



Market Update – COVID-19

April 27, 2020 Close unless otherwise stated

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Our Views

- Markets have bounced back sharply, boosted by signs of a “flatter” virus trajectory across major developed economies and global governments and central banks being willing to take extraordinary measures to support economies.
- Sustainable gains from here on look much more difficult with valuations now looking stretched and the economic consequence of the pandemic lockdown still uncertain.
- Bond yields remain at rock bottom levels, as global QE programmes and policy interest rates hold yield curves down. This is unlikely to change over the medium-term.

Actions for client portfolios

- **Our recommendation on buying equities to rebalance allocations have changed to a “no action” policy.** This does not imply an expectation that large market falls are necessarily imminent. It is more that at this stage, market levels and valuations suggest inferior rewards for taking on more equity risk.
- **Some reallocation towards building credit positions which have drifted underweight following recent market declines remain appropriate.** The scale of the market rebound has not had quite the same impact on investment grade credit markets (even though high yield bonds have moved into much less attractive territory).
- **Diversification has paid off in these difficult market conditions, and we believe they retain an important role in portfolios given the degree of market uncertainty.** Further market weakness will improve the case for using diversifiers as a funding source for adding risk to portfolios.
- **Duration positions should be taken with care.** A mild underweight looks reasonable, but we do not believe it is likely that yields will move up very much even after the virus scare has passed. Hedge ratios should be managed accordingly.

What we are watching:

- Signposts for the duration of global economic weakness. We continue to expect a relatively low octane economic recovery when lockdown restrictions are lifted. More confidence here would help the case for adding risk to portfolios.
- The scale of valuation adjustments in equities and credit, alongside technical and sentiment indicators pointing to a more sustainable market recovery.

