25/4/2020

STRATEGY OVERVIEW

Learning to live with Covid-19

Summary

'Fed up' would be an understatement for the sizeable chunk of humanity locked down for weeks on end, but fortunately there is now room for hope. Cautious they may be, but more or less simultaneous announcements from many countries about easing restrictions are starting to lift all our spirits. Covid-19 has hardly disappeared, but we appear collectively to have 'flattened the curve' enough to ensure that health systems can at least cope with it.

Desperate research aimed at miracle drugs that could either treat the illness or vaccinate against it has yet to bear fruit. Governments are therefore resigned to re-exposing people to the virus and wing it from there. The lack of reliable statistical tools is a major handicap; we still do not have a proper calculation of the mortality rate as a proportion of infected individuals (the infection fatality rate, or IFR), relying instead on the completely unsatisfactory denominator of tested individuals. The ratio of infected to tested individuals could be as high as 50:1. A mishmash of analyses covering situations as disparate as the town of Gangelt in Germany to the Diamond Princess cruise ship suggests an IFR of between 0.15% and 0.60%, well below the 7% we obtain when we use detected cases. If we assume that 60% of us will end up being infected at some point or other, those IFRs give us between 54,000 and 108,000 deaths in France, for example, concentrated among the more vulnerable part of the population. Unless a remedy comes along sooner, of course. Sweden has opted for a head-on approach, leaving bars and restaurants open while taking a number of sensible precautions. According to the authorities, Stockholm will soon be immune to further outbreaks. Germany has grasped the statistical problem at last, establishing three representative panels (one national panel of 15,000 people). This ought to answer some of the questions that the scientists and politicians have been asking.

Equity markets believe that lockdowns will do the trick eventually. Together with massive liquidity injections, this sentiment has lifted the S&P 500 27% off its lows. It is now just 11.7% down on the year following its 31.5% gain in 2019; in the meantime, the VIX has dropped sharply. Eurozone markets are suffering rather more, reflecting the weights of banks and oil companies in the main indices. Unsurprisingly, healthcare and IT stocks are performing the best. New GDP growth estimates for 2020 are starting to appear, and we are looking at a 5-10% drop worldwide. China is estimated at +2%. We have to go back to the Great Depression to see anything similar. US unemployment has surged by 26 million in a matter of weeks, and while they are receiving payouts right now it is unclear how long that can last.

Frantic efforts to print money worldwide have meant ballooning central bank balance sheets. The overall increase is measured in trillions of dollars, with the Federal Reserve accounting for $2.5 trillion all on its own. The Fed and the ECB are also buying up junk bonds to keep credit markets open. While budgetary stimulus is the order of the day, the euro zone has less room for manoeuvre than the USA. The 19 eurozone countries do not have the same interests, and Italy is not in a position to issue much more debt (much of which is bought by the ECB anyway). It would rather see 'coronabonds' being issued instead. The EU has voted a €540 billion package, and for once the European Commission is pushing for trillions rather than billions for this purpose. An agreement on additional stimulus would buoy the markets. For the first time, governments are in general resorting to direct financial payments to their people.

On Wall Street, Q1 results announcements are beginning to offer a degree of visibility on 2020 corporate profits. The consensus estimate for the S&P 500 is -18%, but we are using -34% with a 34% rebound in 2021. Our forecasting model gives us an 8-year -0.2%, which is a prudent number between two cycle highs. Our year-end price objective is up slightly to 3,092 points and we are sticking to the overweight recommendation we adopted last month, with caution above 2,940 points. Our objective for the MSCI EMU is 112 points, compared with last Friday's close at 100 points.

We wish all our readers good health and a swift exit from the crisis.

Jacques Chahine

Easing by degrees

The hundreds of millions of people cooped up for the past few weeks are increasingly fed up of the whole thing, and especially in countries enjoying an idyllic Spring. But a note of optimism is emerging from a number of announcements from various countries concerning the easing of their lockdowns, even if caution remains the order of the day. In the USA, where Donald Trump appears to be thinking more about his chances of re-election than the business of saving lives, several States have eased up even before they can point to a flattening of their infection profiles. Covid-19 is hardly about to disappear, but curves have been flattened enough worldwide to ensure that national health systems can cope with it. Intensive care occupancy is generally falling, death rates are on a downtrend and the number of new cases appears to be declining day after day. The war is far from over, however, as the virus is well capable of rebounding. In Singapore, for example, where the pandemic suffered an early setback, infections are up again. Parallels with forest fires are singularly appropriate.

Research aimed at miracle drugs that could either treat the illness or vaccinate against it has yet to bear fruit. Mr Trump thought that chloroquine would be the magic pill, but rigorous testing showed that this is not the case and the FDA has rejected it as a treatment. But then the president also suggested cleaning our lungs with bleach… Gilead's promising efforts have not produced anything concrete yet, and researchers worldwide are still on the case. More than 500 clinical trials are under way and 70 vaccines are being developed. Three are being tested on humans in the USA and China. But the planet cannot remain locked down indefinitely, and governments will have to let their people live with the virus to some degree. The fact of very poor, approximate data will make that a riskier business than it might otherwise be.

Germany reacts to the statistical shambles

We are still outraged by the lack of proper data around Covid-19 infection, which has seriously damaged our ability to understand and deal with it. Organisations such as the WHO should have established strict guidelines on epidemic statistics; the fact that they have not has left us with a daily litany of completely incompatible and shamefully inadequate data. None of us have any idea what the real death rate among infected people is. Nor do we have a precise idea of how many infections – symptomatic and asymptomatic – are actually recorded. Bits of data pop up from time to time, such as the 21% of New Yorkers that are supposed to be carrying antibodies, based on a 'random' sample among supermarket shoppers. But we have no idea what proportion of the population has already been exposed to the virus.

Germany has come in for praise, reflecting its high testing rate and a hospital system that is both well-equipped with ventilators and admits foreigners. The German plan for easing restrictions involves three batteries of sample-based statistical studies: a 15,000-strong sample of blood tests for immunity testing, 2,000 blood tests from the most infected regions and a national, representative panel of 15,000 people to analyse immunity rates in correlation with medical, social and economic profiles. This latter panel will be revisited to track any changes. One of the panel members has described being approached by a medical student accompanied by a police officer, requesting participation in this exercise. It involves taking a drop of blood for testing and follow-up visits for several months. Readers interested in the professionalism of this approach may wish to read the following FT and NYT articles:

https://www.ft.com/content/fe211ec7-0ed4-4d36-9d83-14b639efb3ad

https://www.nytimes.com/2020/04/18/world/europe/with-broad-random-tests-for-antibodies-germany-seeks-path-out-of-lockdown.html

These samples and panels will help the authorities track the progress of the epidemic, while delivering information such as the infection mortality rate (IFR), the proportion of immunised individuals and a raft of detail relating to the epidemic's impact by geography, sex, socio-economic criteria and underlying health condition. And all this information can then be used to ease restrictions with as little risk as possible.

Keeping the lid on fatalities

Having slowed the spread of the virus, governments are preparing to ease restrictions without the benefit of a vaccine. Greater immunity is key to success in these circumstances. For the reasons already described, the infection fatality rate is a bit of a guess at the moment, but as far as we know – and based on cases as diverse as Gangelt in Germany, the Diamond Princess cruise ship and a study carried out in Santa Clara, California – it lies somewhere between 0.16% and 0.60%. The higher IFR is drawn from the Diamond Princess, which had an atypically old population profile. Either way, these numbers are far more reassuring than the 7% mortality rate among detected cases worldwide, which is subject to serious caveats around both testing and recorded deaths. We remember the jump in the French death toll when care homes were incorporated in the daily calculation, for example. In New York City, 9,447 people died between 11 March and 16 April of non-coronavirus causes; that number would usually be expected to be around 5,400. And the same anomalies are apparent more or less everywhere. Taken together, they suggest that Covid-19 infections are 20-50 times higher than official figures, and therefore that in most cases the disease is benign or asymptomatic.

Current easing strategies consist of risking the exposure of low-risk segments of the population to the virus in order to boost general immunity levels. We might be looking at increasing exposure to 50-60% of the population, for example, up from maybe 20% now. If we retain an IFR of 0.15% for 60% of the population, we obtain a mortality rate of 0.09% of the whole population, or 54,000 deaths per 60 million. That would of course be doubled with an IFR of 0.3%. At the time of writing, France's death toll from the virus is 22,600. Note that these estimates are assuming no vaccine or treatment, and that higher toll is hit with or without the lockdown, but clearly the healthcare system would have been unable to cope with that sort of surge in infections.

