

Market Update: 29th April 2020

Europe: How quickly can economies across the continent get back to normality?

Over the week, Europe took another step toward life after lockdown as France, Spain and Greece unveiled details of how they plan to emerge from the coronavirus and cautiously restart economies crippled by the pandemic. After weeks of lockdowns across Europe, with number of cases now starting to decline, the strict restrictions appear to have been successful so far in helping to contain the virus across the continent.

As the number of new cases of Covid-19 trend lower, a clearer picture is now emerging of how Europe aims to ease its way back towards some resemblance of normality, although governments have stressed that there's still a long way to go before coronavirus is beaten. With the absence of a vaccine, all countries are trying to strike a delicate balance between reviving business and household finances while averting a potentially devastating second wave of infections.

A Gradual Relaxation in Restrictions

Across Europe, lockdown measures have shuttered factories, halted travel and kept millions of people largely confined to their homes. The fallout is spurring talk of recovery efforts on the scale of the post-World War II reconstruction. But after more than 120,000 deaths on the continent, officials remain wary of decisions that could see them risking lives, with governments across Europe adopting varying timelines to gradually relax lockdown restrictions.

- **France**

In France, officials are expecting to reopen restaurants and cafes from 2nd June, with pupils returning to school from 11th May, but with strict rules remaining in place. Public events of more than 5,000 people will remain outlawed until September, and working from home is encouraged for at least three more weeks. While some areas of the economy start to recover in the coming weeks, the tourism industry is likely to continue to suffer, with beaches, parks and gardens expected to remain closed while inter-regional travel is discouraged.

- **Greece**

Despite having a much lower death toll than its European counterparts, Greece is likely to experience a longer period of reduced activity than others due to the country's dependence on tourism, with officials announcing that it will be weeks before the hospitality industry will reopen. The relaxation of restrictions starting from 4th May means that small retail outlets such as bookstores and sports stores will reopen, followed by the gradual reopening of stores. Some hotels and restaurants are expected to resume trading on 1st June.

- **Spain**

Strict lockdown measures in Spain have started to be relaxed this week, with the announcement that from 2nd May, citizens will be allowed outdoors to exercise and go for walks for the first time since the lockdown was declared on 14th March, while children were allowed out in the company of one adult from Sunday. Spain's Prime Minister Pedro Sanchez has said that he will follow the data, and that any further lifting of restrictions will not adhere to a strict calendar.

- **Portugal**

Portugal, which has been less affected by the outbreak within the bloc, is expected to announce on Thursday which businesses can resume from 4th May, with confinement measures expected to be eased gradually every 15 days.

- **Germany**

One of the most aggressive countries on testing, Germany has emphasised that the tracking of Covid-19 cases will dictate how it moves further to get back to normal. The country’s reproduction factor, which is a key measure of how successfully countries have kept the virus in check, edged up to 1.0 on Monday from 0.9 to the previous day. The aim is to keep the figure below 1 going forward to ensure that the spread of the virus is being contained. The country is taking a very cautious approach given the recent increase, and is likely to be slower to announce a meaningful relaxation in lockdown restrictions. Chancellor Merkel is scheduled to consult with state premiers tomorrow on whether to further relax restrictions on public life.

