The New Normal after COVID-19
Lessons learned from the Impact of the Pandemic on Financial Markets

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2020 In Review

Total Return Index (January 2020 = 100)

- China officially notifies WHO about outbreak
- Wuhan shuts outbound travel
- WHO declares coronavirus a pandemic
- ECB announces additional QE of €120bn, reduced interest rate on TLTRO III by 25bp
- Fed decreases target interest rates by 100bp
- EU closes borders
- VIX Index reaches the highest level since 2011
- Q2 GDP falls 11.9%, sharpest decline in history
- Russia is the first country to approve Covid-19 vaccine

Source: Bloomberg, Morgan Stanley Research: Global In the Flow (1 May 2020)
Daily Moves In Context

Number of 3σ Moves (Implied Vol)

- Germany 10y
- EUR/USD
- Eurostoxx

Source: Bloomberg, Morgan Stanley Research: Yesterday’s Moves in Context (12 Jun 2020)

Note: σ defined as one-day move relative to 3m implied vol on the previous day. 2020 number shows YTD numbers.

Number of 3σ Moves (Realised Vol)

- Italy 10y Spread
- Xover
- EUR IG
- EUR/USD
- Main
- EUR HY
- Germany 10y
- Eurostoxx

Source: Bloomberg, Morgan Stanley Research: Yesterday’s Moves in Context (12 Jun 2020)

Note: σ defined as one-day move relative to 3m realised vol. 2020 number shows YTD numbers.

Please see additional important information and qualifications at the end of this material.
Lesson 1: Central Banks Are Powerful, Quick Policy Action Aided Quick Market Normalisation

Source: Bloomberg, Morgan Stanley Research: The Bear Market Almanac 2020 (13 March 2020);
Note: Shows summary of bear market episodes. Each band represents observation decile starting at 10% to 90%, solid line is median. Red line is current sell-off.
Central Banks Are Powerful, Quick Policy Action Aided Quick Market Normalisation

Source: Bloomberg, Morgan Stanley Research: The Bear Market Almanac 2020 (13 March 2020);
Note: Shows summary of bear market episodes. Each band represents observation decile starting at 10% to 90%, solid line is median. Red line is current sell-off.
Central Bank Support Kept Flows More Balanced Than Expected

Source: Morgan Stanley Government Bond Trading Desk
Price Normalisation Came With Liquidity Normalisation

Source: Morgan Stanley Government Bond Trading Desk

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Credit Markets Were Slower To Normalise

Source: ICMA Group

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Perhaps Understandably?

EU Corporate Credit Downgrades

Moody’s Trailing 12 Month Default Rate

Source: Bondradar, Morgan Stanley Research-What We’re Watching (14 Sep 2020)

Source: Moody’s
Lesson 2: WFH Didn’t Structurally Change Trading Channels

Sources All Graphs: TradeWeb, Bloomberg, MS EGB Trading Desk

Please see additional important information and qualifications at the end of this material.
Some Additional Price Discovery Took Place

Source All Graphs: Morgan Stanley European Government Bond Trading Desk

Please see additional important information and qualifications at the end of this material.
Lesson 3: This Was Not A Balance Sheet Crisis

Source: ICMA analysis using Bloomberg data

Source: National DMOs (France, Italy, Spain, Germany)
This Was Not A Balance Sheet Crisis
Lesson 4: New Issue Markets Brought Back Liquidity …

1. Reopening of the Euro IG Corporate Market
Since January 2020
€ bn
LTM Average: €9.5bn

2. Strong Technicals post summer break

Source: MS Corporate Trading Desk

EGB Issuance and Auction Trends, 11 largest EGB issuers

Source: National DMOs, Bloomberg

Please see additional important information and qualifications at the end of this material.
But Undergoing Significant Structural Change

Source: EU, ECB, Bloomberg, Morgan Stanley Research: A Walk Down Easing Street (24 Jul 20)
With Potentially The Biggest Disruption Yet To Come

Source: Morgan Stanley Research : A Walk Down Easing Street (24 Jul 20) forecasts, EU, ECB, Bloomberg

Potential EU Issuance Simulation, Next 5 Years

Source: Morgan Stanley Research : A Walk Down Easing Street (24 Jul 20) forecasts, EU, ECB, Bloomberg
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