The UK started off with a 'herd immunity' logic but quickly changed tack in the face of mounting casualties. Sweden followed through with that logic however, refusing generalised lockdowns and allowing shops and even restaurants and cafés to remain open. The photograph below tells it all. At the time of writing, the death rate per million inhabitants was 217, compared with 346 in France. Germany's death rate is even lower, true (70), but we do not yet know if Sweden is further ahead in terms of immunity. The Swedish authorities believe that 20% of the population of Stockholm is immune and that proportion will rise to 60% in the coming weeks. The spread of Covid-19 in retirement homes accounts for the country's relatively high mortality rate. But Swedes are a disciplined lot, and were quick to adopt distancing measures such as working from home without being forced to do so. Primary and secondary schools have stayed open and university courses have switched to online systems. The idea is that lockdowns cannot persist indefinitely and people will abandon them sooner or later. This is precisely the experience of several States in America, except without Swedish-style civic responsibility.

Herd immunity was criticised by the WHO, which pointed to a lack of evidence that it could prevent a second wave of the pandemic. There is no evidence that it doesn't work, either. Unfortunately, that leaves us speculating on the basis of very poor statistics. Established right from the start, representative panels could already be delivering useful information.

Enjoying the Spring sunshine: Stockholm, 20 April

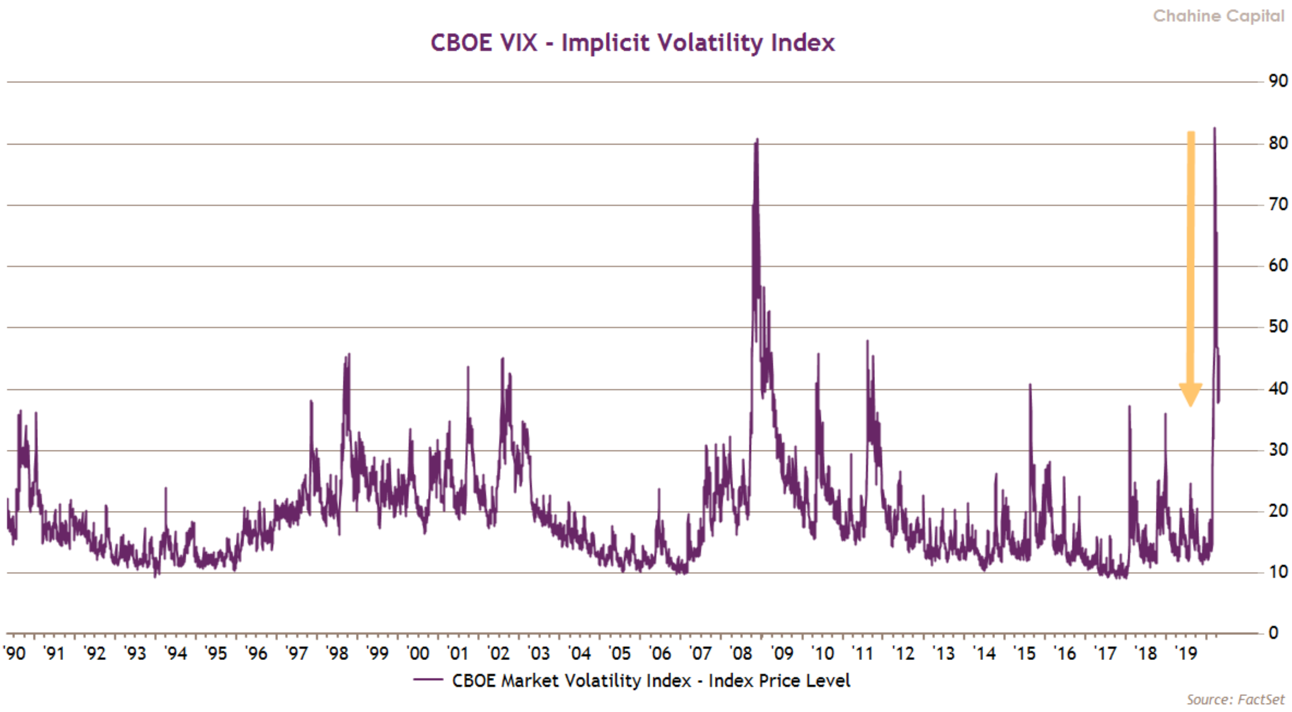
All in all, the pandemic is still raising far more questions than answers, and our politicians are groping in the dark. We can hardly blame medical research for more clarity, but we could have done with decent statistical tools to aid decision-making. It seems likely that policy will remain a trial-and-error affair until we pinpoint an effective easing strategy. Or until a miracle drug to treat the disease or vaccinate against it appears.

Wall Street 27% off its lows

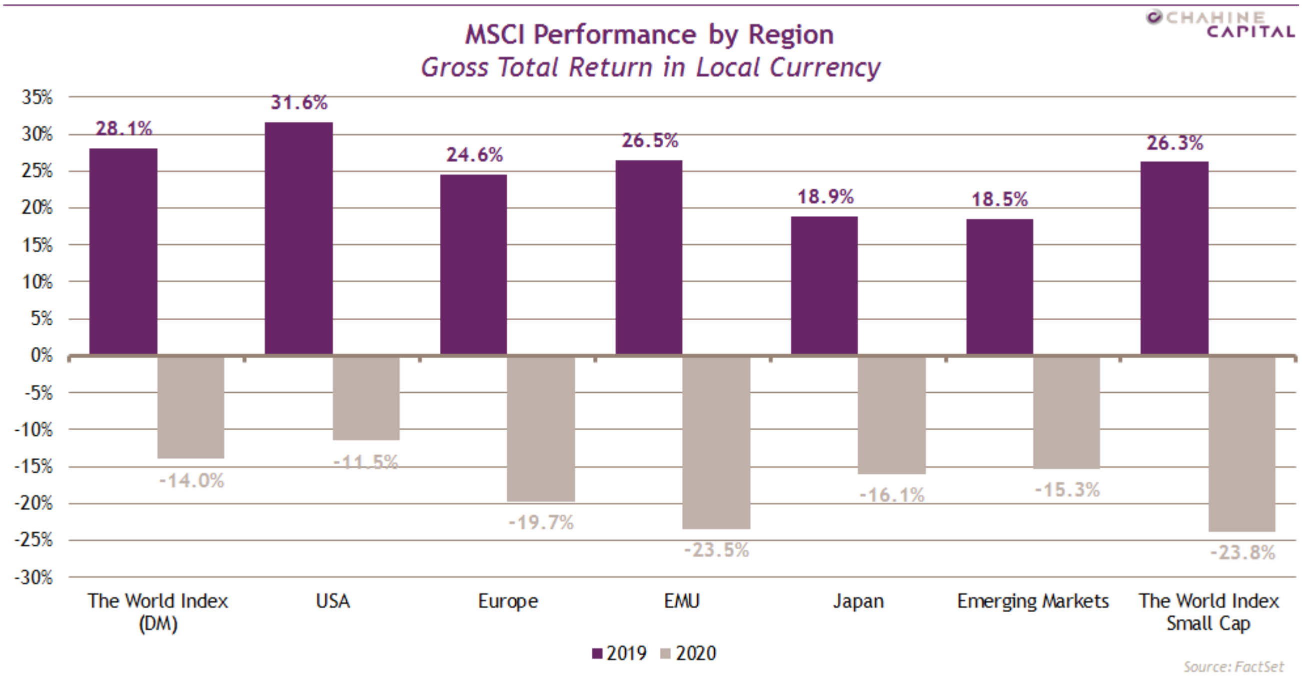
Equities rebounded remarkably well in response to the easing of restrictions across the world. Investors firmly believe that business will return to normal step by step in line with the immunity scenario just described or by virtue of medical research. The VIX 'fear' index came off its 83% record high to 36% in a matter of days, with the latter representing a daily standard deviation of 2.5%. As of last Friday, the S&P 500 was at 2,837 points, some 27% up on its lows and just 15% from its highs. Both the crash and the recovery were extremely quick. In total return terms, the index is down 11.7% since the start of the year, compared with a 31.5% gain in 2019. These huge swings highlight the difficulties of timing entries and exits and suggest more limited portfolio adjustments. We had reduced our equities allocation when the market was at a high in September 2018 and came back in from 2,650 points upwards last month. But we are talking about reasonable adjustments (around 5%), not wholesale portfolio changes.