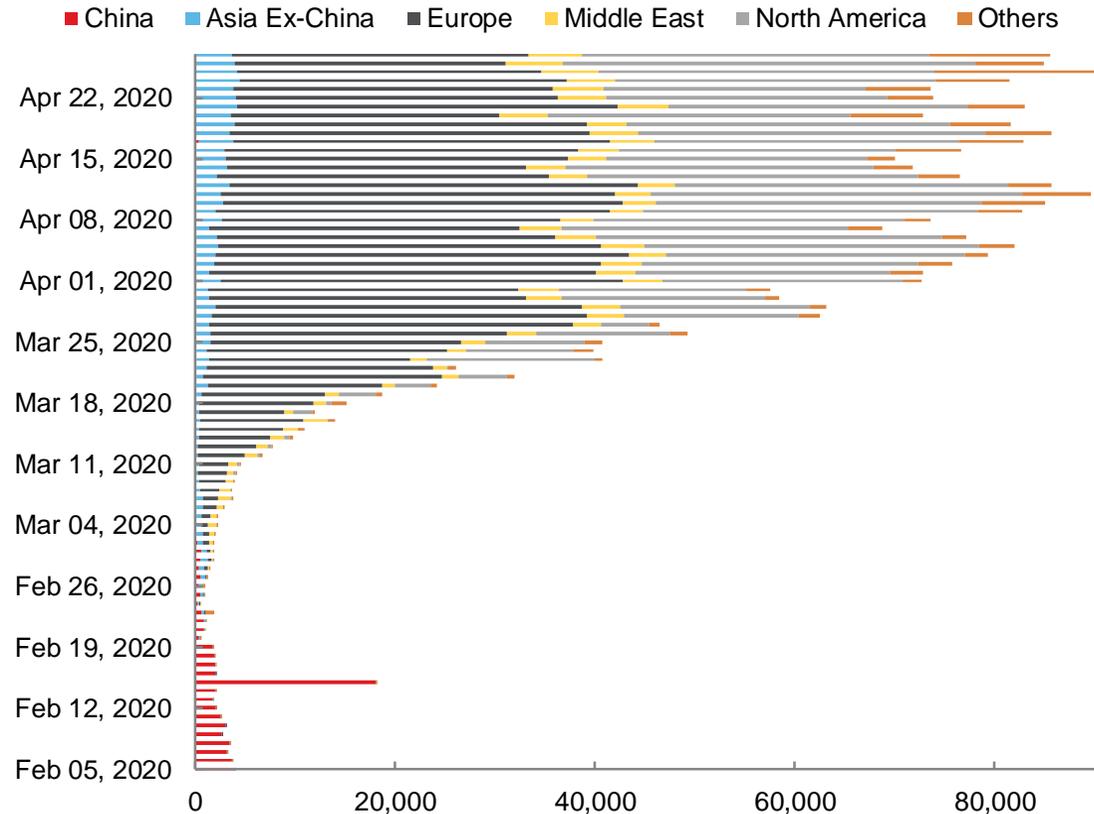
COVID-19 Update

Current Situation (27 April 2020)

Global	
Confirmed Cases	2,878,196 (85,530 new yesterday)
Deaths	198,668 (4,982 new)

Europe	
Confirmed Cases	1,359,380 (29,659 new)
Deaths	124,525 (2,307 new)

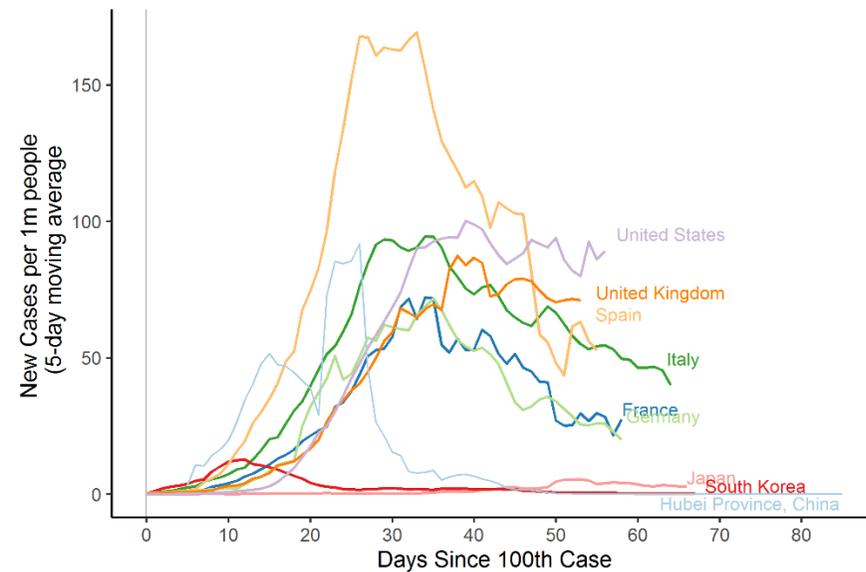
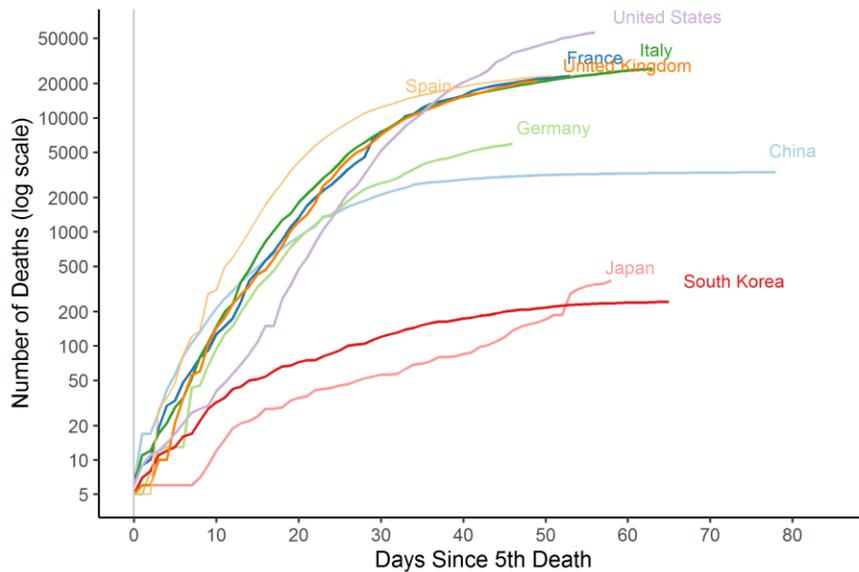
New COVID-19 Cases



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".

