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Increasing new infections – Update from the Investment Division

Erste AM Communications



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What has occurred since yesterday ?

After the easing of containment measures, global levels of new infections continue to rise. As in the last few days, the USA is particularly affected with the hotspots in the south of the country. As a result, some of the containment measures are being reintroduced. In Miami, for example, restaurants and fitness centers are being closed. The mayor of Austin, Texas, warned that hospitals could become overcrowded if the trend of the last few days continues. This has also had the first noticeable effects on the economy. As some researchers have reported based on alternative data, retail sales and restaurant reservations have already declined.

The equity markets remain unaffected by this. After yesterday's rally in Asia, the markets in Europe and the USA also rose significantly. The US leading index S&P 500 rose by 1.6% and the EuroStoxx 50 by 1.7%. The high-yield bond markets also made significant gains yesterday. Investment grade government bonds were remained mostly unchanged compared to the previous day.

In our opinion, the reasons for the good performance of higher risk investments against the background of rising numbers of cases are as follows:

1. Health systems and also the authorities are better prepared for the increasing number of cases, due to the experience of the last few months. For example, efficient tracing of infected persons ("contact tracing") can be a very effective means of identifying and isolating clusters.
2. The progress made in the development of drugs and vaccines is also creating a good mood among investors. The European Commission has recently given the green light for the marketing of Remdesivir as a treatment for Covid-19. In addition, thirteen vaccines are currently being tested on humans, some of which have shown good results in initial studies.
3. Fiscal and monetary support measures remain in place and will be extended in some cases. For example, the UK government stated that it will announce a £3 billion package tomorrow, which will focus on environmental issues.
4. The economic data of the last few days continues to show that the economy is recovering. Orders for industrial goods in Germany rose 10.4% in May, below expectations but still underlining the recovery. In the USA, the unemployment rate fell from 13.3% in May to 11.1% in June. In China, the purchasing managers' indices for the service sector also showed a marked improvement over the weekend.

As news on the spread of the pandemic can change very quickly, higher volatility cannot be ruled out. On the other hand, the aforementioned trends could ensure that the equity and high-yield bond markets remain well supported.

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