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**THE MARKETS ARE BETTING ON AMERICAN STRENGTH**


**Bouncing back**. Wall Street recovered 55.5% of the losses incurred at the beginning of March to return to August 2019 levels

# Wall Street recovers and beats Europe

**Maximilian Cellino and Morya Longo** —on page 8

# MARKETS


**USA Recovery**. Investors are favouring US shares that benefit most from Covid-19. Amazon and Netflix are at their historical highs (up 9.4% and 9.5% since 19 February). An even better performance came from Regeneron Pharma (+41.9%) and Gilead, which may have found a cure (+24,7%).

**+67.5%**

**NASDAQ RECOVERS FROM THE LOWS**

Since the lows registered in March, Wall Street has already recovered 55.5% and NASDAQ 67.5%. Europe lags behind. Only Frankfurt stands out.

# Stock exchanges bet: post-Covid USA beats Europe

**Selective pricing.** The bounce back after the lows registered in March will reward the stock exchanges of those countries that respond best to the crisis: Wall Street returns to August 2019, Italy is stuck at the starting blocks

**Maximilian Cellino**
**Morya Longo**

Seeing two tech giants like Amazon and Netflix return in the last few days to their historic stock exchange highs is quite reassuring because it means that, even in the hibernated world of the coronavirus, at least the stock exchanges have started to see the light at the end of the tunnel. Unfortunately, they perceive it in an asymmetrical way, not only in different sectors, but also in different countries. Investors have started to categorise the world (and stock exchanges) into those that will emerge from the crisis quickly and in good shape and those that will struggle. Or, specifically, those that have resources in their national budget and strength in their central bank to support the economic recovery and those that don't. Rightly or wrongly, stock exchanges, now looking at the post-epidemic world, are anticipating that the crisis will weaken the weak and strengthen (or weaken to a lesser extent) the strong.
And so, while the stock exchange in the US has already recovered 55.5% of what was lost at the beginning of March to return to August 2019 levels and NASDAQ has recovered a whopping 67.3% (notwithstanding the severe economic crisis in the US), Europe lags behind. And, looking at the Old Continent, the German stock exchange has recovered 41.2% of what was lost, the French stock exchange 31.8%, while the Italian and the Spanish stock exchanges have recovered only 19.1% and 17.9%. "The market is beginning to categorise stock exchanges on the basis of the quality of future recovery", observed Francesco Castelli, Head of Fixed Income at Banor Capital, who wrote a paper on this subject. And the quality of future recovery is directly proportional to the capability of each country to guarantee it. "While stock exchanges in the first phase of the recovery were looking at the evolution of the pandemic, thereby favouring Europe because it seemed to have made the most progress along the contagion curve, now investors are favouring those who have more ammunition in their public budgets".

**The recovery spread**

This is the real point. Investors know that the quality of a post-Covid-19 recovery will depend mainly on one thing: the extent to which governments and central banks are able and willing to support businesses and families during and after the pandemic. "Some areas or countries may offer more support to their economies, while others may only be able to afford more modest plans. The lockdown will cause recession everywhere, but recovery will be different depending on the country", observed Castelli.

Therefore, in the United States, where the Fed has launched countless measures with unlimited resources and the government has budgeted more than 2 trillion dollars for the Covid-19 emergency, they are deriving greater benefit from the stock exchanges' bounce-back. Even though public debt in the USA is at 109% of GDP (and is destined, according to the IMF, to rise to 131% of GDP by the end of the pandemic), the market thinks that, on the other side of the Atlantic, public reaction is strong, fast and credible. And so, even for the stock exchange, the United States is the one recovering faster and better. It is understood that the market may not necessarily be right. Many think that this Wall Street frenzy is inappropriate, considering that the US economy is falling and company profits are collapsing. But, for now, the market is moving in this way, betting on the effectiveness of public support for the economy.