Euro zone equity markets are suffering rather more, reflecting their relatively high weights in a still fragile financial sector and oil companies exposed to collapsing oil prices. Its real estate market is also wobbly, with the sector losing 26% so far this year in dollar terms. Asian countries, including Japan, are faring better than the euro zone because of their better management of the pandemic.

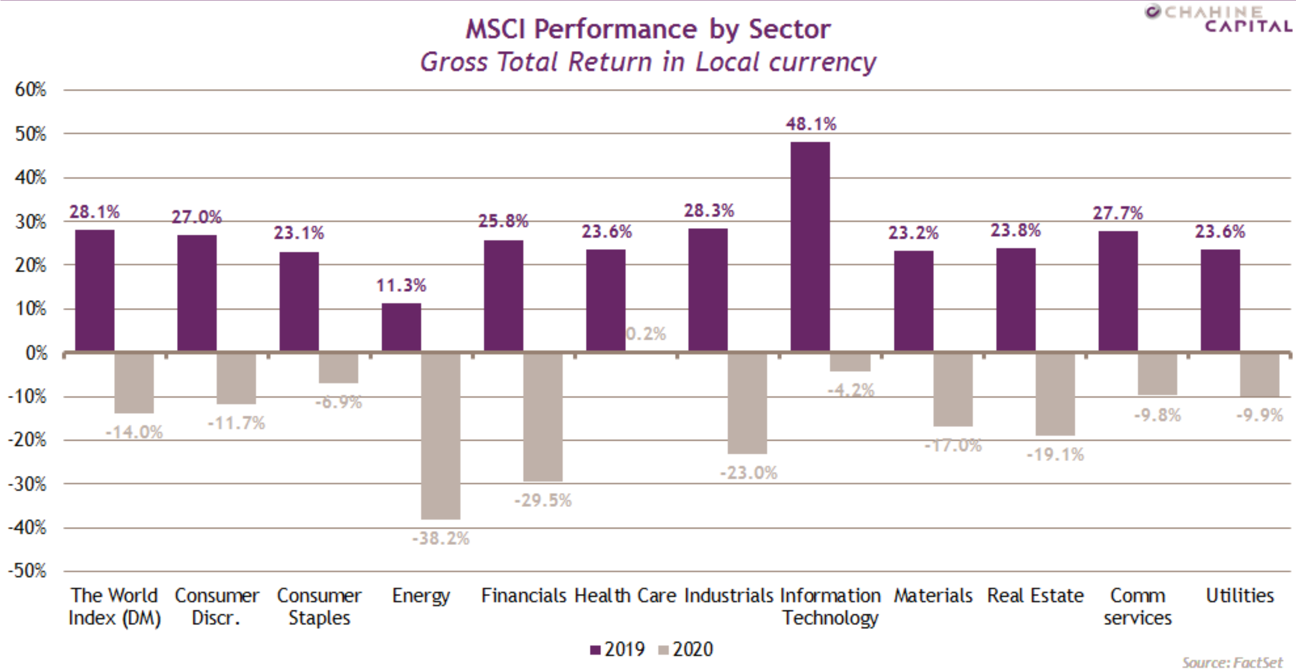
Calmer trading has lowered volatility



A mitigated correction, but small caps have struggled



Healthcare and IT the top performers, energy off the cliff



Unsurprisingly, the healthcare sector has been spared correction. Many of its firms are struggling to keep up with demand. The pandemic has illustrated how dependent we have all been on China to produce medicines, and particularly the raw materials for drugs such as paracetamol. India is a major drugs manufacturer. The crisis may well encourage developed countries to bring these activities back home. The IT sector has escaped serious damage, and accounts for 25% of US market capitalisation all on its own. Amazon has benefited from its delivery services and its cloud division, while Netflix is keeping millions amused during the lockdown. Microsoft's cloud-based business model and its software offering are perfect for this situation. Even Apple is holding up well, dropping only 3.4%. Biotech stars Regeneron and Gilead are up 50% and 25%, respectively, as both companies are involved in coronavirus research. Consumer staples are proving resilient, as we would have expected. If nothing else, we are still buying food.

World GDP set to decline 5-10% in 2020

It is still difficult to generate economic growth forecasts for 2020 and 2021, as they require very specific pandemic exit – and therefore business normalisation – scenarios. Bloomberg and FactSet macroeconomic consensus figures are derived from a mix of reputable economists and wild speculators, meaning that they are wobbly at best. For once, the IMF has been quicker off the mark than consensus estimations, but again their forecasts can only be indicative. For what they are worth, we note -5.9% in 2020 and +4.7% in 2021 for the USA; the contraction this year would therefore be beaten only by those recorded in 1929 and 1946. US GDP dipped 2.5% during the 2008 crisis, for example. In Europe, the 2020 growth forecasts are -9.1% for Italy, -7.2% for France and -7% for Germany. French premier Edouard Philippe has cited -8%, and government predictions tend to be optimistic. A worsening crisis scenario could drop the US figure to -8%. Asian countries are expected to do better, as they have proved better at controlling the virus. The IMF expects strong recoveries in 20121, but that is far from a done deal. Most observers believe the travel and leisure sectors will be in trouble for some time yet.

According to the IMF, a worse recession than 2008

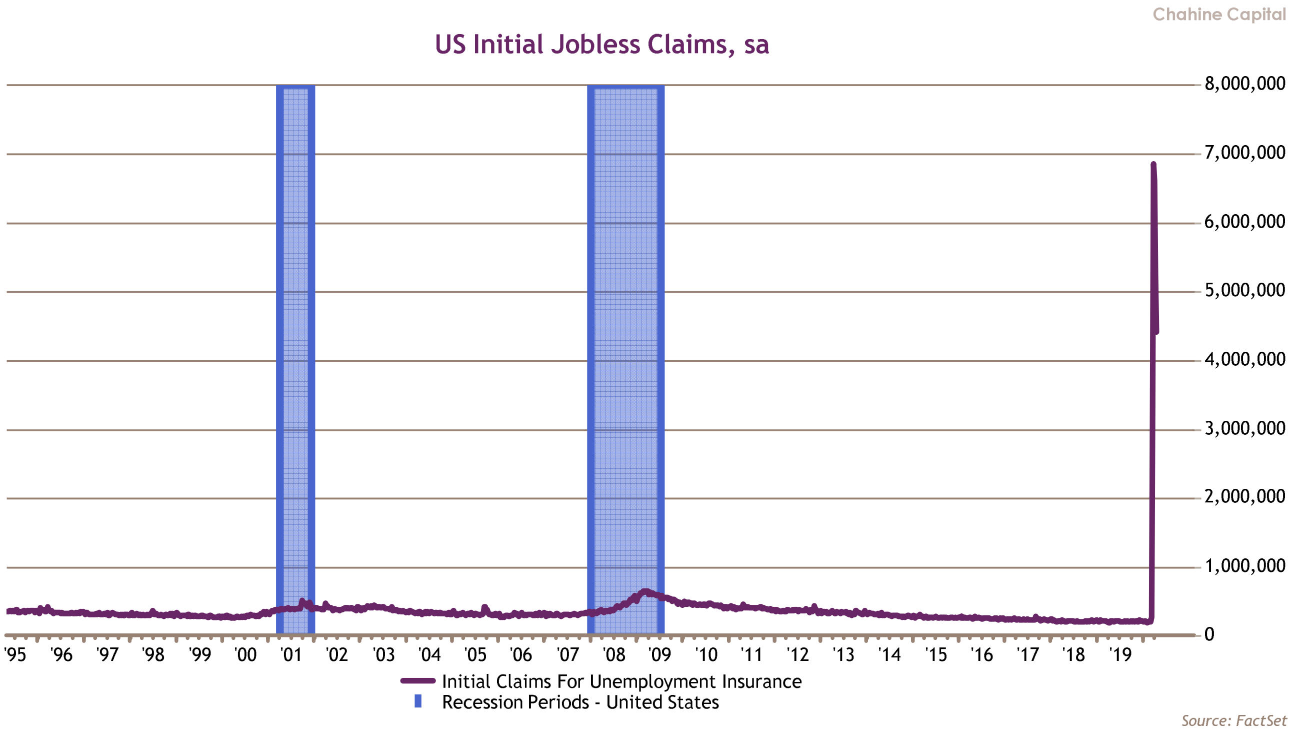
Real GDP growth (Annual percent change)	2019	2020	2021
Italy	0.3	-9.1	4.8
Spain	2.0	-8.0	4.3
France	1.3	-7.2	4.5
Germany	0.6	-7.0	5.2
Australia	1.8	-6.7	6.1
Thailand	2.4	-6.7	6.1
United Kingdom	1.4	-6.5	4.0
Canada	1.6	-6.2	4.2
United States	2.3	-5.9	4.7
Brazil	1.1	-5.3	2.9
Japan	0.7	-5.2	3.0
Taiwan Province of China	2.7	-4.0	3.5
Singapore	0.7	-3.5	3.0
Korea, Republic of	2.0	-1.2	3.4
Indonesia	5.0	0.5	8.2
China, People's Republic of	6.1	1.2	9.2
India	4.2	1.9	7.4

