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- Economy starts to pull back from the abyss though pain is far from over
- Rising deflation risk warrants more stimulus
- A torrent of money printing and fiscal stimulus keeps gold above $1.700
- German companies are well-placed to weather the crisis
- Investors are loving toys
- Biotech shares soaring on virus

Dear investor,

- **Slowly but not surely, the world economy is emerging from its coronavirus-enforced hibernation.** As governments ease lockdowns of businesses and allow consumers to travel and shop again, economic data and confidence increasingly suggest a bottom has been reached in the worst global recession since the Great Depression
- **Thanks to an enormous gush of liquidity** (more than $9 trillion have been or will be injected into the financial system), **the stock market has gone from recession to depression to recovery to euphoria in less than 100 days**!
- But that doesn't banish the fear that **the volatility may rebound once the market has to confront underlying economic and corporate fundamentals.** Surveys show little sign that people are ready to splurge just yet amid spiraling unemployment and the threat of a second wave of infections. That raises the risk that recovery will be anemic, with underwhelming impetus from domestic demand. The failure of companies to beat earnings forecasts highlights the constraint they were facing during the pandemic, a challenge that is likely to continue into the next reporting period.

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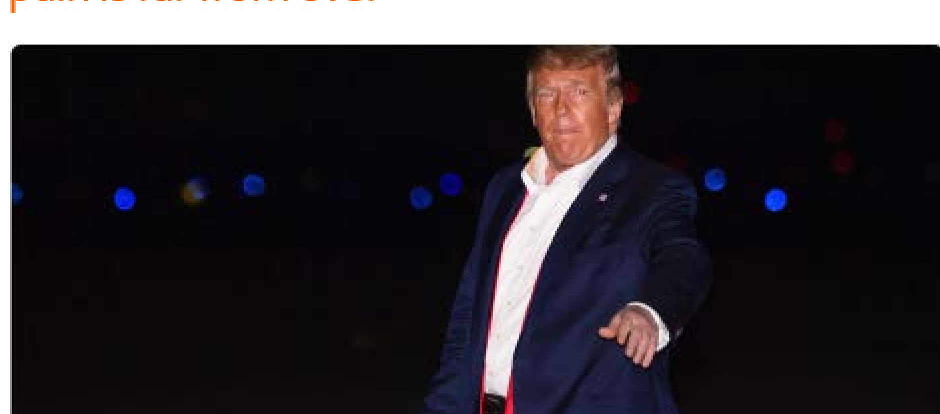
Thierry Masset, Chief Investment Officer ING Belgium

Our latest publications on the coronavirus crisis

EQUITIES

Economy starts to pull back from the abyss though pain is far from over



In the context of such an enormous gush of liquidity - growth in M2, a broad measure of money supply, is the strongest in the U.S. (23%) since the Federal Reserve's records began in 1960 - it is clear that there was immense pressure on share prices to rise. But that doesn't banish the fear that the rally cannot be sustained once the market has to confront underlying economic and corporate fundamentals.

Since the second half of March, investors have embraced risk as signs of a nadir in the global recession have emerged after governments and central banks have moved in tandem to continue flooding lenders, markets and companies with cheap credit at an unprecedented pace. The fastest stock market collapse on record (-34% in euro and in nearly one month) has been followed by the fastest recovery (+31%) ! Global equities have climbed back to levels last seen in February, when the coronavirus began spreading rapidly outside of China, and markets have gone from recession to depression to recovery to euphoria in less than 100 days! In some respects, it is almost as if the pandemic never happened and investors forgot that equities are on course for one of the most volatile years in three decades. The stock market rally is not only surprising in its scale and speed, but also because it contrasts sharply with the economic data. Almost all main economies witnessed a pick-up in activity since late March and early April, but no country is yet approaching its pre-virus levels! It is therefore very likely that risk aversion will reappear in the second half of the year and volatility will return to the financial markets.

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- Cyclical stocks have shown some signs of resurgence.
- IT stocks are the best performers this year

BONDS

Rising deflation risk warrants more stimulus

Central banks ramp up their emergency bond-buying program to avert a deflationary wage-price spiral taking hold. ECB boosted last month its pandemic bond-buying program by €600 billion to €1.35 trillion, and extended it until at least June 2021. Central bank buying should absorb a substantial amount of upcoming government bond issuances and stave off a rise in bond yields.