COVID-19 Virus Trajectory

- The trajectory of the outbreak will be key in determining how long containment policies remain in place and how the economy fares.
- The virus appeared to have peaked in Spain and Italy after lockdown measures were implemented there. However, a “second wave” outbreak remains a risk if these measures are lifted.



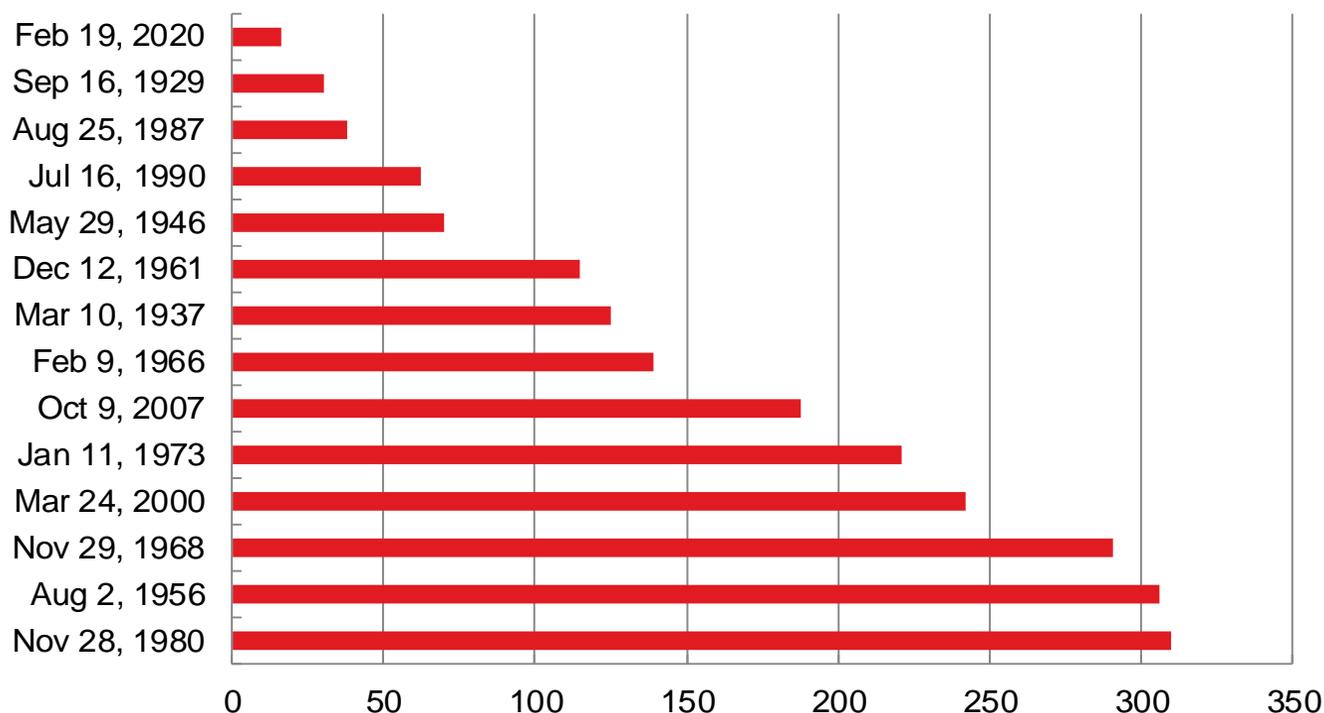
Source: Aon, European Centre for Disease Prevention and Control, Hubei Province data sourced from John Hopkins University.
Data as at 27 April 2020.

