MARCH 2020 ECB MEETING

12.03.2020

Backdrop

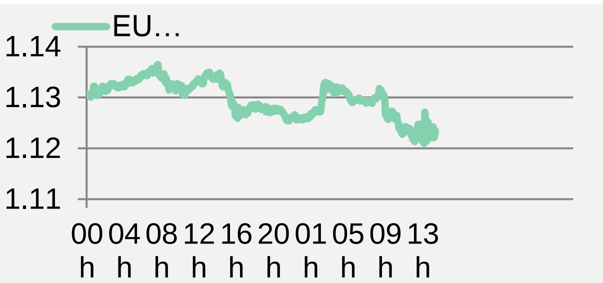
Given the impact of COVID-19 on global economies and financial markets, and following coordinated central bank action to date, market expectations were for the ECB to also deliver some further easing measures.

However, the ECB left rates unchanged, though they decided to boost QE to the tune of EUR 120bn until the end of the year. They added that the additional buying would focus on the private sector. During the press conference, ECB President Christine Lagarde reiterated the need for ample stimulus, but also added that the Bank expects growth to regain traction in the medium term. Economic growth forecasts were revised down from 1.1% to 0.8% for 2020, and from 1.4% to 1.3% for 2021.

Market Impact

The EUR marginally gained following the decision to leave rates unchanged. Equity markets continued their sell-off, while rates moved lower.

Source: Bloomberg, Unigestion calculations.



Source: Bloomberg, Unigestion calculations.

Asset Allocation Consequences

Over the last few weeks, our macro perspective has changed significantly. What initially started as a market stress episode became a genuine macro shock as the contagion of COVID-19 spread throughout world economies and was no longer contained to China. Central banks have been proactive in their response, with the Fed, BOC and BOE all delivering 50bps cuts.

Many countries with rates already at zero or negative are realising that pushing rates down further would only have limited effects. This is why the ECB left rates unchanged and opted for QE instead. We believe that despite providing some short-term relief, this will not be enough to contain the repercussions of the virus on the macro front and change sentiment, which remains negative. Going forward, monetary policy alone will not be enough and we will likely see policy move towards fiscal, although this will probably take some time.

We have turned more defensive and have deleveraged the portfolio moving increasingly towards cash. The unprecedented market dislocations have resulted in defensive assets providing less protection and liquidity to dry up, making cash appealing. We believe that the situation will remain fragile for some time as uncertainty continues to weigh on markets before eventually feeding into macro data. We will remain dynamic in our assessment and will continue to monitor both the development of COVID-19 and its potential impact.

Macro: Although very little macro data is showing signs of the impact of the virus at this stage, we expect the global economy to contract this quarter and next.

Market Sentiment: Sentiment is currently very negative as the level of uncertainty is very high. Volatility is also currently trading at extreme levels, reflecting the fear in markets. Positioning is also being shaken, particularly in carry strategies, and liquidity is drying up.

Valuation: Most asset classes were expensive at the beginning of the year. Following the recent market moves, valuations are now less expensive. However, we do not believe that valuation will take centre stage as sentiment and macro will be the drivers for now and these are unlikely to improve in the near term.

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