US unemployment soars

There is little point in dwelling on US economic indicators. As the recent PMI data showed, they are all at rock bottom. But we would point out that manufacturing indices are stronger than services indices, although this could simply reflect consumers' basic needs. Coming in data releases are likely to be terrible, because in contrast to Europe, American businesses fire at will. 700,000 jobs well lost in March, and that was just the start. Since 20 March, no less than 26.5 million Americans have registered as employed. There is no parallel in economic history. Fortunately, the federal government has both increased unemployment benefits and the length of time for which they paid.

Despite a sharp increase in money supply, inflation has dwindled in line with lower energy prices and contracting demand. CPI inflation is down to 1.5%, and 2% excluding food energy. We are astonished at the persistence of tame inflation, given the size of liquidity injections. It is not easy to see where inflation will go after the crisis, especially as pressure could build on basic materials.

An unprecedented hike in unemployment



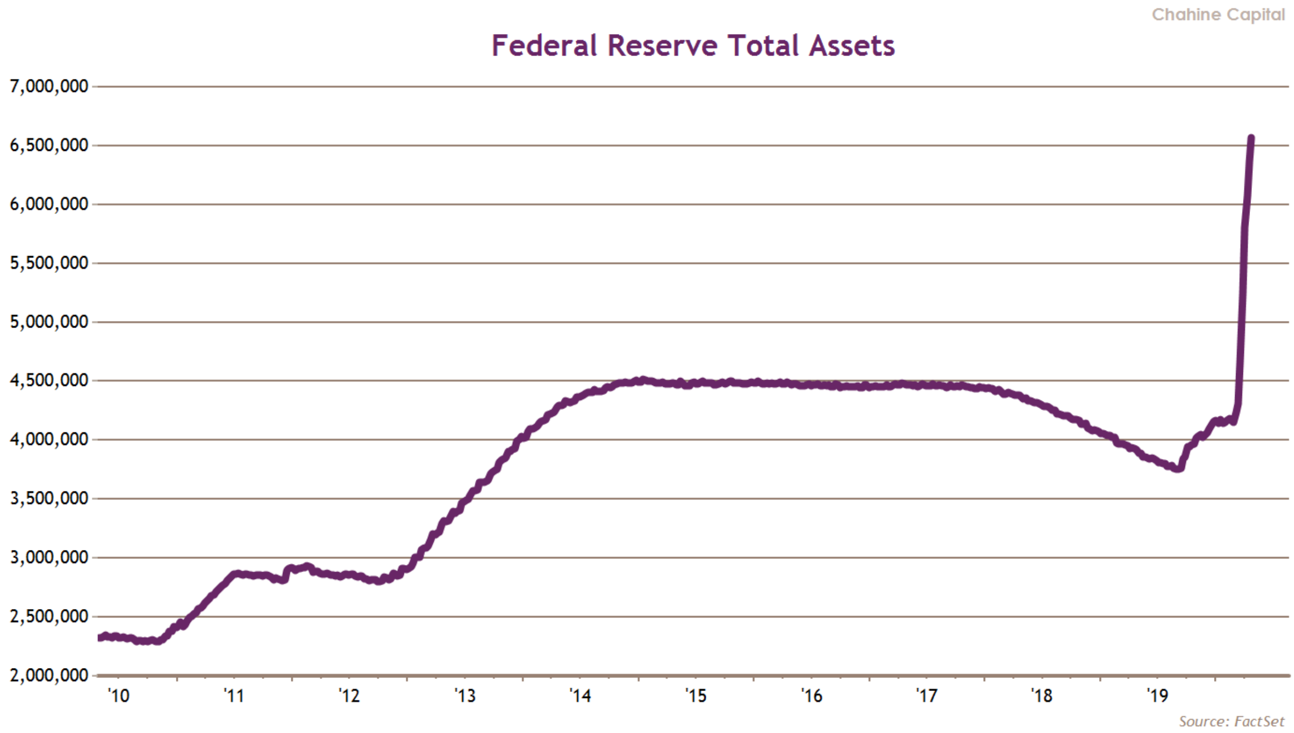
Helicopter money to the rescue

Governments worldwide have pulled no punches in combating the economic damage wrought by the pandemic. At long last, helicopter money has been deployed in the USA, where families and businesses have received direct payments from the federal government. Budgetary stimulus packages amount to trillions of dollars, even though some of the governments announcing them have little scope to pay for them. Borrowing is going to finance these plans, such as the €110 billion voted in France. Given that private investors are never going to be able to take down massive additional debt in the Eurozone, the ECB is going to have to be the lender of last resort. But then its QE programme never ended, and in the past few weeks it has bought €600 billion-worth of government and corporate paper.

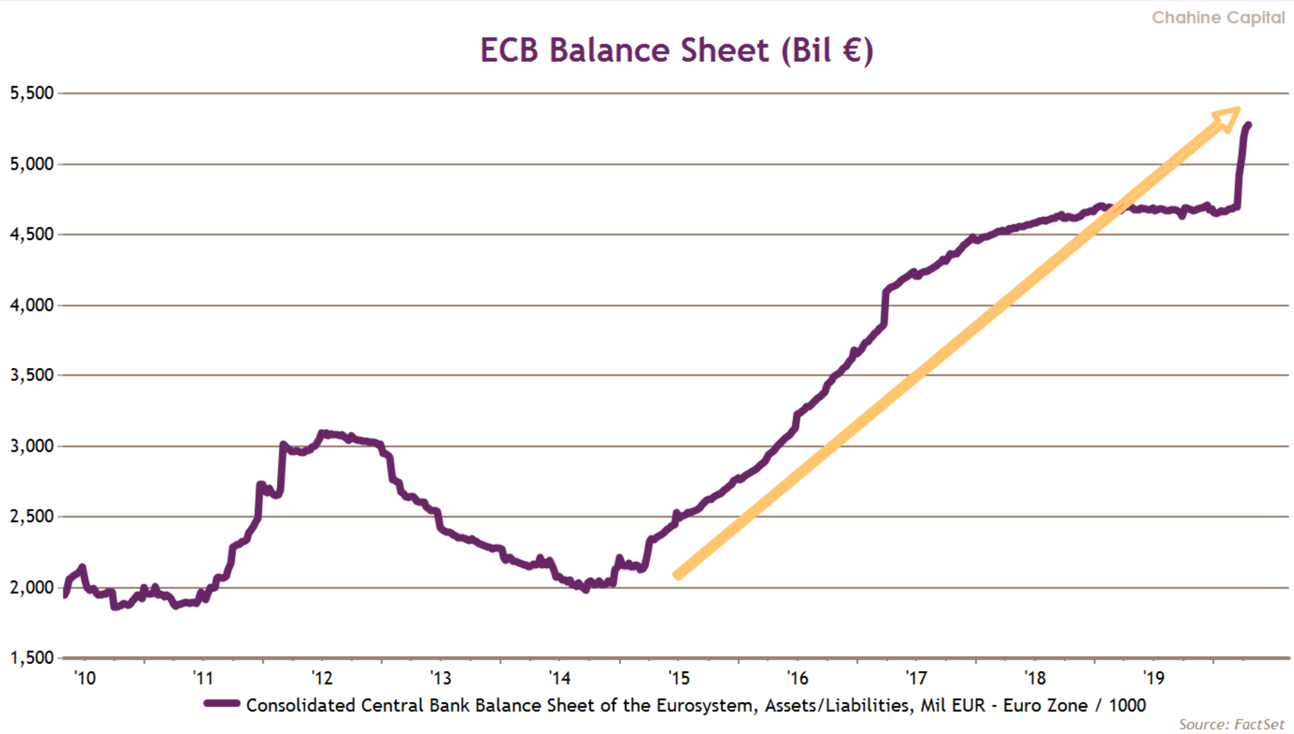
Americans have had fewer scruples, especially as the Fed does not have 20 EU Member States criticising its every move. It has just printed $2,400 billion; this money is financing the various US financial packages, including the $2,000 billion approved by Congress. The printing of euros is less open-ended, as some of that currency is required to cover eurozone imports. Outside the euro zone itself, those imports have to be paid for in dollars, and the euro-dollar parity is already down to $1.08. Much hangs on the eurozone's trade balance, as Germany is the main reason for a surplus. The Bank of Japan has not felt it necessary to accelerate the ongoing expansion of its own balance sheet, which already amounts to 610 trillion yen ($5.7 trillion). Given that the crisis is far from over, the printing presses will keep rolling!