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

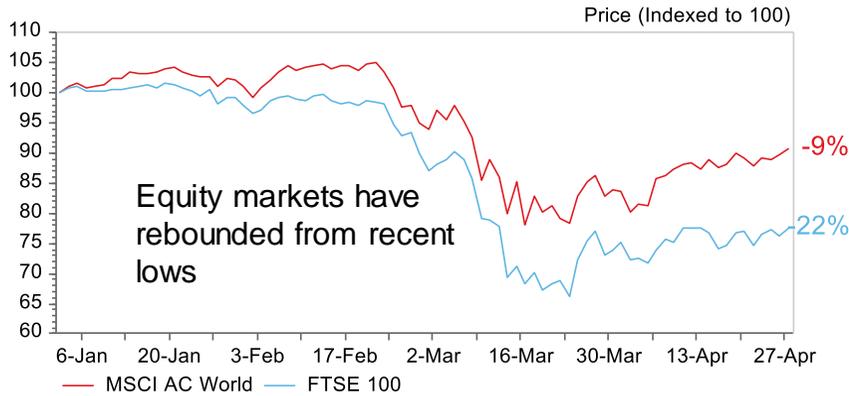
Date of Market Peak



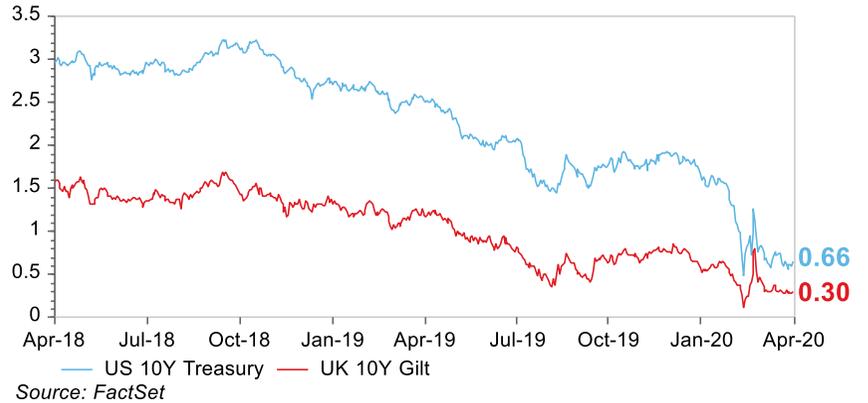
Source: Aon Calculations, S&P, FactSet

Market Reactions

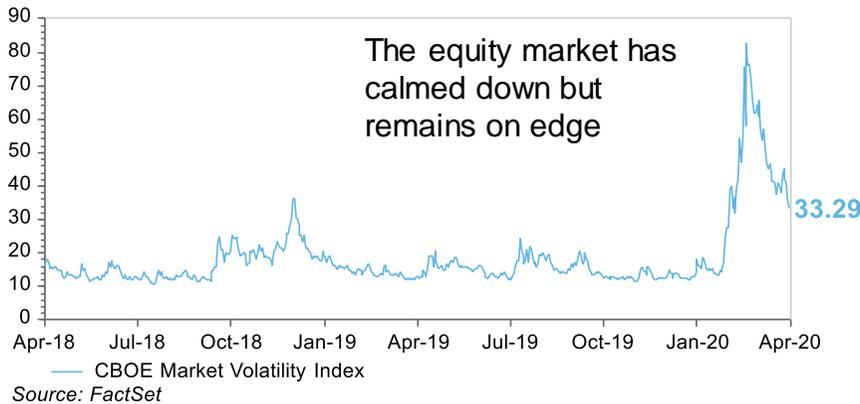
Equity Market YTD (GBP terms)



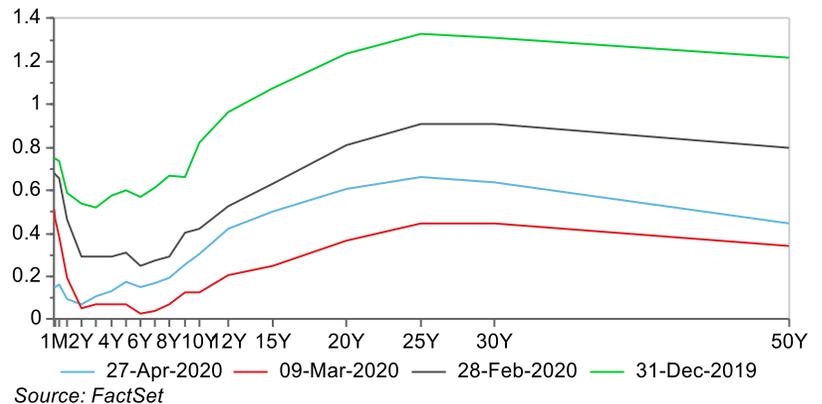
Government Bond Yields (%)



