



The New Normal after COVID-19

Lessons learned from the Impact of the Pandemic on Financial Markets

September 23, 2020

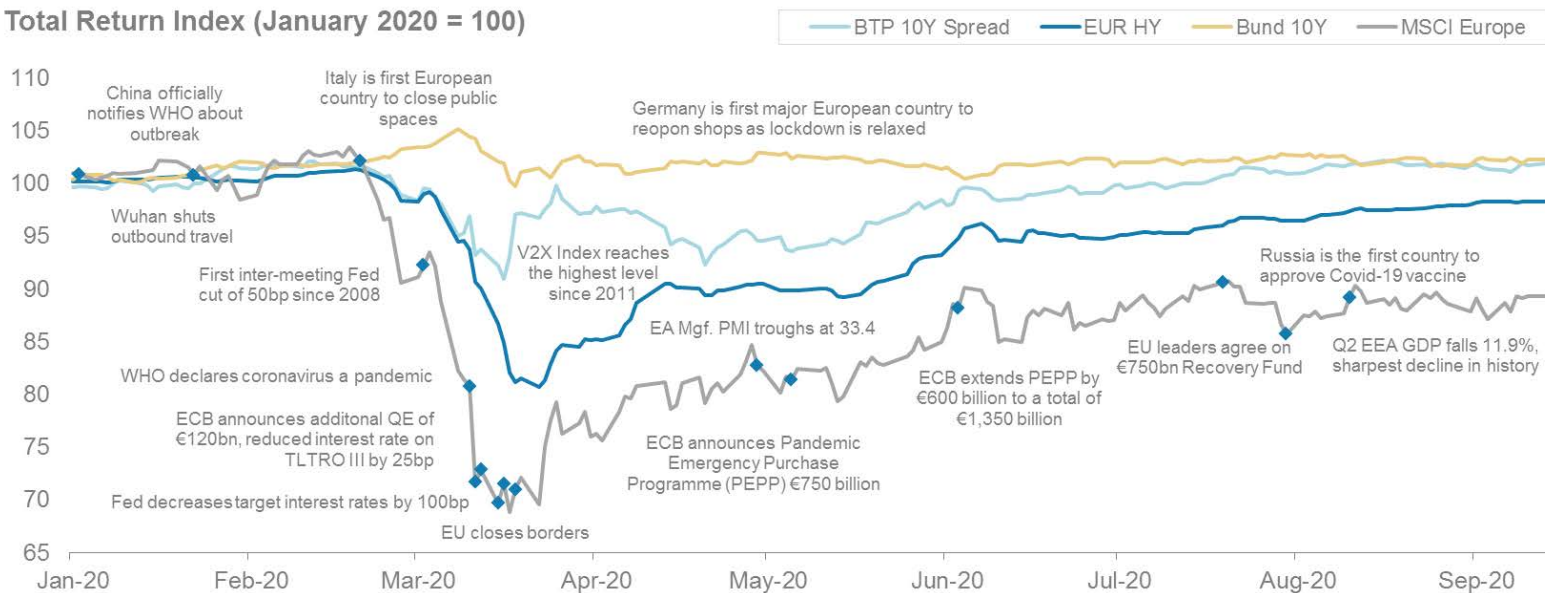
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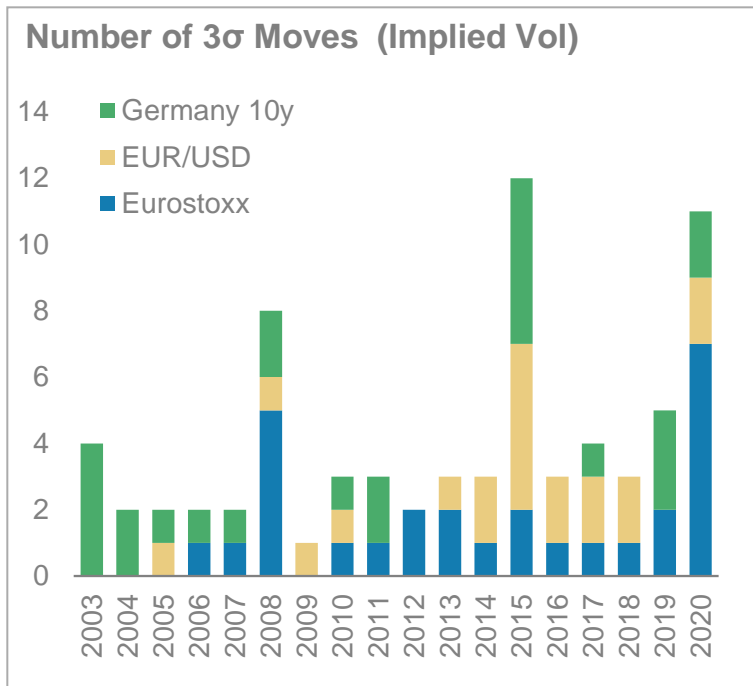
2020 In Review