The eurozone faces a major challenge in North-South terms. Italy's already massive debt is being supplemented with what is required for its support and stimulus packages; Spain and other southern countries are in the same position. The first tranche of EU support is worth €540 billion, made up of contributions from the EMS (€240 billion), the EIB (€200 billion) and the European Commission (€100 billion). It will fund unemployment benefit and credit guarantees. The Commission does not usually have these sorts of financial resources to throw around, but intends to come back with trillions. The catch is where they are to come from, with southern countries preferring bonds and subsidies rather than straightforward credit. We hope that Europe comes out of this crisis more united than when it went in.

A tsunami of central bank liquidity

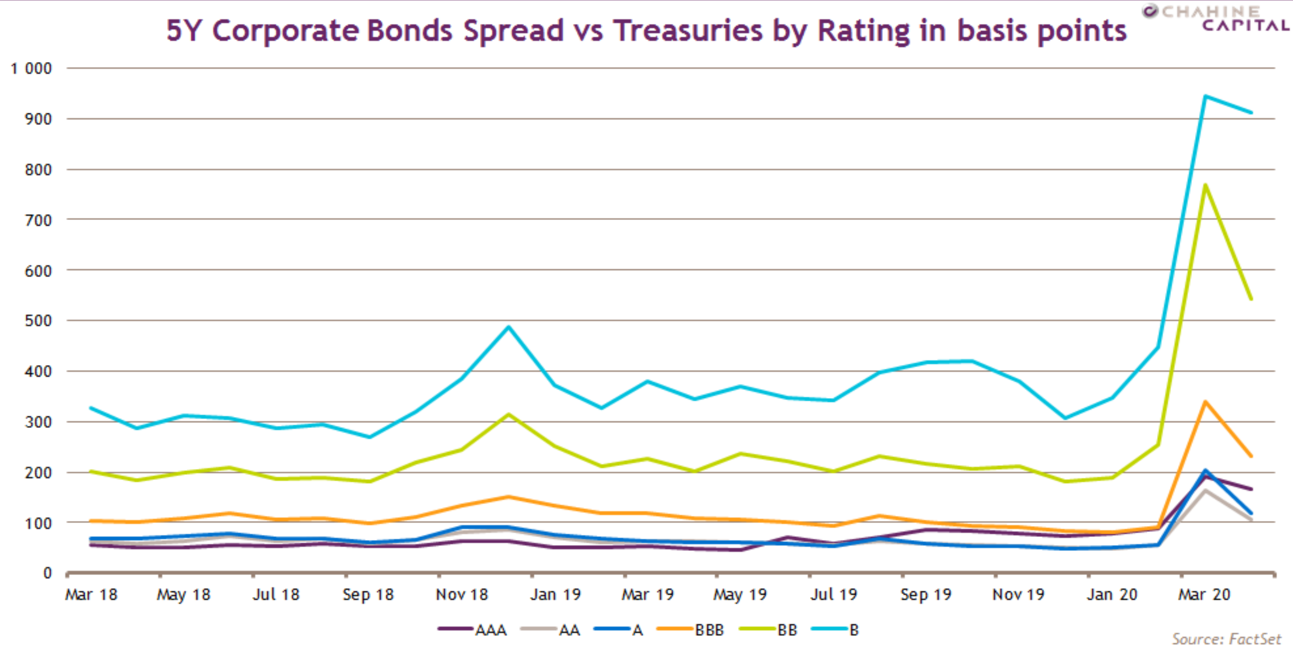


The ECB is printing less money than the Fed… for the time being



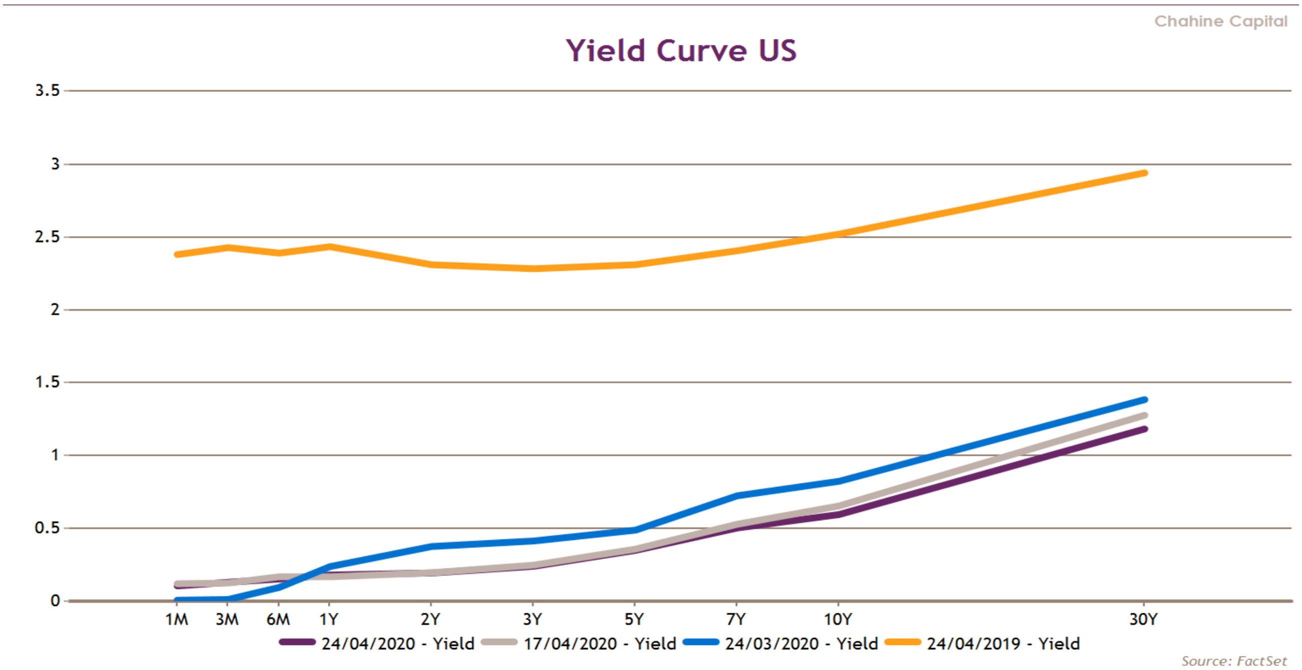
Central banks are not only printing money but becoming less picky about what assets they buy. Bond markets that were derailed by the crisis picked up once the Fed announced that it would be buying junk bonds and ETFs. Spreads are down sharply, except on junk issues. The ECB has also relaxed its purchasing rules: it is buying Greek debt and intends to take junk bonds as well.

Slightly easier bond markets



In the meantime, US yields are still very depressed, and the curve has flattened further over the past month. This indicates that zero interest rates will be with us for a very long time.

