BANQUE
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CORONAVIRUS + OIL PRICE COLLAPSE
MARKET REACTIONS & IMPLICATIONS

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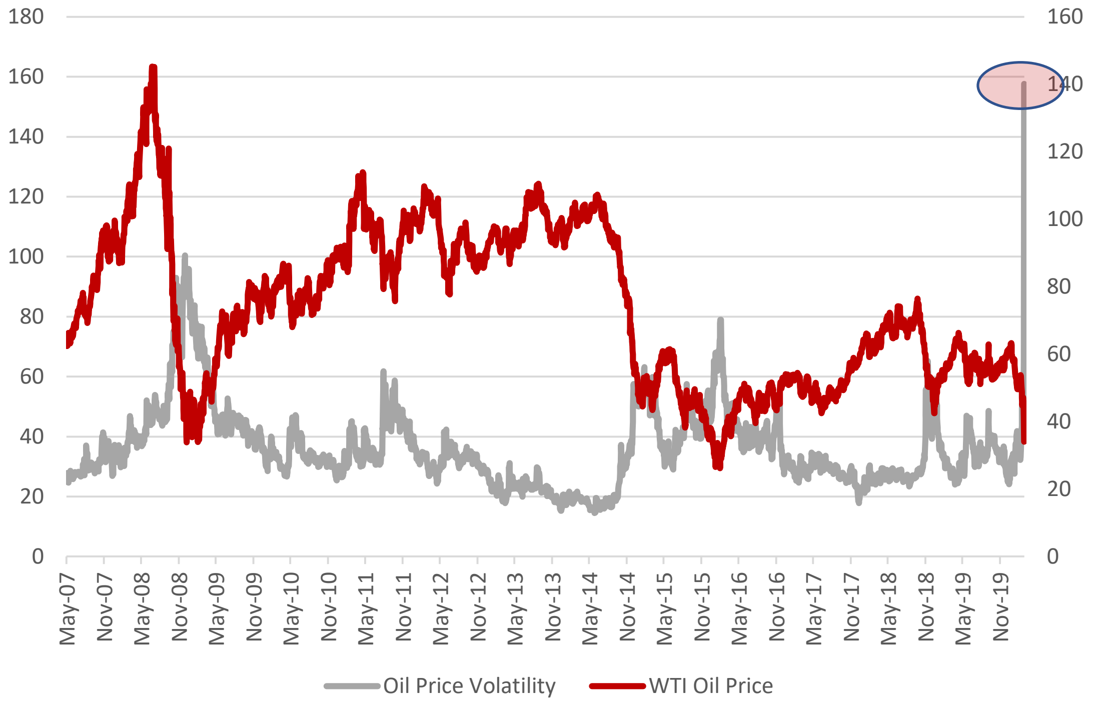
CORONAVIRUS + OIL PRICE COLLAPSE
OPEC+ PRICE WAR = OIL PRICE COLLAPSE

WTI Oil Price (rhs) and Oil Implied Vol (lhs)



Source Bloomberg

What happened ?

Crude tumbled the most since Gulf War in 1991, after the **breakup of the OPEC+ agreement to curtail production**. The Saudis slashed their official crude prices and both Saudi Arabia and Russia are threatening to ramp up their output, at a time the coronavirus is poised to cause the first contraction in oil demand since 2009, according to the International Energy Agency.

After dropping initially by 30%, the oil price pared back its losses to -24%, making it nonetheless its 2nd steepest daily decline on record. **Oil volatility** reached a **new high** at 157%.

Equity markets already weakened by the coronavirus fell sharply on the news. As of March 9th, the S&P500 was down 15% YTD. The situation was even worse for the European markets (Stoxx 600) and the Japanese one (Nikkei225) down respectively 18.4% and 16.7%. Only the Chinese market fared better, being down 2.5% (A Shares Market).

