# Coronavirus and all that – light at the end of the tunnel

*The growth rate of the COVID-19 virus is falling worldwide, and a few countries are now taking steps towards relaxing the lockdown initiatives. We expect that several countries will announce similar measures as they see growth rates falling below 5%.*

*The purpose is to rekindle economic growth. Depending on the speed of the recovery, it will allow markets to move on to the next big question: is the magnitude of global and coordinated policy action to soften the economic blow of the right magnitude? Or was it even excessive?*

*Despite the data continuing to show the most brutal chock to economic activity on record and still rising human toll, the move towards economic recovery could change the investment climate dramatically towards a "risk-on" scenario.*

*The world economy entered 2020 near stall speed and subsequently saw a violent U-turn to negative growth. The reopening for business will cause a gradual return of economic activity. This will create new investment opportunities, some depending critically on the implementation of many of the support mechanisms. With still more data on the pandemic comes clarity and lower risk premia. We earlier quantified the approximate cost of shutting down the world economy in order to gauge government and central bank initiatives. It is clear that most of the governments were sober in their estimation of the slowdown, yet many details of the support programmes are still unknown.*

*We suspect that (yet again) the recipe will be simple: The highest returns will be provided by the assets that looked most likely not to survive two months ago, Italian banks, airlines, shale oil etc.*

## Beginning to the end of confinement

In our note on "the safety net is in place" (26 Feb) we wrote that two events were likely to be central in the fight against the coronavirus; the creation of an antiviral product to reduce the symptoms and the creation of a proper vaccine.

Those two are still correct, but a new, very important earlier step has become clear in the past weeks; a faster test procedure that allows to test asymptomatic individuals for having the virus or having had the virus. A first version of the test kits has already been tested and failed spectacularly. A host of companies are now trying to set things right and it is only a question of time before these new tests will be available.

The current tests only establish whether a person is infected at the time of the test. The new tests are central because it enables researchers and health officials to get a grip of the "dark number", ie. people who had so far not been tested and might have or have had the virus with very light symptoms or no symptoms at all. This is important because it can lead to an accurate understanding of the real spread of the virus. Equally important, it makes it possible to understand how many people have gained immunity against the virus.

So far it is the assumption that having been infected also mean that the individuals will also be immune to the disease, at least for a while.

This is of enormous economic importance, given that some 4 bn of the world's 7.8 bn people are now under some sort "social distancing" measures and some 90% of the worlds school pupils are affected by school closures – this entails huge economic costs.

If the new tests can disclose how many unknown cases exist and how many people have gained immunity, it would make sense to gradually lift the limitations on social contact. This would allow people younger than, say 45 years of age to return to the labour market. Social distancing measures could then gradually be lifted for the 45 to 55-year olds, for the 55 to 65-year olds and then the oldest.

This could happen as new testing provides a reliable picture of the infection patterns and as an antiviral treatment will be able to reduce the symptoms of the older sufferers, reducing the pressure on the health systems.

On a different note, across the globe, while the number of cases is still growing, they are currently growing at a slower pace. The same goes for the death count. Several explanations are possible: One is that social distancing measures are actually working. Another is that the "Dark Number" of unrecognised (and possibly asymptomatic) cases is high enough that "herd immunity" is appearing.

While it is still early days, we believe that there is a reasonable reason to be optimistic that the social distancing measures will be phased out gradually, beginning in April for the countries with the lowest growth rates of the infection.

## Investments

With a model-based investment framework like ours, any external communication easily becomes challenging. We therefore put special effort to our verbal communication.

We reach our investment decisions on the basis of systematic approach where we on a daily basis aggregate a number of economic and financial data into four different categories. We refer to them as; Fundamentals, Volatility & Correlations, Market Intelligence and Technical factors.

We believe that the influence of these four groups vary over time, reflecting the changing dynamics of the markets. The slower indicators are important and will take over as the markets calm down. Meanwhile, in volatile markets as we have seen since 21 February, it has been no surprise to us to observe that the faster moving indicators have been far better at explaining the market behaviour as described in the note "a concerted effort" (20 Mar).

Most of the faster moving indicators belong to the categories of Technical factors and Market intelligence, since these tend to reflect market sentiment and expectations – these two factors continue to exhibit rapid improvement.

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*This document is for investment professionals only*