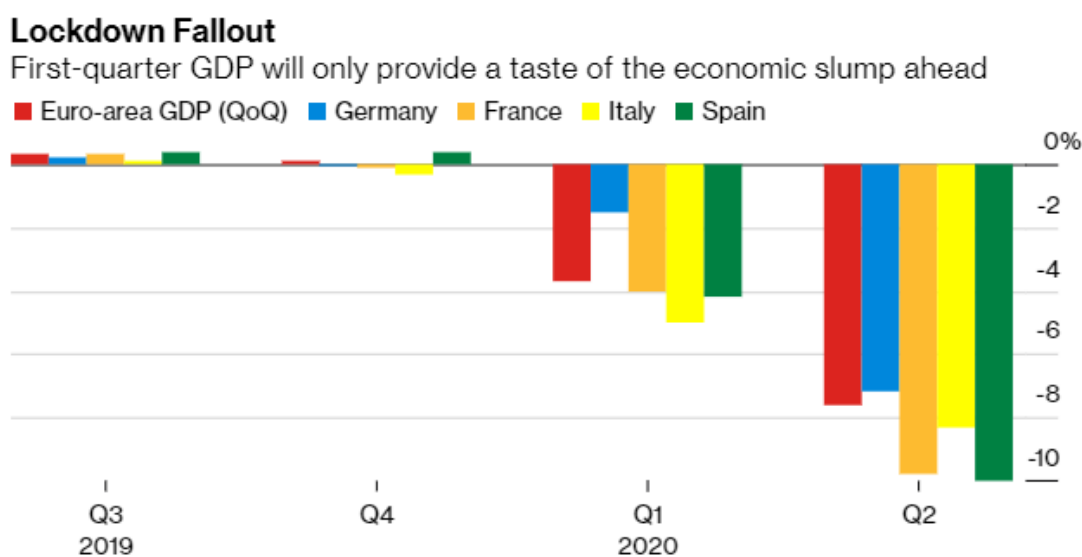
- **UK**

In the UK, the focus remains on ramping up testing before the relaxation of lockdown restrictions. The current measures are due to be reviewed by 7th May, however Prime Minister Johnson has taken a cautious stance, saying that he’s not prepared to risk a second outbreak. As testing increases, it is likely that we will see an increase in cases across the UK, however officials are confident that the active cases curve is flattening. The government’s target is to increase daily testing capacity to 100,000 by the end of the month, and as of yesterday it stood at 73,400.

The government has said that it sees a “test, track, trace” system as the way to ensure that Covid-19 infections don’t take off again as the lockdown is eased. This requires the recruitment of 18,000 “contact tracers” to identify people who might have been exposed to the virus, as well as the release of a mobile phone app that will do part of that job automatically. According to health secretary Matt Hancock, the tracers and the app are expected to be in place by the middle of May.

The Economic Impact

Over the week, we are expecting to get further indications of the impact of the coronavirus-induced lockdown on the Eurozone economy via economic data releases for the first quarter of the year and this month. First quarter data due Thursday will show a 3.7% contraction, the first since 2013, capturing the early hit to the economy from shutdowns to contain the virus. The current quarter is expected to be much worse, with a disastrous deterioration in economic prospects likely to produce the deepest recession on record. France, Italy and Spain are expected to publish estimates tomorrow, and the ECB is expected to announce it’s latest policy decision.



Source: National statistics institutes, Bloomberg survey of economists
 Note: Forecasts from 1Q 2020

Supporting the Eurozone Recovery

Faced with the prospect of a deep recession in the bloc, the European Central Bank's response to the coronavirus has so far calmed markets with a commitment to the mission to keep prices stable. With governments struggling to agree on joint fiscal action, President Christine Lagarde and her colleagues have ramped up bond buying of vulnerable nations, soothing investor concerns over the cost of fighting the pandemic. The ECB has also eased leverage limits on European banks as policymakers look to keep credit flowing to the economy during the pandemic. The ECB is expected to announce its latest policy decision tomorrow.

Overall

As efforts to contain the coronavirus start to bear fruit across the Eurozone, we are now getting a clearer picture of how Europe expects to emerge from the pandemic, with recent announcements on the gradual lifting of restrictions providing some clarity on timelines for a recovery across the continent. Even though economies are proceeding cautiously to prevent a second wave of the outbreak, most economists expect to see a rebound in GDP in the second half of the year, with investors starting to look through near term economic weakness to this rebound. We are still waiting to see joint fiscal action across the Eurozone, however thanks to the unprecedented actions taken by central banks and governments across the globe, we are hopeful that we will start to see an improvement in economic conditions in the second half of the year, although the shape of the recovery still remains unknown.

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