The most striking reaction was probably on the so-called safe-have assets, especially on the Treasuries. The **US 10-year Treasury yield fell below 0.50%** and **the 30-year yield under 0.90%**, taking the whole U.S. yield curve below 1% for **the first time in history**

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2019-nCOV, THE VIRUS GOES GLOBAL…

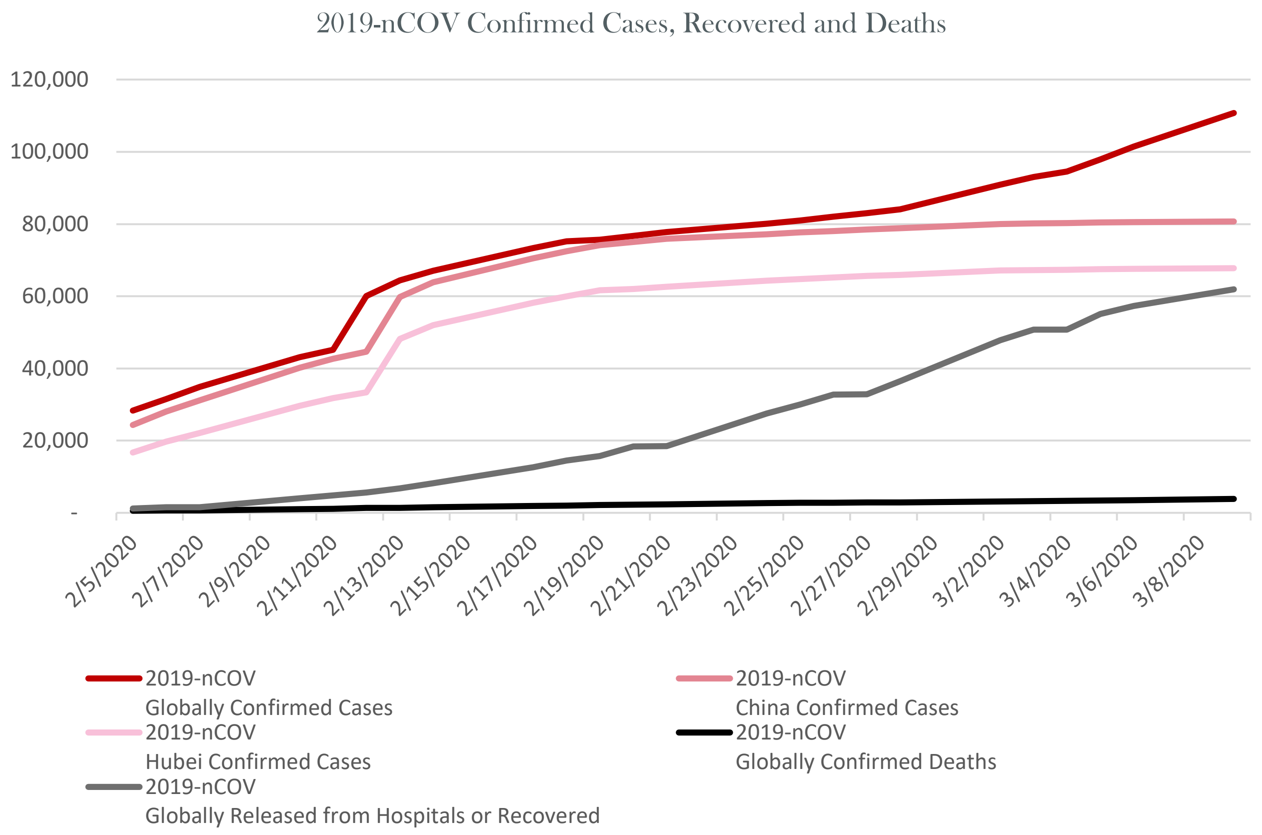
With more than **110k people infected** and **close to 4'000 deaths**, the coronavirus epidemic outpaced the SARS one, but remains far less deadly than the H1N1 flu - 150k-300k deaths. **Contagion risk** remains the most topical issue with the 2019-nCOV.

The epidemic is no longer contained to China, as it spreads in North Asia, most notably in South Korea with 7.5k cases and in Europe, most notably in Italy with 9.2k cases. Depiste a climbing number of cases in the USA (675 reported so far), the country remains largely unaffected and could suffer from an acceleration in the coming days.

China has bee the first country affected but has also been the first one to react with drastic quarantine measures. On a more positive tone, new cases reported inb China and in the Hubei province are slowing, feeding hopes of a **stabilization in China**.

Full economic impacts will greatly depend on the **length** and the **magnitude of the disruption** caused by the coronavirus. The macro data like the Chinese Composite PMI at 27.5 vs. a 51.9 reading in January illustrates how sharp the slowdown was in February.

Japan, Italy and possibly some other EU members that were already weakened before the coronavirus outburst would probably enter into **recession**. The recession risk is increasing for China and the USA, but it's too early to rule out any scenario as it will depend on the length and disruption caused by the epidemic, as well as the monetary and fiscal mesures provided.



