



*R&R Weekly Column*  
*By Brunello Rosa*



## The Coronavirus-Induced Crisis: It's Wall Street vs Main Street, Again

We have discussed [several times](#) how serious the Coronavirus-induced economic crisis is. The lockdown measures introduced by many countries to mitigate the spreading of the virus have created a collapse in economic activity, on [the order of 20-40% on a quarterly basis](#). This could result in a fall in real GDP of about 7-10% in many developed economies, with a rebound next year that will be mushy and uneven at best.

To mitigate the economic impact of Covid-19, a number of countries have [adopted large stimulus packages](#) consisting of fiscal expansion and monetary easing, in most cases in a coordinated fashion that closely resembles [helicopter-money drops](#). Financial markets have, as usual, anticipated economic developments – equity prices collapsed around the world at the end of February/beginning of March, sending most of them into bear-market territory (-30% from their peak). Other segments of the market have given clear signs of dislocation. As discussed [in our recent outlook](#), oil prices turned negative for the first time in history on April 20, as the collapse in global demand more than offset the [cut to production that was decided upon by OPEC+ \(including Russia\) on April 12th](#).


Since the lows reached on March 23<sup>rd</sup>, [equity markets have tried to rebound](#), but have done so with varying degrees of success. In the US, the S&P500 has recovered around half of the losses; it is now only down 11% year-to-date. The NASDAQ has managed an even more astonishing rebound, being at par year-to-date, thanks to the even more widespread use of technology during the lockdown. The Dow Jones, in contrast, which represent more traditional industries, is down 17% year-to-date. In Europe, where the pandemic has led to harsher forms of lockdown (which are now being relaxed), the situation is less rosy, with the exceptions of Switzerland and Sweden. Equity markets remain down 25%-30% year-to-date. All these developments are in line with what we expected in our [global outlook update](#).


As we previously discussed, a sustained recovery in market valuations could only occur [when a durable solution \(a vaccine or medication\) to the healthcare crisis is in sight](#). Until then, market valuations will remain subject to downside risks. Nevertheless, as markets are leading indicators of economic activity, they will start to recover much sooner than the real economy. Conversely, the unemployment rate, which is a lagging indicator, will take much longer to normalise than economic activity in general. In the US, where unemployment insurance schemes and other similar automatic stabilisers are less widespread than in Europe, initial jobless claims [reached 36 million](#) in the first 7 week of the crisis. Non-farm payrolls [dropped by 20.5mn in April](#), the largest monthly drop on record, with the country's unemployment rate reaching 14.7%, up from the historically low 3.5% rate just a couple of months earlier. Public authorities are coming to the rescue: the Fed has just launched a [Main Street program of credit easing](#). But the reality remains the same as it has been since the Global Financial Crisis: the liquidity injections by central banks tend to translate into asset price reflation, which mostly helps Wall Street, while other measures, even those akin to helicopter drops of money, leave Main Street in the doldrums. Again, this could be the result of the difference between leading and lagging indicators of economic activity, with equity prices rising much more quickly than unemployment rates in the wake of a serious crisis. But perhaps it could also signal the need to refocus the aim of the stimulus packages in the first place.

### Our Recent Publications

 [Oil Outlook 2020-21: Prices Expected To Stabilize, With The OPEC+ Deal Unlikely To Make Up For The Collapse In Global Demand](#), by Nouriel Roubini, Alessandro Magnoli Bocchi, Brunello Rosa, Marco Lucchin, 15 May 2020

 [Between "Hamilton" and "Jefferson" Moment: The EU Response To Covid-19](#), By Brunello Rosa, 12 May 2020

 [Flash Reviews: RBNZ Doubles QE and Eases Its OCR Forward Guidance](#), By Brunello Rosa and Farah Aladsani, 13 May 2020

 [GEOPOLITICAL CORNER: Brazil: The Unspooling of Bolsonaro Begins](#), by John C. Hulsman, 5 May 2020

Looking Ahead

The Week Ahead: EZ PMIs Expected to Improve, Japan To Enter A Recession

**In the EZ**, while remaining in contraction May PMIs are expected to improve (Manuf., c: 38.0; p: 33.4; Serv., c: 25.0; p: 12.0).

**In Japan**, the economy has entered a recession, as Q1 GDP contracted 0.9% q-o-q (p: -1.9), the 2nd consecutive quarter of output fall.

The Quarter Ahead: US-China Tensions Rise, Hopes For A Quick Rebound Weaken, Central Banks Stay Accommodative

**In the US**, Fed Chair Powell said that the Fed 'will use its tools to their fullest' until 'the crisis has passed, and the economic recovery is underway'. Given a 'slower-than-expected recovery', Powell: *i)* urged the White House and Congress to spend, to help 'avoid long-term economic damage'; but *ii)* dismissed negative rates - given potential adverse effects on the financial system, via money market funds.

