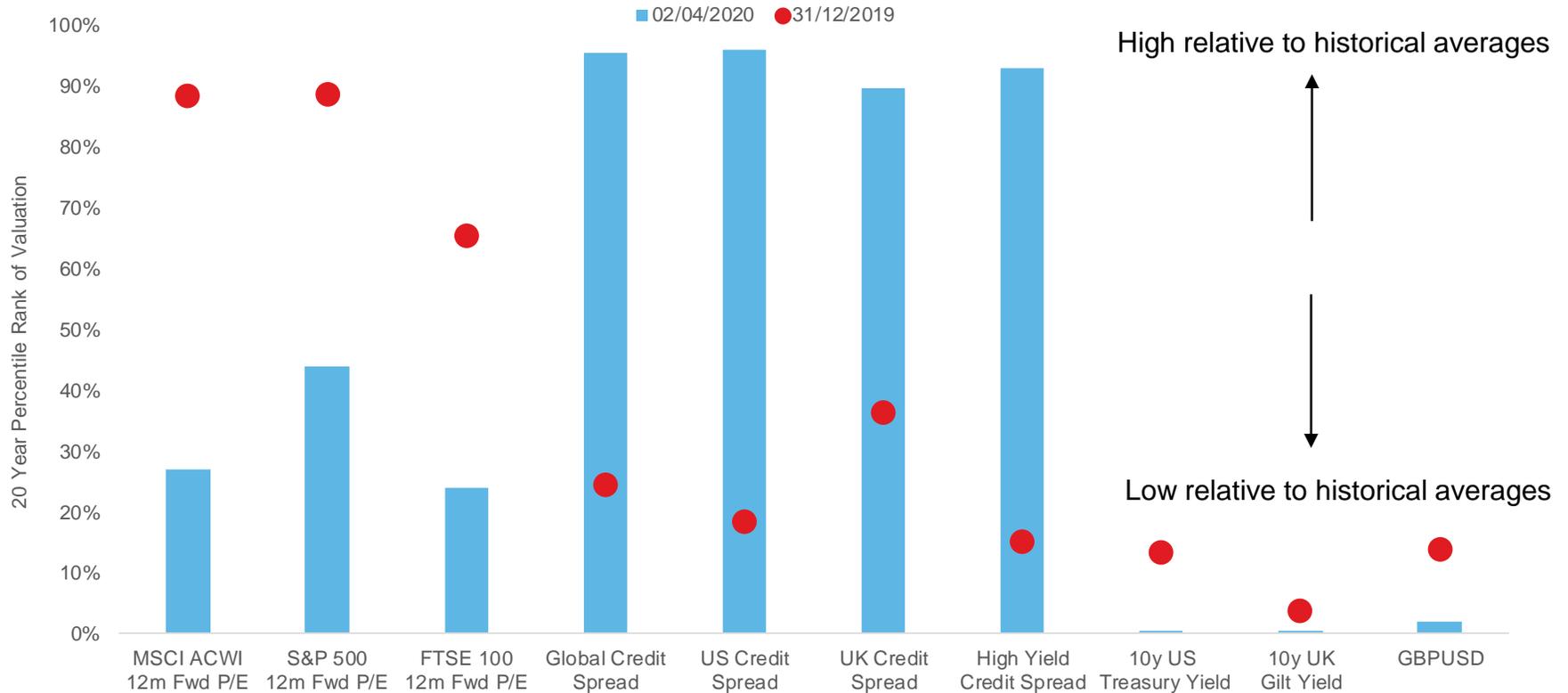
- Border closures and travel restrictions around the world
- Air travel and travel more generally has fallen significant. Airlines are warning of \$63 - \$113bn revenue shortfall.
- Conferences cancelled – Google I/O, SXSW, MWC Barcelona.... and many more
- Self-quarantine and official quarantine regimes continue. Many European countries have put mass restrictions on most of its population. USA has begun implementing aggressive social distancing.
- And many more examples...

Small V, Deep V, U Shaped...
Expectations for future growth
are changing day by day.

Note: "Nowcast" are model-driven estimates of GDP growth based on the latest available economic data. Some of the economic data used will be lagged, e.g. due to a monthly publishing frequency. The weighted average nowcast is a global composite of the individual countries' nowcast estimates.

Market Valuations

Markets have re-rated extremely fast, but there is some uncertainty around how much value there is. Forward looking measures of value may be using stale estimates, as the economic impact is so uncertain.