Source Bloomberg WHO

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NEXT STEPS

What should be watched in the coming future ?

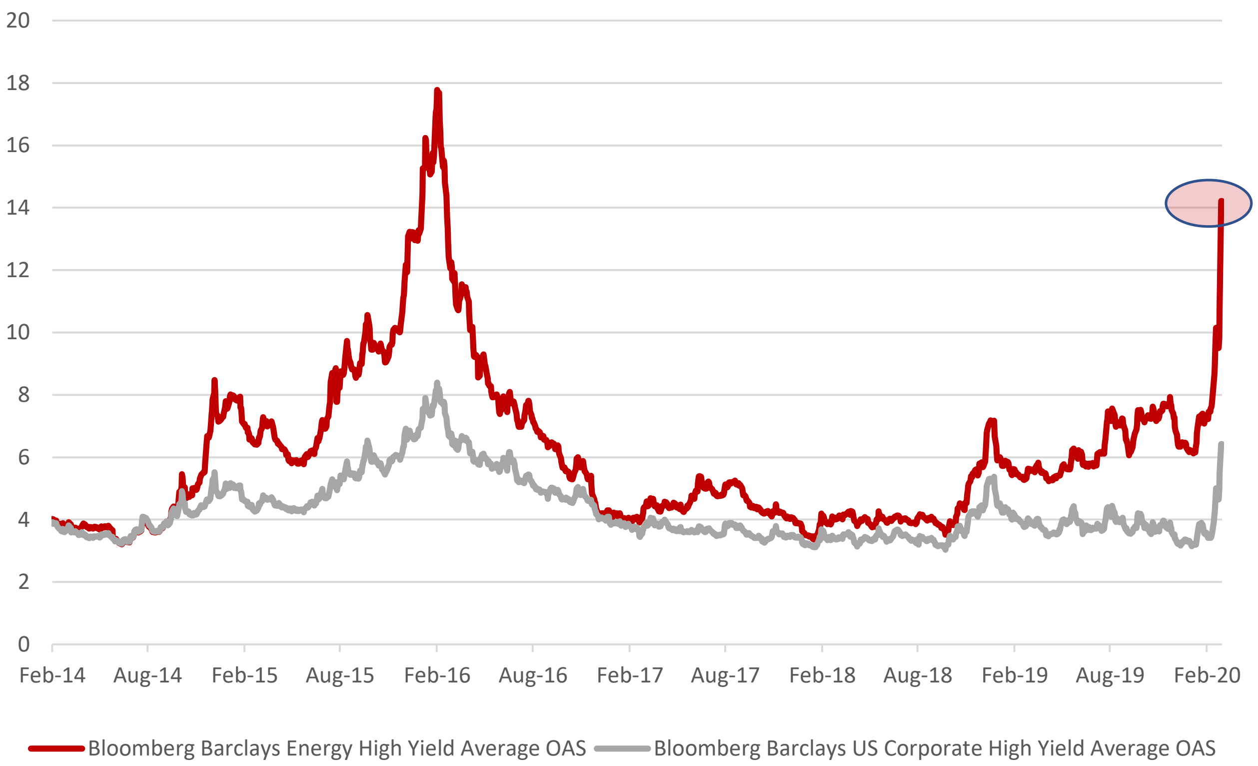
Investors should be watching the **news of further spread** most notably in the USA, and the decision to enact quarantine measures and travel restrictions. Those measures in econiomically important areas could potentially accelerate the economic slowdown and could be taken badly by financial markets. Conversely, any evidence of **successful virus containment** would be viewed extremely positively, as well as any proposed **medical solution** – 20 vaccines currently under development .

Credit spreads and most notably **the High Yield segment** in the USA should be watched closely. Even if from an economic standpoint low oil price is not necessarily a bad thing, its sudden collapse will put considerable stress on the **Energy sector** from a profitabiliy and balance sheet standpoints. The energy sector accounts for 13% of the High Yield market in the US and the spreads have widened (graph) in a similar fashion as in 2015. A **freezing of credit markets** would be the **major threat** for the **economy and financial markets.**

Dire situations call for **concerted measures** from a **fiscal** standpoint. The Chinese authorities led the way through targeted measures and fiscal stimulus. Italy decided to enact a EUR 7.5 bln stimulus package. The pressure is increasing on Germany and on the USA to take action. Any concerted plan could be viewed positively.

