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Decoupling the real economy – Update from the Investment Division

Erste AM Communications



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What has occurred since yesterday ?

While the markets for risky investments presented themselves in a good mood, the difference between the financial markets and the real economy is widening. That is not only reflected in economic data, but also in bankruptcy rates in the high yield segment in the USA.

In May in the USA eight companies went into default with USD 11,2 billion of outstanding bonds and loans. One of them was Hertz (we already reported about that), Fieldwood Energy and J. Crew. Since the beginning of the year 41 companies have defaulted and the insolvency rate increased to a ten year high of 5,05%. Especially hit were companies from the energy sector.

Equity markets presented themselves in a good mood again yesterday. The US-equity index S&P 500 could gain 1,2%, while the markets in Europe traded slightly weaker. Losers were investment grade government bonds over the last days. The yield of 10 year US-papers increased to 0,85% and in Germany to -0,32%. The reasons are the positive development of risky assets and the unprecedented fiscal and monetary policy measures to fight the economic impact of the Covid-19 crisis. The latter lead to a strong increase in government debt and an expansion of the balance sheets of the central banks via bond purchase programs.

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