Europe, on the other hand, is the realm of indecision, litigation, Byzantinism, slow processes and half measures. This even applies to solid Germany, which on paper has greater capacity in its public budget than the United States to intervene to support families and businesses (having a pre-crisis debt of 59%), where the stock exchange is recovering less quickly. Although slower, the recovery of the Frankfurt DAX is nonetheless higher than other European stock exchanges. This is so also because, on the basis of estimates included in the Fiscal Monitor of the International Monetary Fund, Berlin deployed direct measures to the tune of 4.4% of its GDP. This may well not be the level of resources deployed by Washington (6.9% of the national wealth of the USA), but, in relative terms, it is worth almost four times as much as the 1.2% of measures deployed by Rome and Madrid. In Europe, the real problem actually lies in the weakest and the most indebted countries: Spain (which, according to the IMF, will have a post-Covid debt equal to 113% of GDP) and Italy (whose debt could reach 155% of GDP from the pre-virus 135%). The market is penalising these countries on government bonds with widening spreads, despite the strong intentions of the ECB. It is penalising them on issues of corporate bonds (see article below). And also on the stock exchange front, they are the ones with worst falls from their highs to their lows (-41% Milan and -39% Madrid), and now they are the ones with the slowest recoveries, so much so that, since February, they are still behind by 33% and 32% respectively.

**The sectoral spread**

The same can be said in relation to the various sectors. The market makes a distinction between those that will recover better or worse after the crisis. As demonstrated by the performance of NASDAQ (which has now recovered a large part of the lost ground), tech shares are the most promising, also because—in this lockdown phase—there has been a boom in the use of technology. Thus, if we look at stock exchange prices—according to UBS calculations—at a global level, technology shares are registering values consistent with a 2020 global growth of 3%.

Industrial sector shares, on the other hand, reflect a 0.8% fall in the global GDP, but they are the only ones that encompass a recession in their prices. Overall, the current values of the MSCI World Index indicate a global growth of 1.1% this year and 2.4% next year. It is true that, at the end of January, before the global contagion, the same levels reached by the global index projected a growth for 2020 of 5.2%, while, at the moment when the pressure was at its worst (on 23 March, according to UBS), they suggested on the contrary, that there would be a much heavier correction of 2.7%.

However, it is equally evident that the implicit levels sustained by stock exchanges after this partial recovery are much higher than the projections of the main investment firms and those just made by the IMF, which fears an unprecedented global recession of 3%. Is it a case of too much optimism on the stock exchange, or too much pessimism among economists? Those who think the stock exchange is exaggerating are not in the minority. But we can only have an answer in the future.

# +19

**MILAN'S RECOVERY**

After losing 41% from the end of February up to the lows of March, the Milan stock exchange recovered only 19.1%. The same applies to the Spanish stock exchange, recovering only 17

**Wall Street is flying high, but not Europe**

**SELECTIVE RECOVERY OF STOCK EXCHANGES**

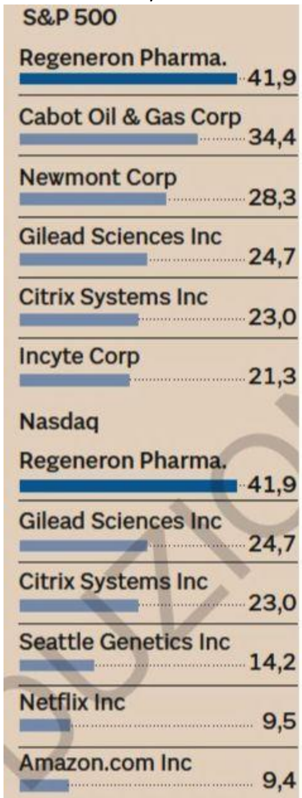
Performance of the main stock exchange list prices since the highs of 19 February, 19/2 value = 100


| PAESE | BORSA | % CADUTA MARZO | % PERDITA ATTUALE | % RECUPERO | AIUTO % SUL PIL ESCLUSE GARANZIE |
|---|---|---|---|---|---|
| **ITALIA** | Ftse Mib | -41,2 | -34,4 | +19,1 | 1,2 |
| Germania | Dax | -39,0 | -25,2 | +41,2 | 4,4 |
| Francia | Cac 40 | -38,7 | -28,9 | +31,8 | 0,7 |
| Spagna | Ibex | -39,4 | -33,3 | +17,9 | 1,2 |
| Stati Uniti | S&P 500 | -33,9 | -15,1 | +55.5 | 6,9 |
| Stati Uniti | Nasdaq | -28,0 | -9,1 | +67,5 | 6,9 |

**US SHARES RALLY**

Some of the best names in the NASDAQ and the S&P 500.

% Var. since 19/2




Source: Banor Capital processing, IMF for state aid

**ISSUING OF BONDS RESUMES (BUT NOT FOR EVERYBODY)**

Corporate bond issues in the April to mid-March period by issuer country.

*Figures in billions of euro*