

FLASH BOURSIER

BUSINESS AS USUAL? MORE A QUESTION OF 'DATA' THAN 'DATE'

Highlights:

Deconfinement strategies taking shape

Large caps continue to recover

Overview

Globally, new cases of virus infections have increased by 2.3% in the past 24 hours, resulting in a total of 2.4 million cases worldwide. In the US, cases have risen by 3.3% to 750,000 while the slowdown in the growth rate to 1.7% in Italy offers a glimmer of hope. Exit strategies are taking shape but the approach will have to be 'step by step'. In the US, this would require carrying out more than 4.5 million tests per month, according to medical authorities. Trump's hope of a 'big bang', whereby 29 states would be able to reopen for business in the near future, seems unrealistic. A second wave is feared everywhere, as seen in Singapore last week. Some European countries have even extended their lockdowns.

The past week has yielded more evidence about the economic damage inflicted by pandemic-related business shutdowns. The question now is what might change as the restrictions are gradually loosened. It is possible that consumers will not behave in the same way as before the crisis, for example eating out less often (as is currently the case in China) or cutting back on travelling.

In equity markets, the dichotomy remains intact between those companies that investors believe will soon be out of the woods – and all the others. Blue chips continued recovering last week while small and mid-caps are still

lagging behind on the whole. Investors may breathe a sigh of relief when a colossus like Amazon rises to an all-time high. But the situation is just the opposite for banking and automotive stocks. In Europe, car sales plunged by 55% in March year on year. By comparison, the same downswing had been 'just' 27% in 2009. The oil industry is also buckling after the price of WTI (the US benchmark) plummeted below USD 15 per barrel on the back of low demand and abundant reserves.

Credit spreads have narrowed significantly in recent weeks. The Fed is planning to buy USD 750 billion in corporate bonds, including bonds rated as 'investment grade' as at 22 March (which were subsequently cut to double-B) as well as high-yield ETFs. Concerning individual bonds, we advise investors to be highly selective, distinguishing between those issuers which simply have liquidity problems (and which will be helped by this Fed programme) and those that, despite everything, could become insolvent.



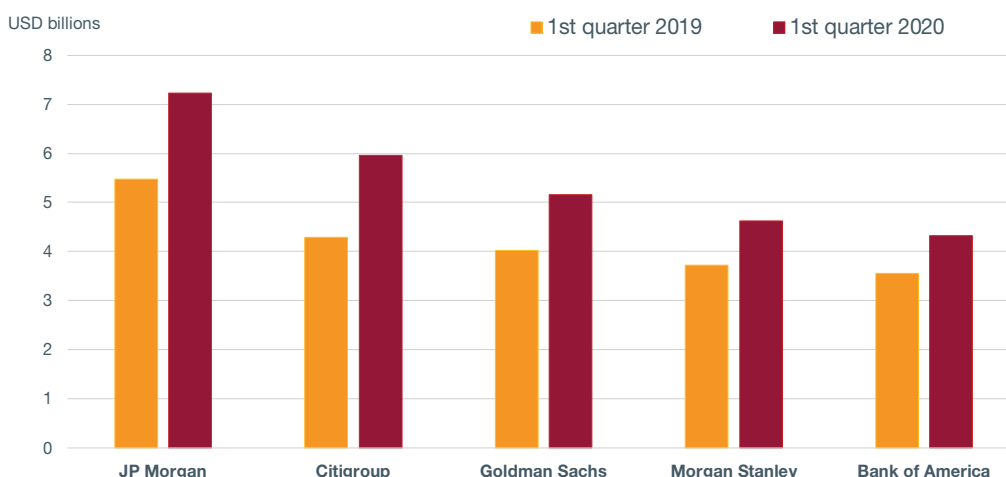
The SMI closed higher for the fifth consecutive week. However, it did not exceed the apex of the previous week. This means that it will first have to establish a new foundation at 9600 points, targeting 9750 points in the first instance, before heading to 9950.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI EMERGING MARKETS
Latest	0.97	1.05	9'612.83	2'888.30	10'625.78	4'499.01	5'786.96	2'874.56	8'650.14	19'897.26	901.31
Trend	➡	➡	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆
%YTD	0.00%	-3.10%	-9.46%	-22.88%	-19.80%	-24.74%	-23.27%	-11.03%	-3.59%	-15.89%	-19.14%

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TRADING REVENUES SURGE AT US BANKS



Results reported by major US banks for the first quarter of 2020 point to ongoing profitability, though obviously down sharply on the year-earlier period. These banks also took a hit from the coronavirus pandemic, especially those for which retail banking is a large chunk of their revenues (JP Morgan, Wells Fargo, Citigroup and Bank of America). Sizable provisions were set aside to deal with the surge in late (or non-) payments and non-performing loans in regard to households and businesses. Investment banks such as Goldman Sachs or Morgan Stanley have been somewhat more resilient.

For example Citigroup, a major part of whose business is credit cards, posted a 12% increase in first-quarter revenues. But its earnings plunged by 46% to USD 2.4 billion after it had to set aside USD 7 billion for present and expected loan losses. But after years of low

volatility in which they significantly underperformed, the trading desks have emerged as an 'eldorado' for banks. Brokerages earned on commodities, forex, equities and fixed income sent trading revenues surging in the first quarter (see chart), helping to offset losses at other divisions such as asset management. Citigroup's trading revenues rocketed by 39% to USD 5.9 billion, shattering expectations. At Goldman Sachs, the increase for this line item was 28%, up at USD 5.16 billion. The bad news is that volumes are expected to fall back in the coming months.

Overall, guidance for the second quarter is gloomy. This certainly does not bode well for European banks, which will report their figures in early May. The global economic system has taken such a pounding that the impact on future operating revenues is hard to project.

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