The hard-stop in the economy due to the Covid-19 crisis is resulting in an unprecedented plunge in output as well as a surge in unemployment to levels last witnessed in the 1930s. Tremendous productive slack is emerging in the economy - in both the labor market and capital stock - and history shows that tepid growth amid excessive spare capacity will substantially reduce inflation pressures over an extended period of time. Over the last 50 years of economic cycles, recessions have consistently proven to be disinflationary (by an average of just over 2% as measured by the U.S. core consumer price index) and there is little reason to anticipate an alternative outcome in the current downturn. The risk at present is that with inflation pressures already muted prior to the crisis, a moderate bout of disinflation could push the economy close to the brink of deflation. This is a critical reason why central banks officials remain inclined toward providing additional support to the economy via monetary policy, and also why they are taking such an uncharacteristically vocal stance on the importance of further fiscal support.

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- Financing costs still support corporate bonds of companies with sound financial records
- Negative outlook for debt with "BBB-"rating.

OTHER ASSET CLASSES

A torrent of money printing and fiscal stimulus keeps gold above $1.700

The reason that ultra-loose monetary policy is a positive for gold is that it applies downward pressure to long-term real yields and that increases de facto the appeal of the precious metal relative to interest earning assets.

Gold rallied again above $1.700 (€1.500) last month on a one-two lift as the Federal Reserve and other central banks vowed to hold interest rates lower for longer - Fed Chairman Jerome Powell could keep U.S. rates near zero through 2022 - and sustain vast stimulus to support a recovery from the coronavirus pandemic, and investors tracked signs of a resurgence in infections in some regions (such as Latin America, Iran, India, Russia or some U.S. States). Gold is and would be the natural beneficiary amid demand for safety, as money supply growth and gold prices have moved in a parabolic fashion over the past months (their correlation is above 80%!). With rates staying low for longer thanks to massive debt purchases by central banks and real rates expectations potentially shifting more negative, the conditions are here for gold continuing to outperform. Bullion's advanced 12% (in euro) in 2020, i.e. 9% more than investment grade bonds, 18% more than equities and 39% more than commodities.

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- Oil continues to flood into tanks.

IN THE NEWS

German companies are well-placed to weather the crisis

Investors are betting that Europe's growth engine will roar again. German stocks are among the fastest on the recovery path from this year's pandemic-fueled rout, and with reason. They are getting twin boosts from optimism about a global economic revival and unprecedented fiscal stimulus as the country abandons its long-held balanced-budget stance.

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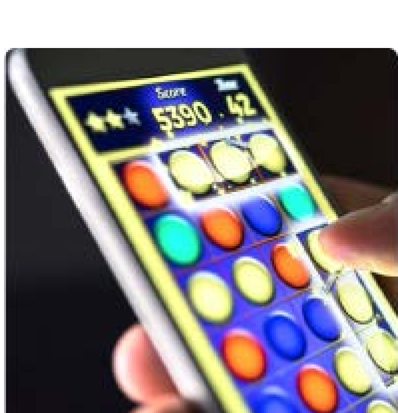
Investors are loving toys



Governments across the globe have made toys and games an essential service as efforts to slow the spread of Covid-19 shuttered most economic activity and led people, confined to their homes, to find distractions. Thanks to social distancing measures shares of the five global toy- and-game manufacturers gained 41% (in euro) since mid-March, beating by 17% all major industries for the first time since 2007!

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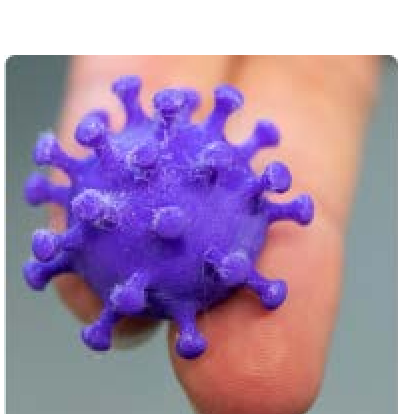
Biotech shares soaring on virus



Healthcare companies that are trying to develop treatments or vaccines to fight Covid-19 have produced some of the best stock market performances in Europe this year. But odds are, investors will end up disappointed.

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