On the **monetary** front, central banks will continue to cut rates like the FED did last week. The situation may also provide the conditions to test and implement **non-conventional** and **exceptional measures.**

US Corporate High Yield & Energy – credit spreads



Source Bloomberg, Barclays credit indices

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INVESTMENT IMPLICATIONS

Different assets behave differently depending on market conditions. **Be diversified** across assets between **"risk off"** assets such as Gold, Treasuries, "safe haven" currencies and **"risk on"** ones such as equities was probably the best response to the current situation. In the current volatile environment, it's important to stay diversified **and not put too much emphasis on a single asset.**

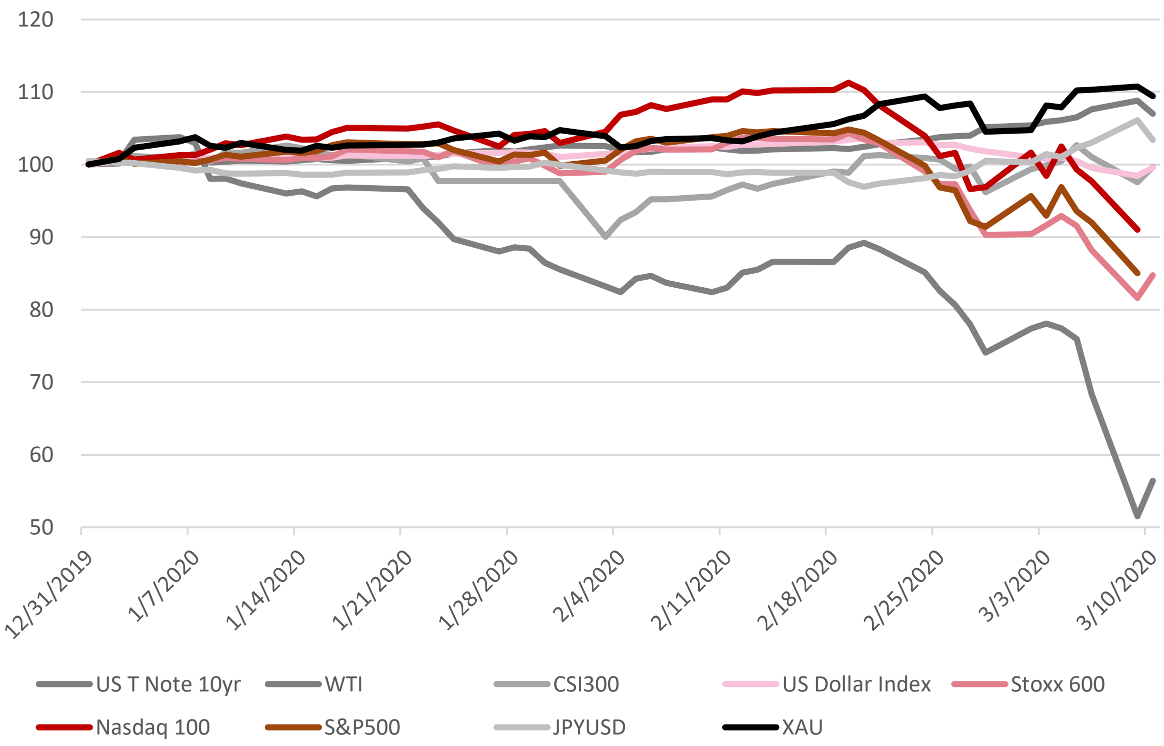
Investors should also continue to put a **great emphasis on liquidity**, as a key feature in the current volatile environment. They should also be wary of potential illiquidity traps within their portfolios, i.e. investments that were meant to be liquid that are becoming illiquid.

Volatility should be viewed as **a friend not as a foe**. Current conditions may provide an opportunity for investors with the investment knowledge to implement option-writing strategies either directly or indirectly to capitalize on higher volatility. On the other hand, too volatile investments such as oil commodities should also be reconsidered in the context of portfolio construction and risk tolerance.

Investors should also be very **cautious in taking decisive and hasty investment decisions** based on emotion. Some of the current market reactions may prove irrational and exuberated based solely on technical factors such deleveraging of some players.

At some stage, the market volatility and weakness may also present an opportunity for investors to invest. The "end of the world" moments may represent for long term investors a scarce opportunity to invest at attractive prices in quality plays – themes, markets, companies. Even if "calling the bottom" is an impossible exercise, investors should sharpen their pencils...

YTD Performance by asset class – Mind the gap !



Source Bloomberg, base 100 as of 12/31/19 -03/10/20