VIX



UK Gilt Yield Curve



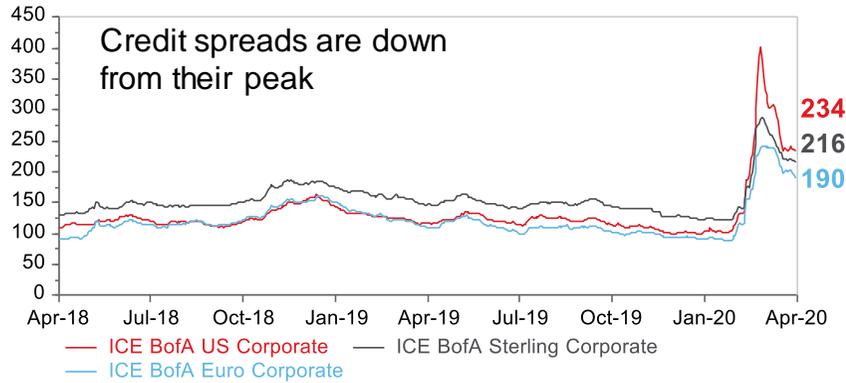
Past performance is no guarantee of future results.

28 April 2020

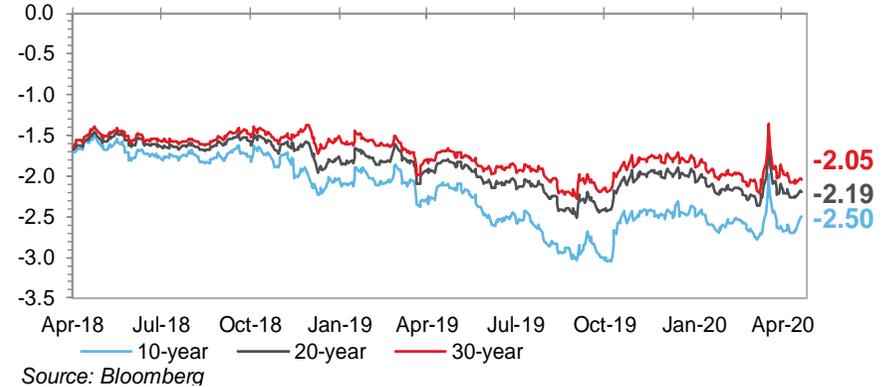
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Market Reactions

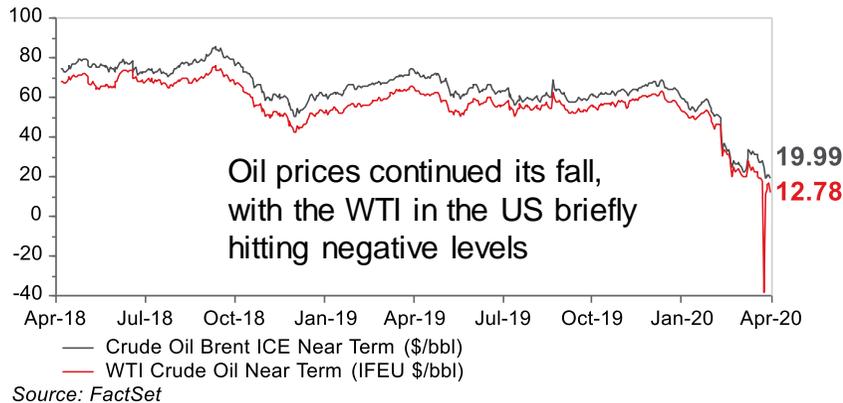
Investment Grade Credit Spreads (bps)