**On the trade front**, the Trump administration blocked shipments of semiconductors to Huawei, threatening to reignite US-China economic tensions.

**In China**, hopes of a quick recovery are likely to be dimmed by: *i)* collapsing demand, due to the global slowdown; *ii)* a resurgence of the virus; and *iii)* pent-up demand and production – unlikely to be sustainable in the long run - supporting the current rebound in retail sales, fixed asset investment, and IP. Finance Minister Liu Kun pledged a more proactive fiscal policy, by *i)* extending tax and fee cuts; *ii)* expanding public investment through COVID-19 Special Treasury Bonds (STB) and local government special bonds (LGSB); and *iii)* drawing on fiscal reserves. As a result, forceful policy stimuli are expected to be announced at the May 22 'National People's Congress' - when the country's top legislators and officials meet. The PBOC is likely to guide interest rates lower.

Last Week's Review

Real Economy: Steep Declines In Economic Activity, Slow Start To China's Economic Recovery

**In the US**, retail sales contracted by -16.4% m-o-m in April (c: -12.0; p: -8.3), as spending fell across the board - except for online retailers. On the supply side, given manufacturing closures: *i)* manufacturing output dropped by -13.7% m-o-m (c: -13.0; p: -5.5); and *ii)* IP fell -11.2% m-o-m (c: -11.5; p: -4.5). In the week ending May 9, an additional 2.9m workers applied for jobless claims (c: 2.5m; p: 3.2m), continuing the two-month trend of exceptionally high claims. Due to weak demand, April CPI inflation fell by -0.8% m-o-m (c: -0.8; p: 0.4), while core inflation, i.e.: excluding food and energy, fell by -0.4% m-o-m (c: 0.2; p: 0.1). On an annual basis, the headline reading decelerated to 0.3% y-o-y (c: 0.4; p: 1.5) while core declined to 1.4% y-o-y (c: 1.7; p: 2.1).

**In the EZ**, in Q1 the 'number of people employed' fell by -0.2% q-o-q (c: -0.4; p: 0.3), the first decline in seven years.

**In Germany**, Q1 GDP contracted by -2.2% q-o-q (c: -2.2; p: -0.1), pushing the economy into a 'technical recession' (two consecutive quarters of negative growth); yet, the contraction was lower than in other major EZ economies, which imposed stricter lockdowns.

**In the UK**, data captured only one week of the COVID-19 lockdown; yet, Q1 GDP growth contracted by -2.0% q-o-q (c: -2.5; p: 1.1) – the largest quarterly decline since the GFC.

**In China**, the recovery is threatened by isolated viral outbreaks; April economic data showed: *i)* weak consumer spending, with retail sales contracting by -7.5% y-o-y (c: -7.0; p: -15.8); *ii)* falling fixed asset investment, at -10.3% y-t-d (c: -10.0; p: -16.1); but *iii)* positive IP, up by 3.9% y-o-y. (c: 1.5; p: -1.1).

**In New Zealand**, the RBNZ held its policy rate steady at 0.25% and announced a near doubling of its 'Large-Scale Asset Purchases' (LSAP), program to NZD 60bn (~19% of GDP).

Financial Markets: Dismal Economic Data And Rising US-China Tensions Weigh On Markets

**Market drivers**: riskier assets declined, given: *i)* dire economic data; *ii)* a slow-start of the Chinese recovery; and *iii)* rising trade tensions.

**Stocks**: w-o-w, global indices fell (MSCI ACWI, -2.4%, to 478), driven by the US (S&P 500, -2.3% to 2,008) and the EZ (Eurostoxx 50, -4.7% to 2,771). EMs fell (MSCI EMs, -1.2% to 901), led by China (Shanghai Comp., -0.9% to 2,868).

**Bonds**: w-o-w, returns were flat (BAML Global, +0.1% to 292.3); the yield on a 10y UST fell 4 bps to 0.64%. Under the SMCCF, the Fed began purchases of: 1) corporate bonds; and 2) bond ETFs. Volatility rose to 31.9.

**FX**: w-o-w, demand for USD strengthened (DXY, +0.7% to 100.402); demand for EUR and GBP weakened (EUR/USD, -0.2% to 1.082; GBP/USD, -2.4% to 1.210). EM currencies were flat (MSCI EM FX index, -0.4% to 1,561).

**Commodities**: oil prices rose (Brent, +4.9% to 32.5 USD/b; WTI, +19.0% to 29.4 USD/b), as global inventories on tankers fell to 155m barrels from 176m last week. Gold maintained its safe haven appeal (+2.4 to 1,741 USD/Oz.), driven by abundant liquidity of monetary and fiscal stimuli.



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## Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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