A degree of curve flattening



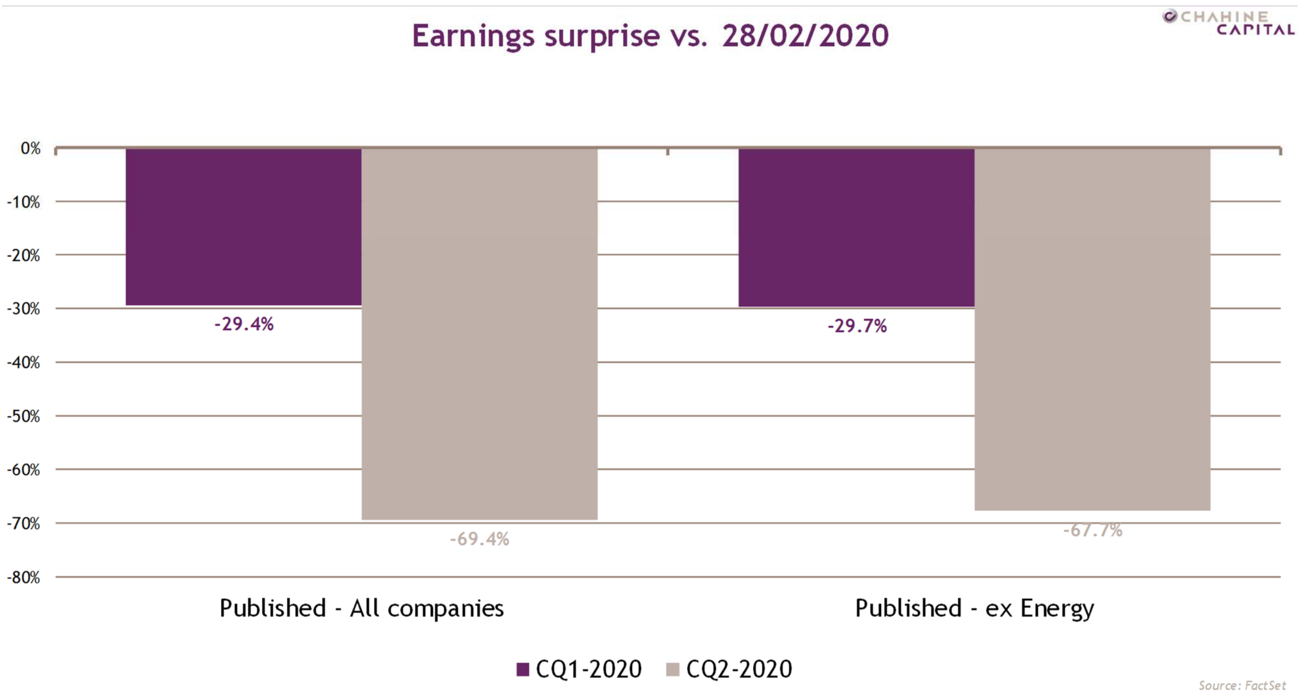
Bearing in mind the sheer scale of these liquidity injections, there is little wonder that the financial markets have felt capable of rebounding.

Investors should bear in mind that gold always has a place in this kind of nervy trading environment, especially as yields are often negative. It offers some insurance in the event of further market setbacks.

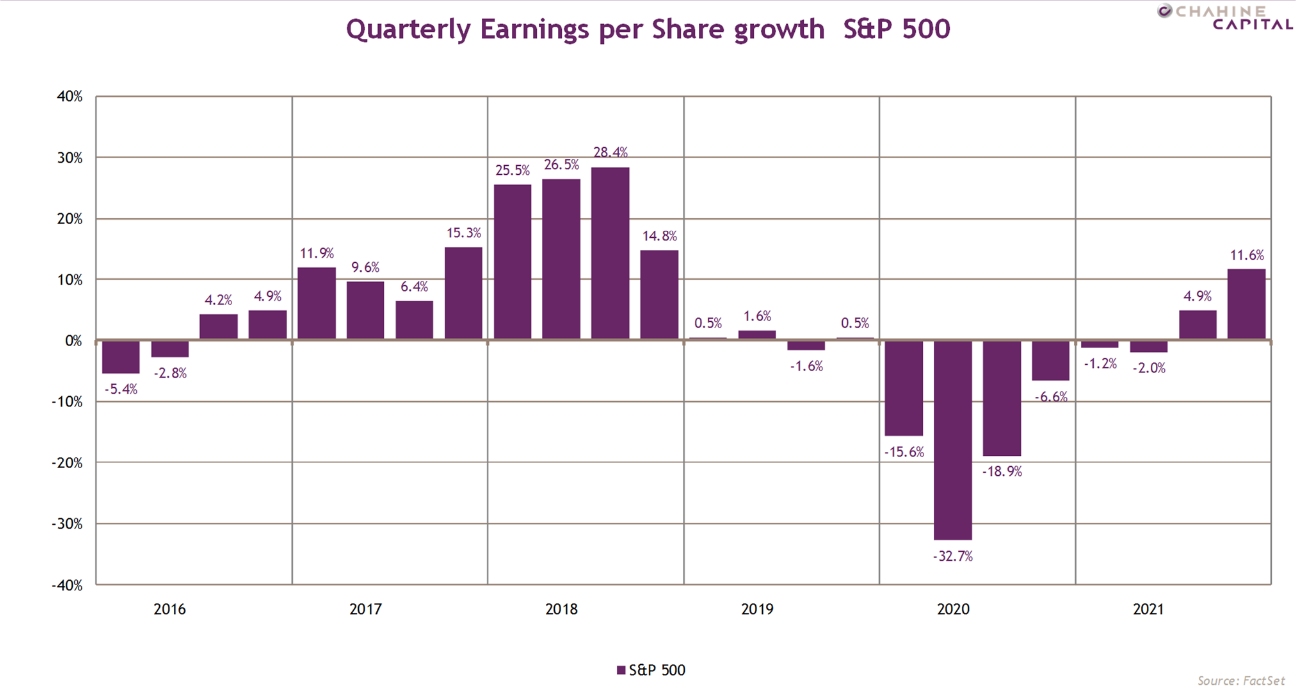
We expect a 34% drop in US profits in 2020

The quarterly results season on Wall Street has at last given us some concrete figures with which to measure the impact of the crisis. 329 Russell 3000 companies have published, representing 22.5% of market capitalisation. Taken together, they have reported almost 30% less profit for Q1 than had been expected in February. Worse, guidance for Q2 is way down, at 70% less than previously indicated. Aggregates without the energy sector are not significant, as the main heavyweights have not published yet. Sales numbers are 1.2% less than expected for Q1 and expected down 14.3% for Q2. Some of the biggest revisions for Q2 are in the financial sector, notably JP Morgan (down $6 billion), and billions of revisions for non-performing loans are in bank pipelines. The cruise ship operator Carnival expects sales of $863 million in Q2, down from an originally estimated $5,024 million. The rare snippets of good news come from niche firms such as Netflix, retailers such as Costco and high-tech companies.