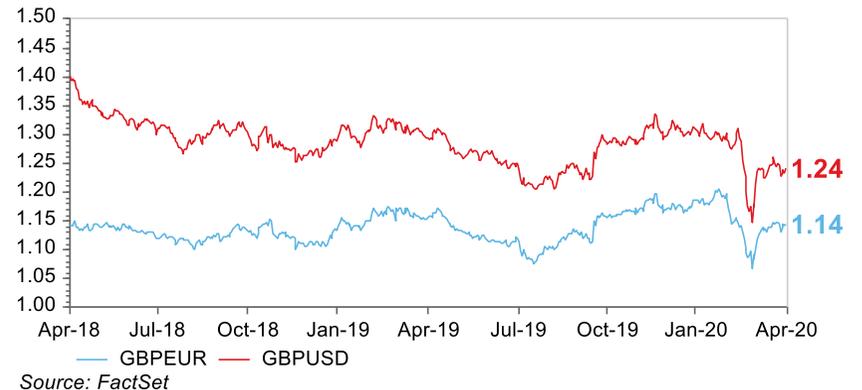
Real Yields (%)



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

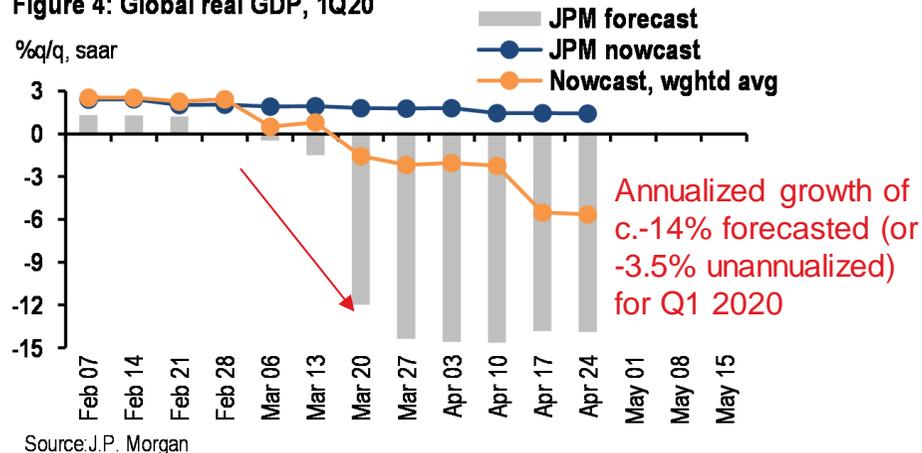
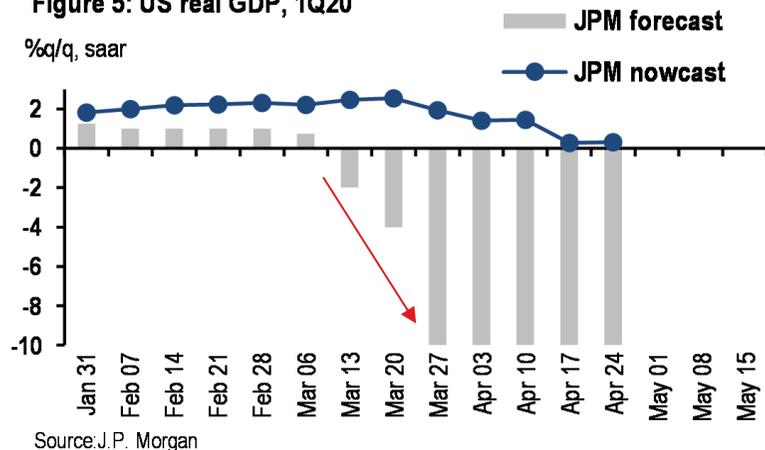


Figure 5: US real GDP, 1Q20



The Economic Costs Rack Up

- Border closures and travel restrictions around the world
- Self-quarantine and official quarantine regimes continue. Many European countries have put mass restrictions on most of its population. Social distancing measures have also been implemented across most of the US.
- Non-essential businesses have been ordered to close in many countries, shuttering much of the high street.
- Air travel and travel more generally has fallen significant. Airlines are warning of \$63 - \$113bn revenue shortfall.
- And many more examples...

