Equity markets

As long as the coronavirus epidemic seemed largely limited to China, equity markets in other regions - after an initial shock reaction in January - continued their rise in February. In fact, on 19 February the S&P500 and Stoxx600 registered all-time highs. Nevertheless, during the last week of the month, it was revealed that more infections had occurred outside China, including in Europe, where an outbreak of the virus was detected in northern Italy. Investors started to fear similar containment measures as in China (quarantine of cities, closure of companies, cancellation of activities, etc.) and the possible impact this would have on industry and consumption. Therefore, during that last week of February, global equity markets experienced their worst week since the financial crisis, with drops exceeding 10%. No sector has been spared, which illustrates investors' overall concern. The biggest negative contributors were tourism and leisure, energy and cyclical equities. Geographically, Asian emerging equities recently held up better after having fallen farther behind in January. The Japanese stock market nevertheless lost more ground than other Asian markets. After a disappointing fourth quarter of 2019 as a result of the VAT rate increase in October, the Japanese economy is likely to fall into recession (2 consecutive quarters of negative economic growth) notably due to the emergence of the coronavirus. The containment measures adopted at the end of February could cause further damage to the economy.

Equity Markets	February	3 months	Since 31/12	12 months
MSCI EMU NR	-7.9%	-8.5%	-9.5%	2.7%
MSCI EUROPE NR	-8.5%	-7.8%	-9.6%	3.0%
MSCI USA NR	-7.4%	-5.1%	-6.1%	11.6%
MSCI JAPAN NR	-8.3%	-8.2%	-8.4%	4.8%
MSCI EM. MARKETS NR	-4.4%	-2.6%	-7.7%	1.7%
MSCI AC WORLD NR	-7.3%	-5.5%	-7.1%	7.7%

(Performances in EUR dd. 29/02/2020) (Source : Bloomberg)

Bond markets

Bonds were the big winner during the turbulence period in financial markets. Yields fell sharply, driven by both investors seeking "safe investments" and expectations of rate cuts by the central banks. Consequently, US 10-year interest rates hit a new all-time low at below 1.2%, while the US 30-year yield fell well below 2% for the first time after already having flirted with that level in September. German government yields did not reach yet their previous low but still fell below -0.6%. The risk aversion of investors also became apparent in lower-quality bonds markets. The interest rate spread for southern European countries widened considerably, for example by 40 basis points in Italy (10-year rate). Corporate bond spreads also continued to widen. It is the high-yield bond segment which suffered the most, although spreads remain well below their highest levels of 2019.

Government Bond Yield 10 y	Current	February	3 months	Since 31/12
Belgium	-0.22	-0.03	-0.16	-0.31
France	-0.29	-0.11	-0.24	-0.41
Germany	-0.61	-0.17	0.25	-0.42
Italy	1.10	0.17	-0.13	-0.31
Greece	1.33	0.16	-0.11	-0.14
Spain	0.28	0.05	-0.13	-0.19
United States	1.15	-0.36	-0.63	-0.77
Japan	-0.15	-0.09	-0.08	-0.14

(Evolution until 29/02/2020) (Source : Bloomberg)

Central banks and monetary policy

In an effort to limit the impact of the coronavirus on the economy, the Chinese central bank cut its policy rate. Borrowing rates for banks should also fall as a result. Further interest rate cuts are likely to follow. For the time being, other central banks are adopting a wait-and-see mode. The Federal Reserve is reiterating that it is too early to assess the economic impact on the US and that the current situation does not yet justify any adjustment of monetary policy. Nevertheless, the markets are already anticipating a rate cut, possibly as early as March. For example, Fed futures give a 100% probability of at least one interest rate cut by April. The European Central Bank pointed out that the economic risks associated with the coronavirus epidemic requires the support of fiscal policy.

Central Bank Rates	Current	Latest adjustment	Date
Fed funds	1.50 - 1.75%	-0.25%	Oct. 2019
ECB deposit rate	-0.50%	-0.10%	Sept. 2019
(Situation on 29/02/2020)			(Source : Bloomberg)

Currencies

The US dollar strengthened in the course of last month to 1.08 against the euro, the highest level in almost three years. Here too, the “safe haven” feature played a role, in addition to the overall good health of the US economy. During the last few days of the month, however, a substantial part of the dollar appreciation was wiped out due to the sudden jump in market expectations for a Fed rate cut. The Australian dollar depreciated relatively little against the euro in February (-2%), while the Australian currency has weakened to the lowest level in more than 10 years against the USD. Sensitivity to commodity prices and to the Chinese economy are indeed weighting on Australian economic activity. This in turn means that the country’s policy rate could be furthered lowered, although being already low at 0.75%. China’s currency has again fallen below 7 against the dollar.

Currencies	Current	February	3 months	Since 31/12
USD	1.100	0.7%	0.1%	2.0%
GBP	0.862	-2.6%	-1.2%	-1.8%
JPY	118.99	1.0%	1.3%	2.4%
CHF	1.065	0.3%	3.3%	1.8%

(Evolution versus EUR until 29/02/2020) (Source : Bloomberg)

Commodities

Oil prices fell further in February to a level comparable with the lowest point seen at the end of 2018. For the first time since the financial crisis of 2009, the International Energy Agency expects that oil demand will not increase at all in 2020. In the event of a worldwide spread of the coronavirus, this may be a too optimistic estimate. OPEC+ will be meeting on the 5th and 6th of March to decide on any additional production cuts, with Russia being the most reluctant to expand the production restrictions further. After the fall in January, which was already a reaction to the coronavirus outbreak in China, commodity prices continued to decline, especially in the second half of the month. The price of gold rose to above $1,600 per ounce, its highest level in the last seven years, thanks to rising demand for "safe haven" investments.

Commodities	Current	February	3 months	Since 31/12
Commodities (GSCI)	358.44	-7.8%	-12.4%	-17.8%
Oil (Brent)	50.52	-13.1%	-19.1%	-23.5%
Gold	1583.76	-1.3%	6.4%	2.9%

(Evolution in USD until 29/02/2020) (Source : Bloomberg)