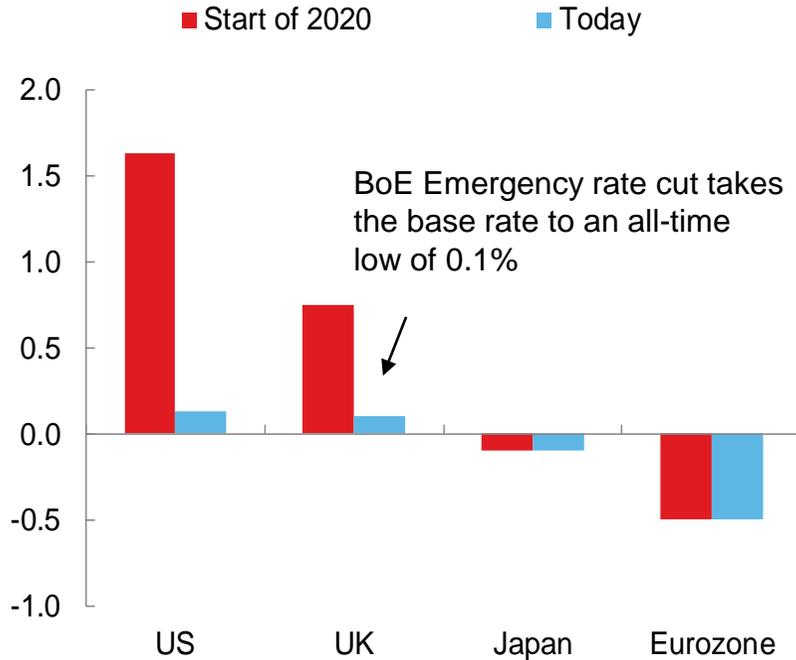
Source: Aon, Factset

Notes: Valuations used: Equity markets = Next Twelve Month PE Ratio, Credit Spread = Option Adjusted Spread, Treasury Yield = Yield To Maturity

Central Bank Actions

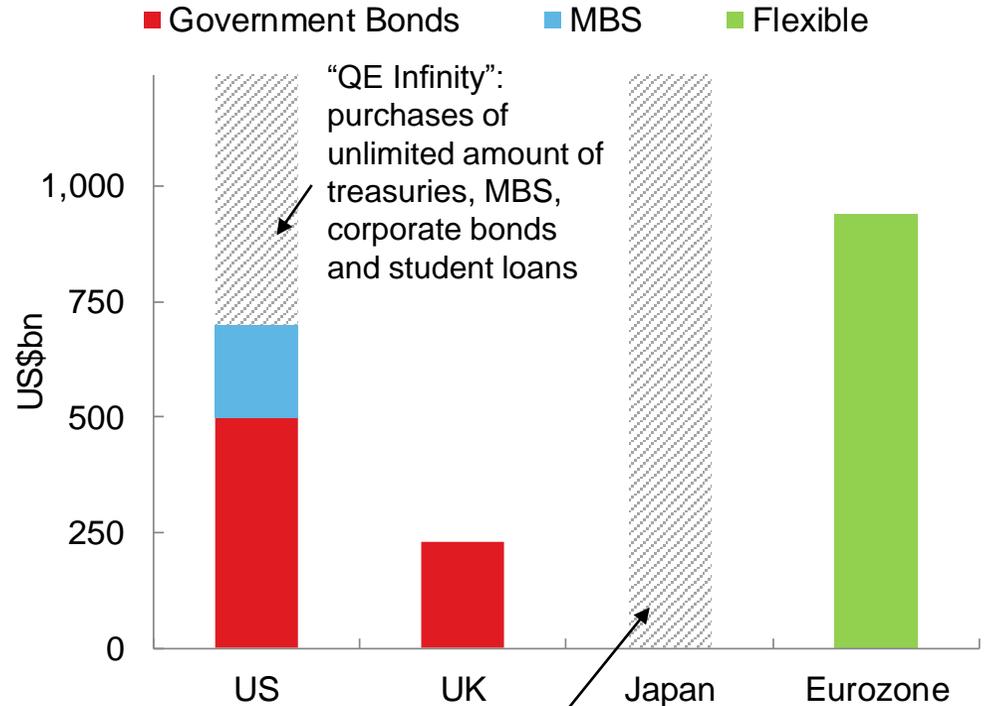
- Where possible central banks around the world have eased policy, but with rates being low there is a limit.
- Unprecedented new quantitative easing measures have been announced to provide further monetary stimulus.

Central Bank Policy Rates (%)



Source: Aon, Bloomberg OIS Pricing
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New Quantitative Easing Measures



QE endpoint? The BoJ is extending purchases of everything from government and corporate bonds to equities ETFs

Announced Fiscal Packages

USA	<ul style="list-style-type: none">▪ Congress has passed a c.\$2 trillion fiscal stimulus package. The package expands jobless benefits and provides direct transfers of up to \$1,200 for Americans earning less than \$75,000 per year▪ State of Emergency declared releasing \$50bn to States to deal with virus▪ April tax date to be delayed, providing a \$200-300bn bridge loan to households
UK	<ul style="list-style-type: none">▪ £330bn in loans and £20bn in other aids have been announced to provide help to businesses.▪ The government has agreed to cover 80% of salary for employees who are unable to work due to coronavirus related shutdowns. Similar schemes have also been introduced for self-employed individuals.
Japan	<ul style="list-style-type: none">▪ Variety of small fiscal measures passed. Two small business loan bills totaling \$20bn. \$4bn for mask production and stopping viral spread.▪ Further stimulus measures of around 15 trillion yen (c.\$137 billion) expected
Eurozone	<ul style="list-style-type: none">▪ Germany have launched a €156bn supplementary budget and have launched a loan guarantee program worth up to €950bn (c.28% of its GDP).▪ Italy announced a €25bn spending package to deal with fall out from virus.▪ France has announced emergency fiscal spending of up to €45bn.

Appendix

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