Total Return Index (January 2020 = 100)



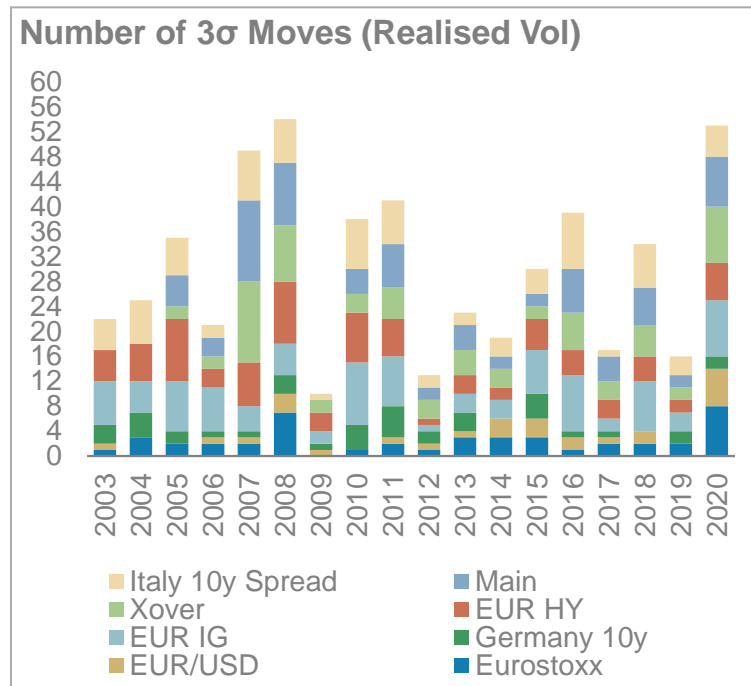
Source: Bloomberg, Morgan Stanley Research: Global In the Flow (1 May 2020)