Once oil companies are included, Q2 could be a loss



Consensus earnings estimates will be revised further

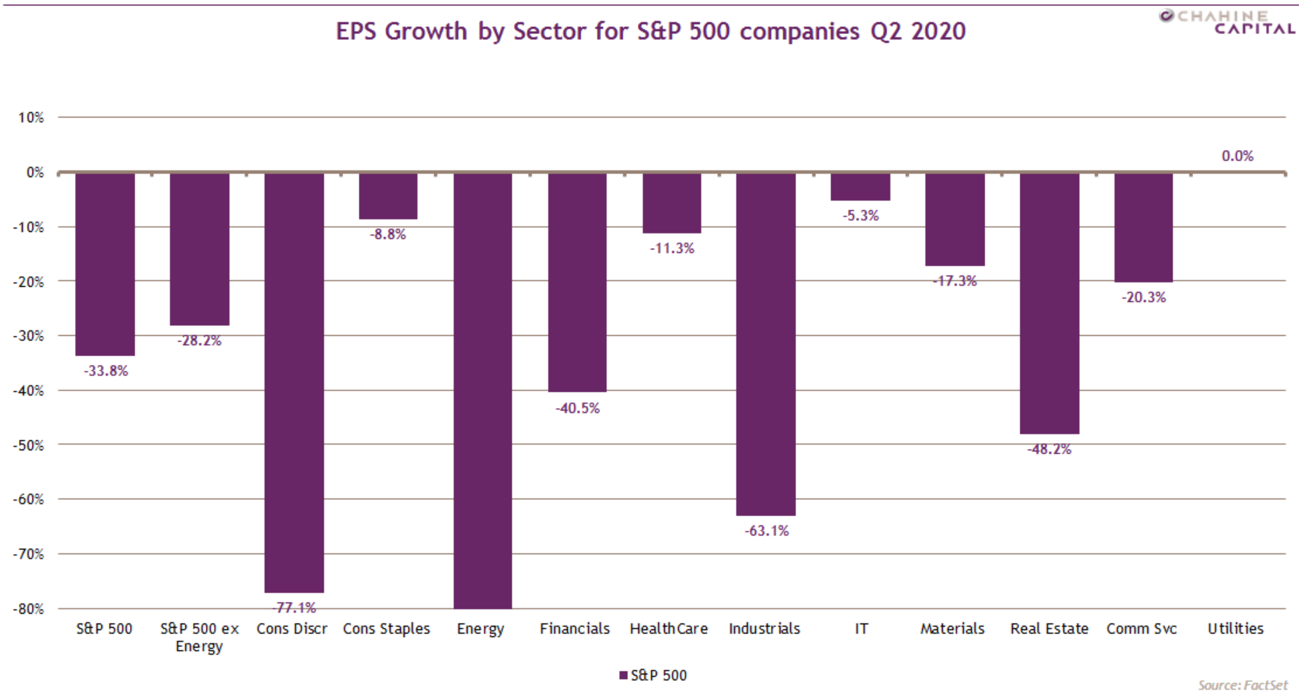


Consensus estimates still look optimistic, apart from Q2, but have yet to be corrected by oil companies. Out own US earnings growth estimates for 2020 are -19.4% in Q1, -48.6% in Q2, -46.2% in Q3 and -22.2% in Q4. According to our top-down estimates, the number for 2020 as a whole will be -34.4%, compared with a consensus estimate of -17.8%. Before we had any earnings figures, we were guessing at -21.3% last month. We recall that during the 2008 crisis, profits declined 28%, or 32% from their highs.

The consensus estimate for 2021 is a 26.2% rebound, but we are looking for 34.4% on the basis of a much weaker 2020 base. Our model estimates an EPS of 144 points in 2021, compared with 169 points for the consensus. The cycle high in 2019 was 163 points. These are the hypotheses that we have used to value the market.

Given the revisions for Q2, which as far as we can guess is likely to be the worst quarter of the year, the impact of the crisis has been highly variable between sectors. Oil companies will be heavily in the red, followed by consumer cyclicals (a sector that includes hospitality, travel, leisure, autos and non-food retailers). Amazon is the big outlier in this sector. Thanks partly to Boeing and all its dependent firms, industry is at a standstill. A combination of empty shopping malls, shuttered hotels and office space unlikely to yield expected rent is undermining the real estate sector. The financial sector is preparing to write down corporate and household debt but seems to be in a better starting place than in 2008. IT seems to be well cushioned against the pandemic for the time being.

A wave of revisions to Q2



Market valuations

Our US market valuation is very close to where it was a month ago. We have a 'medium term' S&P 500 objective of 3,092 points with a 30-year yield of 1.20%, compared with 3,030 points last month with 1.38%. The index closed at 2,837 points last Friday. Our scenario assumes a return to 'normal', although that remains a pretty imprecise concept.

Upside still there

S&P 500 - Valuation end 2020 except implied scenario					
CAGR Compounded Annual Growth Rate from 2019	30 Years Gvt bonds				
	0.75%	1.00%	1.20%	1.50%	2.00%
Deep recession: -38% in 2020, 14% in 2021 - CAGR -3.7%	**2 691**	**2 498**	2 360	2 177	1 922
Implied Scenario CAGR -2% over 8 years	3 179	2 956	**2 798**	2 587	2 293
Return to normal: -34% in 2020, 34% in 2021 - CAGR -0.2%	3 531	**3 274**	**3 092**	**2 849**	2 511
Current Index S&P 500			**2 837**		

Our scenario is based on an 8-year CAGR between 2019 and 2027 of -0.2%, implying a decline in profits between two cycle highs. The valuation is buoyed by a long rate of 1.2%, which suggests sluggish economic activity for many years to come. Yet again, liquidity injections are the market's saviour, although in the form of helicopter money this time.

We have modelled a scenario where a deep recession persists into 2021. In that case, and taking account of a further decline in long rates, we obtain a valuation between 2,498 and 2,691 points. We note in this context that massive liquidity being poured into the economy is still boosting financial asset values without stimulating the real economy. Perhaps such a recession would prompt the authorities to inject more directly into households to get the whole economy out of deflation.

Last month we switched from an underweight to an overweight equities allocation, starting from an index level of 2,650 points (accessible for all our readers). Our benchmark is still an 40% allocation, and the portfolio will automatically become overweight as the market rallies. We will remain overweight, although urge additional caution if the market trades above 2,940 points. We would stop buying above that level.

In the euro zone, the consensus EPS growth estimate for 2020 has slipped to -27%, which is where we suggested it should be last month. We are now estimating -50% on the basis of huge revisions, led by Total (€3 billion in profits this year, down from an expected €11 billion). Substantial revisions elsewhere include banks, autos, Airbus, Adidas and Siemens. Unfortunately, we fear that the final results will be even worse, especially as banks are weaker than their American counterparts and may falter badly. State assistance may then be required. The rare sectors showing real resilience are pharmaceuticals, consumer staples and telecoms on the back of home working. We have pencilled in a 34% rebound in 2021. Eurozone interest rates are still very low and our MSCI EMU objective is now 112 points compared with last Friday's close art 100 points.

European equity markets will depend on serious budgetary stimulus

MSCI EMU - Valuation end 2020 except implied scenario

CAGR Compounded Annual Growth Rate from 2019	30 Years Gvt bonds				
	0.25%	0.50%	**0.66%**	1.00%	1.25%
Deep recession: -50% in 2020, 34% in 2021 - CAGR -9.7%	**109**	**101**	96	88	83
Implied Scenario: CAGR -10.1% over 8 years	114	106	**102**	93	88
Return to normal: -50% in 2020, 34% in 2021 - CAGR -7.7%	127	117	**112**	**102**	**95**
Current Index MSCI EMU			**100**		

Conclusions

'Fed up' would be an understatement for the sizeable chunk of humanity locked down for weeks on end, but fortunately there is now room for hope. Cautious they may be, but more or less simultaneous announcements from many countries about easing restrictions are starting to lift all our spirits. Covid-19 has hardly disappeared, but we appear collectively to have 'flattened the curve' enough to ensure that health systems can at least cope with it.

Desperate research aimed at miracle drugs that could either treat the illness or vaccinate against it has yet to bear fruit. Governments are therefore resigned to re-exposing people to the virus and wing it from there. The lack of reliable statistical tools is a major handicap; we still do not have a proper calculation of the mortality rate as a proportion of infected individuals (the infection fatality rate, or IFR), relying instead on the completely unsatisfactory denominator of tested individuals. The ratio of infected to tested individuals could be as high as 50:1. A mishmash of analyses covering situations as disparate as the town of Gangelt in Germany to the Diamond Princess cruise ship suggests an IFR of between 0.15% and 0.60%, well below the 7% we obtain when we use detected cases. If we assume that 60% of us will end up being infected at some point or other, those IFRs give us between 54,000 and 108,000 deaths in France, for example, concentrated among the more vulnerable part of the population. Unless a remedy comes along sooner, of course. Sweden has opted for a head-on approach, leaving bars and restaurants open while taking a number of sensible precautions. According to the authorities, Stockholm will soon be immune to further outbreaks. Germany has grasped the statistical problem at last, establishing three representative panels (one national panel of 15,000 people). This ought to answer some of the questions that the scientists and politicians have been asking.

