Economic overview

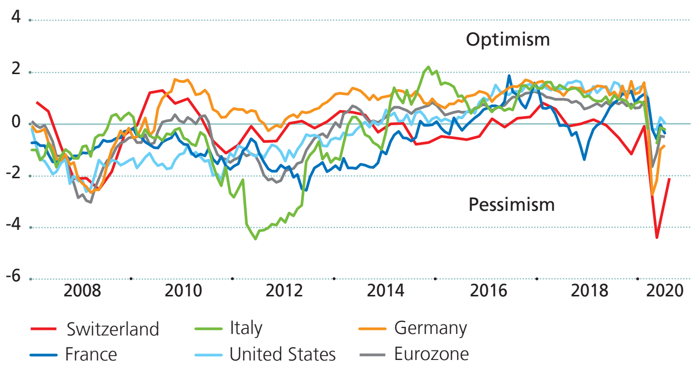
August 2020

Thanks Eurobonds!

Admittedly, the epidemic is far from being under control and the first figures on the fall in GDP in the second quarter are impressive. Nevertheless, there is hope for an economic recovery. Across Europe - and particularly in Switzerland - business and consumer confidence indicators are picking up, heralding a rebound in private consumption and investment. The easing of precautionary measures has had the desired effects, while the measures to support the economy have cushioned the shock of the second quarter by giving households and businesses the means to get through the crisis. After the stimulus, it is now time for the recovery. **Europe is determined to match the United States and its mega programme.** The European summit at the end of July approved a EUR 750 billion package and laid the foundations for European recovery: Eurobonds, solidarity between countries and long-term projects. **However, we must of course remain cautious as the uncertainties are still considerable and the consequences of a second wave are uncertain.**

International comparison: consumer confidence

Balance of responses, standardised variable



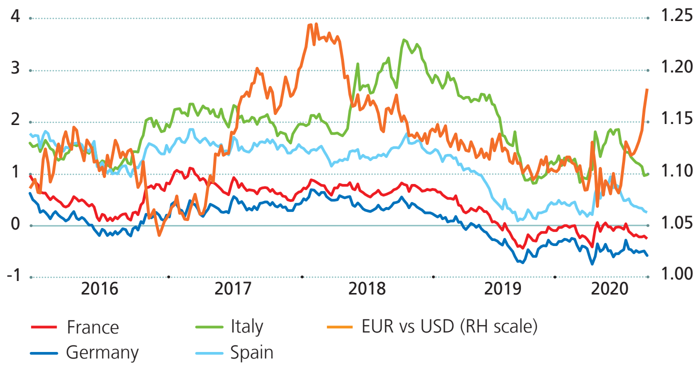
Source: Refinitiv Datastream

After consumer spending in Europe came to a virtual standstill during the lockdown, there are now signs of a significant recovery. In France, monthly sales figures for manufactured goods in June returned to pre-crisis levels, increasing by more than 62% since the low point in April. The upturn is also being confirmed on the business side. The business climate is recovering all over the world, particularly in the United States and China, where it is back in positive territory. Nevertheless, disparities and risks remain. **Household consumption in the United States is being hampered by the resurgence of Covid**, while the sectoral specialisation of countries is having a significant impact on their economic recovery. **Switzerland, which is less exposed to the tourism sector and is specialised in the pharmaceutical and chemical industries,** is a case in point, **and is already seeing a drop in unemployment in June.**

In Europe, Eurobonds could transform the debt market. The idea was first conceived by a European Commissioner as early as 1993, but was rejected for a long time by Germany. In 2012, at the height of the sovereign debt crisis, Berlin argued that this type of financing would mean that the most fragile countries would not undertake the necessary structural reforms but would rely on debt pooling. But today, faced with an unprecedented crisis, **Europe is showing solidarity and the recovery plan offers additional support to the most vulnerable countries. Beyond the political gesture, this aid also offers economic benefits for the whole of the Union**, given the importance of intra-European trade. The major breakthrough (temporary for the time being) of the 21 July agreement concerns **the pooling of debts, which can now be issued directly by the European Commission**. With an AAA rating, Eurobonds issued on the markets will make it possible to reduce the cost of financing the most fragile countries. Bond markets have welcomed this measure; European government bond yields have fallen in the wake of the agreement, as has the peripheral price of risk and volatility. The euro also appreciated against the dollar by nearly 10% in 3 months. The summit acted as a catalyst to guide the European currency towards its fundamental value (close to 1.25), determined by trade surpluses and bond yield spreads. Nevertheless, investors continued to favour US equities for technology stocks.

10 yield European bond yields
Evolution EUR vs USD

In %



Source: Refinitiv Datastream

Despite continuing uncertainties, recovery appears to be underway in Europe. The calm on the financial markets has been confirmed, volatility has decreased and the morale of economic actors is picking up. Nevertheless, the situations are varied and some sectors remain very vulnerable, particularly if there is a second wave. We therefore recommend remaining invested in equities, with a focus on selecting companies positioned for the long term in sectors that are less sensitive to economic cycles. The trade-off between cyclical and defensive is not appropriate in this type of crisis. **However, sector and regional differentiation is essential.**

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