

Stock prices rising here and there "Four post-COVID scenarios"

Angelo Meda, Head of Equities at Banor SIM

The most likely trend will be a W shaped recovery with bounce-backs and slowdowns associated with new outbreaks

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What will the scenario be like in the financial markets after the most acute phase of the Coronavirus pandemic? Angelo Meda (**photo**), Head of Equities at Banor SIM, outlines various perspectives depending on the trend of the economic situation. Before doing so, however, Meda believes it is necessary to bring the events of the last few weeks into focus.

"After the worst month in history for stock markets (editorial note: March), in April, there was a strong recovery of international prices", said Meda, who underlined, however, that the distribution of price rises was patchy. American markets and, in particular, technology stocks, reduced the losses and, in some cases, there were even some that ventured into positive territory since the beginning of the year. Europe, on the other hand, struggles due to differences in the measures to be adopted to stimulate the economy. The Chinese market, the first one to be hit by the pandemic, limited its losses thanks to the determination shown by the government in its response to the economic and health emergency.

REACTIONS

The US markets limited their losses thanks to technology stocks
 China rewarded by the efficiency of its health measures

Now, underlined the Head of Equities at Banor SIM, "the debate has shifted to the possible recovery, represented by the letters of the alphabet according to the 'shape' it takes: V (to indicate a fast recovery, W (for stop and go), U (for a phase of prolonged stagnation) or L (to indicate no recovery)". For Meda, there are different signs which could characterise each one of these outlooks. Monetary and fiscal stimuli could bring about rapid economic growth, given that they are unprecedented in history. On the other hand, however, there are still many factors of uncertainty as the impact of the crisis on the GDP of the second quarter of 2020 has no equal in the post war-period and, unfortunately, we still do not have any certainty regarding a resolution to this emergency, with the possible risk of further lockdowns during the year.

"The signs emerging from the foreign exchange and the government bonds markets", added Meda, "still indicate prudence. The strong dollar and German Bund-buying faring well are signs of risk aversion. Even the VIX, the so-called 'fear index', which measures the expected volatility of the American S&P 500 index, maintains high values

(higher than 30) even though it is falling with respect to March and April. At the moment, according to the Banor SIM Asset Manager, the most probable recovery scenario is W-shaped, with a series of recoveries followed by slowdowns due to possible new Coronavirus outbreaks and the second-level impacts of the crisis. In this scenario, it will therefore be even more important, Meda believes, to select the most interesting securities on the market, assessing both risks and opportunities.

"The crisis will only accelerate some secular trends, like online sales, smart working and streaming services, favouring shares in these sectors", added the Banor Asset Manager, who believes, on the other hand, that recovery uncertainty will weigh on some sectors, such as the car industry or air transport, "which will need years to return to normal and where concentration of investments in solid

companies becomes fundamental".

According to Meda, at the moment, it is necessary to remain positioned in the stock market, even tolerating a little volatility associated with these stop and go phases of the economy. Among the securities most affected by the economic cycle, it is essential to look for companies with a robust financial structure and leaders in their sectors, like Volkswagen and Airbus for example, which will have to wait for the stabilisation of the economy before registering any stable recovery, but which are also competitively positioned for the future.

There are even many buying opportunities in the bond sector, according to Meda, in both the financial and the industrial sectors, provided that the investor is still prepared to tolerate volatility and carefully analyse the companies that issued the bonds in order to avoid companies with high financial risks.

EUROPE STUCK AT THE STARTING BLOCKS

The Old Continent is struggling due to the variety of interventions needed to support economic growth

