Corona – a non-event?

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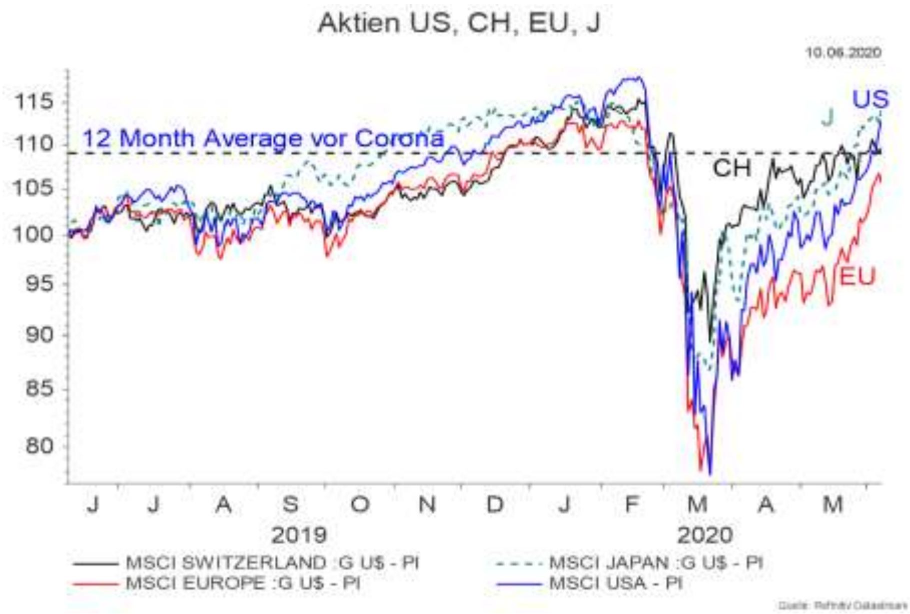
Stocks have surged so dramatically in the last ten days that company valuations have returned the lofty heights of the months preceding the virus. Were the value corrections on global markets in the last few months the result of irrational and erroneous estimates? Corona a non-event? Hardly.



There are certainly good reasons for an optimistic assessment of the situation.

The population's relief at their newly-won freedoms is great. And they came thick and fast. Governments have virtually been outbidding each other in the relaxation of quarantine measures. The lockdown has completely broken down. In many cases, this is justified. In others, problematic. With the exception of Sweden, Europe has managed to keep new infections under control. Numbers of new cases are largely in the three-digit range, or even lower. But not in the USA. There, over 10,000 new infections are reported each day. Despite this, the Republicans are pressing for a rapid reopening. In Brazil too, the number of new infections is rising exponentially, without serious steps being taken to contain the crisis.

Western governments have triggered a wave of optimism. In the last few weeks, they have announced stimulus packages of unprecedented sums. On a global scale, financial support of around 8 trillion, or 10% of global GDP, has been promised. The EU Commission must receive a special mention here, having received the go-ahead for a 750-billion-euro stimulus package, financed to a large extent by the entire bloc. The ECB has also given significant support to the southern states by selling above-average numbers of bonds to them. These are clear votes in favour of this groups of countries. Clarity is also required with regard to the euro.

In the USA, a new stimulus package of $3 billion is also under discussion. It has been resolved on by Democrats in the senate, but Trump will not let the opportunity to pull it out of the drawer at the right (electoral) moment pass.

Overall, there are good virological, psychological and economic reasons for the optimism on the financial markets. But writing the coronavirus off as a non-event on the financial markets seems excessive to us. Significant risks remain.

The risk of a second or even a third wave is not being ruled out by most virologists, despite new technologies and tracing capacities. Especially as, in their opinion, the relaxations have largely been implemented too early. A new lockdown would certainly have serious consequences, even if political consensus developed to avoid such a step at all costs. A citizen-initiated lockdown would be no less economically problematic, as the Swedish example has shown.

But even if the virus can be kept under control, it remains a significant disruptive factor. Many economists, therefore, expect a high number of redundancies as short-time work programmes end, as it will not be possible to use capacities because of hygienic measures and consumer caution. These structural obstacles can be overcome with economic stimulus packages.

We also consider the weekly announcements that a vaccine is almost ready to be jumping the gun. Virologists indicate that such expectations could easily be frustrated in the long term.

Overall, we consider the return of the markets to the lofty heights of pre-coronavirus times to be premature and inappropriate given the grave risks that are still lurking. As valuations have also worsened, we still believe that an unchanged underweighted position of stocks and bonds makes sense. As most portfolios have risen to an almost neutral position thanks to the stock market rise, we consider a slight rebalancing to be appropriate.

As the only change compared to the May position, we intend to return the overweighting of alternative investments to neutral, as the doubling of the oil price in just four weeks no longer demands such overweighting.