FINANCIAL MARKETS FLASH

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In this morning of March 9, the decline of the main US and European equity indices has now reached almost up to 25%, in less than 2 weeks. This correction is among the most severe in post-war stock history. The last comparable movements in terms of scale and speed occurred in the summer of 2011 (fear of the breakup of the euro), and before September 2008 (bankruptcy of Lehman Brothers and doubts about the soundness of the international financial system). The only real difference is that, today, the correction started when the markets were high and in an optimistic environment, which weakened them even more.

Today, the crisis is of a different order nature. The impact of the epidemic on global growth is difficult to estimate, but it is clear that the impact will be severe. At this stage, we do not have enough information to give reliable forecasts. However, we can provide some observations on some essential points:

1. The valuation of the equity markets has dropped significantly. The PER 2019 (on last year's known results) of the S&P 500 index was close to 20 in January (which we found excessive). Today, it is 15.5. Obviously, the 2020 results will be impacted by the economic slowdown linked to the virus, but we do not know to which extend. There will also be a form of catch-up when the virus fades. Thus, it makes more sense to reason about known benefits at this stage. The rational is similar in Europe: the PER 2019 of the Eurostoxx index decreased from 16 to 12.5

2. At the same time, interest rates have fallen sharply, and **we are facing a global orientation of interest rates towards 0%.** The latest country, and not the less important, to go along with this movement is the United States. The FED had decided "surprisingly" last week to lower of 50 bps its main key rate, with a path fairly well marked out to bring the level of Fed Funds to 0.5% in the coming months… Investor reaction was at the expected level and the 10-year T Notes yield has thus gone down in a few days from almost 2% to 0.35%, which is a movement of extreme speed. The reaction was naturally less important in the euro zone because the key rates were already in negative territory, but the Bund's yield has nevertheless dropped, falling from -0.40% to -0.82%!!! Equity dividends thus appear even more attractive in relative terms.

3. Credit logically drops this morning alongside fears of an economic slowdown. In addition, the sharp drop in oil prices heightens fears about the "High Yield US".

From a cautious approach at the start of the year, highlighting that the markets were vulnerable to the slightest bad news, we now believe that there are investment opportunities, mainly in equities and European High Yield in a medium term perspective. Short-term credit is also an attractive investment under current conditions as an alternative to money market investments.

Indeed, the conditions for a rapid recovery, once the virus under control, seem to us to be in place: even lower rates, cheap oil and correct valuations.

The fact remains that the markets are likely to continue to be volatile in the coming months, and it will be necessary to pay attention to liquidity. Therefore we recommend investing in several times.

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