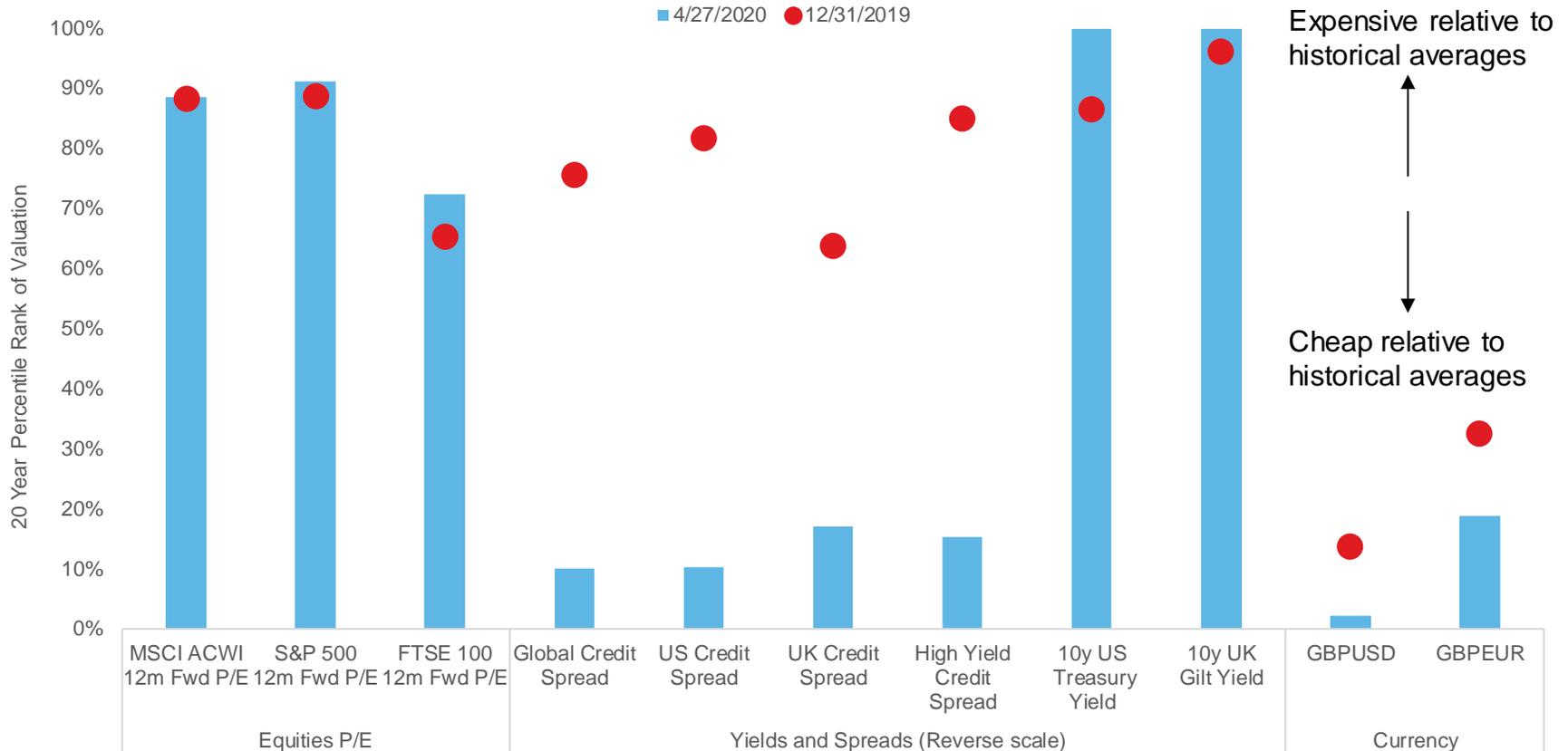
Small V, Deep V, U Shaped...
Expectations for future growth
are changing day by day.

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.

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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.