Equity markets believe that lockdowns will do the trick eventually. Together with massive liquidity injections, this sentiment has lifted the S&P 500 27% off its lows. It is now just 11.7% down on the year following its 31.5% gain in 2019; in the meantime, the VIX has dropped sharply. Eurozone markets are suffering rather more, reflecting the weights of banks and oil companies in the main indices. Unsurprisingly, healthcare and IT stocks are performing the best. New GDP growth estimates for 2020 are starting to appear, and we are looking at a 5-10% drop worldwide. China is estimated at +2%. We have to go back to the Great Depression to see anything similar. US unemployment has surged by 26 million in a matter of weeks, and while they are receiving payouts right now it is unclear how long that can last.

Frantic efforts to print money worldwide have meant ballooning central bank balance sheets. The overall increase is measured in trillions of dollars, with the Federal Reserve accounting for $2.5 trillion all on its own. The Fed and the ECB are also buying up junk bonds to keep credit markets open. While budgetary stimulus is the order of the day, the euro zone has less room for manoeuvre than the USA. The 19 eurozone countries do not have the same interests, and Italy is not in a position to issue much more debt (much of which is bought by the ECB anyway). It would rather see 'coronabonds' being issued instead. The EU has voted a €540 billion package, and for once the European Commission is pushing for trillions rather than billions for this purpose. An agreement on additional stimulus would buoy the markets. For the first time, governments are in general resorting to direct financial payments to their people.

On Wall Street, Q1 results announcements are beginning to offer a degree of visibility on 2020 corporate profits. The consensus estimate for the S&P 500 is -18%, but we are using -34% with a 34% rebound in 2021. Our forecasting model gives us an 8-year -0.2%, which is a prudent number between two cycle highs. Our year-end price objective is up slightly to 3,092 points and we are sticking to the overweight recommendation we adopted last month, with caution above 2,940 points. Our objective for the MSCI EMU is 112 points, compared with last Friday's close at 100 points.

We wish all our readers good health and a swift exit from the crisis.

Jacques Chahine

Main ratios for markets and sectors as of 24/4/2020 (in local currency)

Data as of	Weight vs	Perf		Weighted P/E		% Wted EPS Chge			Div Yield	Revision vs M-2%	
24/04/20	MSCI World	2020	2019	2021	2020	2021	2020	2019	2020	Fiscal 21	Fiscal 20
MSCI The World Index	**100.0%**	**-15.76%**	**25.30%**	**15.3 x**	**18.8 x**	**22.7%**	**-17.1%**	**-0.8%**	**2.64%**	**-13.4%**	**-21.8%**
MSCI USA	64.6%	-12.10%	29.20%	17.1 x	21.2 x	23.5%	-15.6%	-0.6%	2.10%	-12.8%	-20.9%
MSCI Japan	8.3%	-17.70%	15.70%	11.9 x	13.8 x	16.0%	0.6%	-19.9%	2.97%	-9.0%	-13.8%
MSCI EMU	12.2%	-23.92%	21.70%	12.2 x	15.7 x	28.9%	-24.1%	0.1%	3.73%	-17.2%	-29.1%
MSCI Europe	22.7%	-21.00%	22.17%	12.9 x	16.3 x	26.2%	-23.6%	3.6%	3.92%	-15.8%	-27.1%
MSCI Europe ex Energy	21.5%	-19.80%	23.79%	12.9 x	15.8 x	22.4%	-19.3%	5.5%	3.59%	-13.1%	-22.6%
MSCI Austria	0.1%	-37.05%	13.38%	8.0 x	10.7 x	33.4%	-31.2%	-24.9%	5.12%	-25.4%	-39.1%
MSCI Belgium	0.4%	-32.98%	19.36%	12.0 x	14.7 x	22.5%	-25.2%	10.7%	3.96%	-15.3%	-25.2%
MSCI Denmark	0.9%	0.70%	28.95%	21.5 x	27.3 x	26.8%	-10.8%	-4.0%	1.79%	-6.9%	-15.3%
MSCI Finland	0.4%	-15.62%	8.28%	14.1 x	16.8 x	18.8%	-12.2%	-0.6%	4.06%	-7.5%	-13.3%
MSCI France	4.5%	-25.11%	26.10%	12.9 x	16.7 x	29.3%	-26.4%	4.8%	3.59%	-18.9%	-31.4%
MSCI Germany	3.2%	-22.22%	20.09%	11.3 x	15.0 x	33.6%	-19.0%	-4.5%	3.43%	-12.8%	-26.1%
MSCI Great-Britain	4.7%	-23.92%	11.37%	11.9 x	14.9 x	26.0%	-26.6%	-5.4%	5.21%	-16.9%	-29.2%
MSCI Ireland	0.1%	-22.66%	21.49%	15.6 x	20.0 x	27.8%	-14.7%	-23.8%	1.22%	-16.5%	-28.0%
MSCI Italy	0.8%	-29.59%	25.49%	9.8 x	12.5 x	26.9%	-30.2%	-0.1%	5.93%	-25.5%	-36.2%
MSCI Netherlands	1.6%	-14.92%	26.85%	15.1 x	18.9 x	25.8%	-13.8%	-8.3%	2.74%	-11.1%	-20.0%
MSCI Norway	0.3%	-19.32%	8.26%	12.3 x	18.2 x	48.4%	-28.1%	-11.1%	5.72%	-18.5%	-37.7%
MSCI Spain	1.0%	-31.01%	9.85%	10.9 x	13.5 x	23.2%	-36.4%	7.2%	5.08%	-25.5%	-36.7%
MSCI Sweden	0.9%	-14.71%	25.01%	12.9 x	18.1 x	40.0%	-41.1%	68.7%	3.20%	-3.7%	-27.0%
MSCI Switzerland	3.5%	-8.55%	26.97%	16.3 x	18.4 x	12.9%	-4.5%	9.9%	3.27%	-8.0%	-11.7%
MSCI Europe Consumer Discretion	2.8%	-27.07%	30.01%	12.8 x	20.5 x	60.3%	-38.7%	-10.6%	2.31%	-22.1%	-45.6%
MSCI Europe Consumer Staples	3.6%	-9.15%	22.38%	16.6 x	18.3 x	10.0%	-3.5%	9.5%	3.26%	-6.3%	-8.6%
MSCI Europe Energy	1.2%	-37.66%	3.55%	12.2 x	31.9 x	161.5%	-73.8%	-14.8%	9.91%	-44.4%	-76.3%
MSCI Europe Financials	3.1%	-36.24%	17.31%	7.8 x	9.8 x	25.1%	-32.2%	14.0%	5.84%	-18.7%	-31.1%
MSCI Europe Health Care	3.7%	1.83%	28.40%	16.1 x	17.9 x	11.2%	3.7%	9.4%	2.76%	-1.7%	-2.1%
MSCI Europe Industrials	2.8%	-27.60%	32.02%	14.0 x	18.6 x	32.8%	-26.5%	6.7%	3.08%	-17.3%	-31.1%
MSCI Europe Information Technol	1.5%	-11.14%	36.00%	18.3 x	23.4 x	27.9%	-3.4%	4.9%	1.29%	-8.6%	-16.4%
MSCI Europe Materials	1.5%	-22.15%	21.39%	13.7 x	17.2 x	25.4%	-19.4%	-12.4%	4.10%	-16.0%	-26.9%
MSCI Europe Real Estate	0.3%	-28.44%	18.93%	12.8 x	13.4 x	4.6%	-15.2%	-21.4%	5.21%	-7.8%	-10.0%
MSCI Europe Communication Serv	1.1%	-24.08%	0.60%	10.9 x	12.6 x	15.0%	-10.9%	3.8%	5.18%	-7.8%	-10.0%
MSCI Europe Utilities	1.2%	-14.37%	24.29%	13.1 x	14.2 x	7.8%	-4.2%	23.7%	5.46%	-5.2%	-6.9%

Benchmarks source iShares ETF - Data as of 24/04/2020

Disclaimer

We do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information provided in this publication. You must evaluate, and bear all risks associated with, the use of any information provided here, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of the publisher. The publisher or one or more of its employees or writers may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED “AS IS,” AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, J.CHAHINE CAPITAL AND ITS AFFILIATES, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURANCY, COMPLETENESS, AND NONINFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW,NEITHER DIGITAL ANALYTICS NOR ITS AFFILIATES,NOR THEIR RESPECTIVE OFFICERS, MEMBERS DIRECTORS, PARTNERS, BUSINESS ASSOCIATES OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PERSON IS ADVISED OF THE POSSIBLILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.