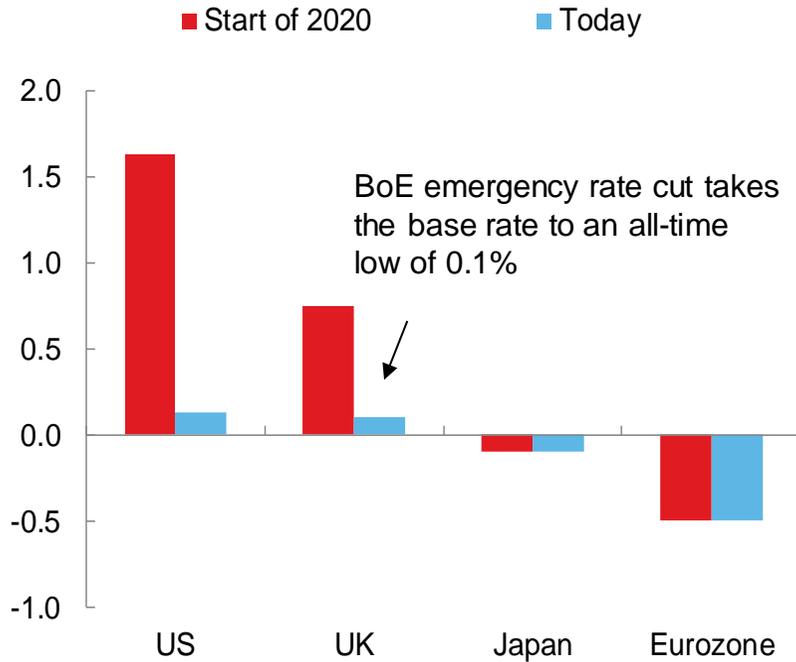
Source: Aon, Factset

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

Central Bank Actions

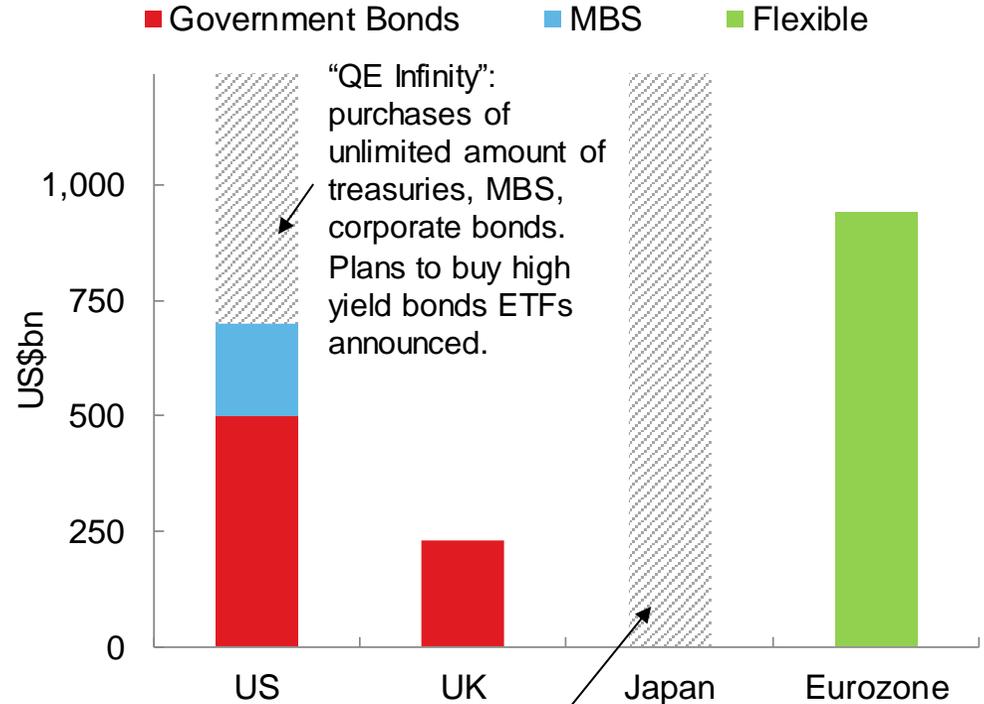
- Where possible central banks around the world have eased policy, but with rates being low there is a limit.
- Unprecedented new quantitative easing measures have been announced to provide further monetary stimulus.

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.▪ Japan has approved a c.\$1 trillion fiscal stimulus package
Eurozone	<ul style="list-style-type: none">▪ The European Union has agreed a €500bn rescue package for countries affected by the pandemic▪ Germany have launched a €156bn supplementary budget and have launched a loan guarantee program worth up to €950bn (c.28% of its GDP).▪ France has announced emergency fiscal spending of up to €45bn.

Appendix

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Registered office:

The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN

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