Daily Moves In Context



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

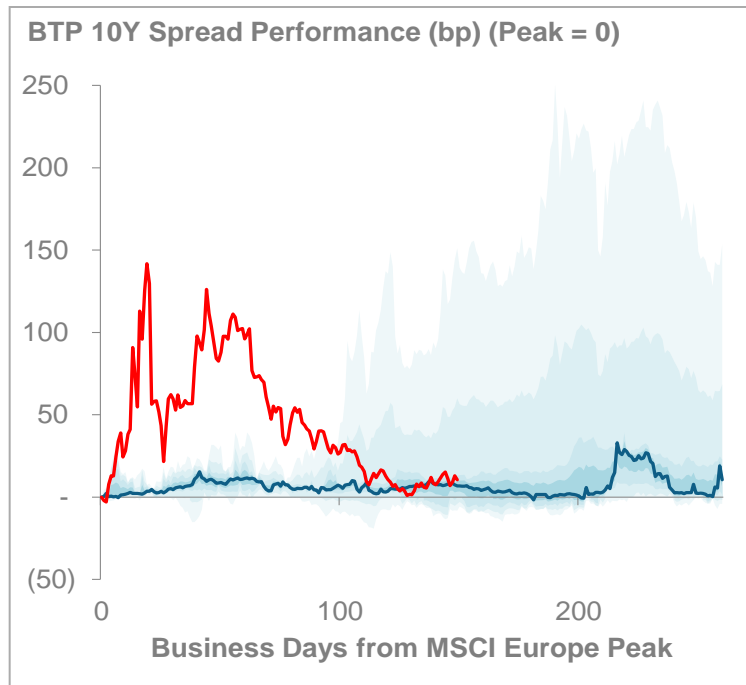
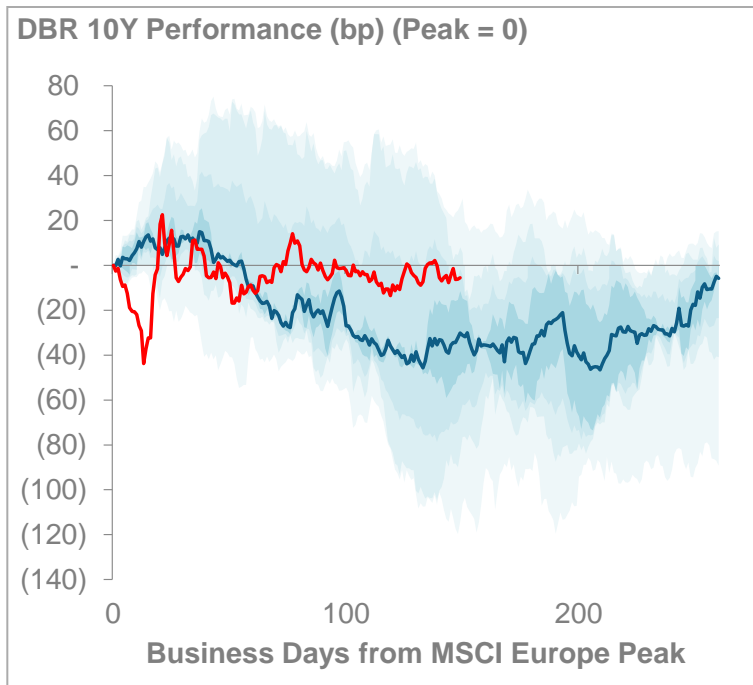
Note: σ defined as one-day move relative to 3m implied vol on the previous day. 2020 number shows YTD numbers.



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.

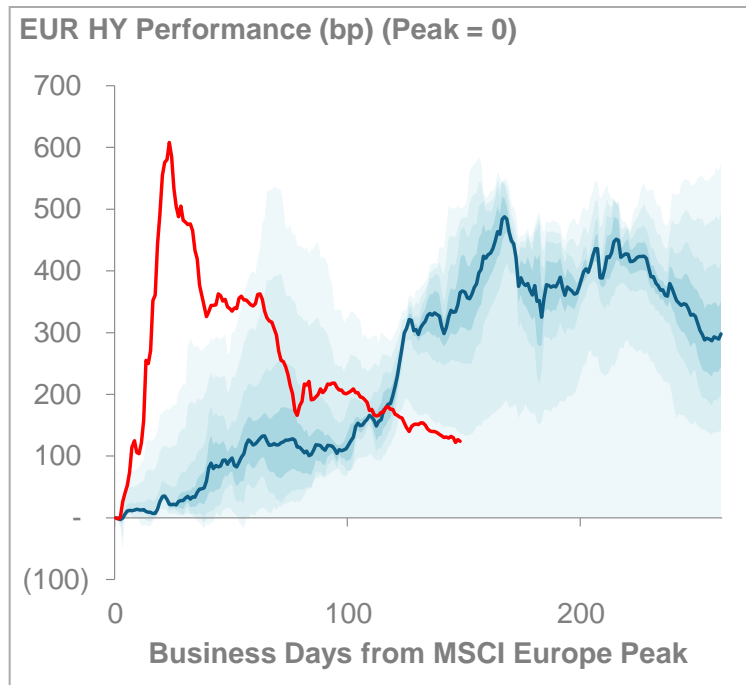
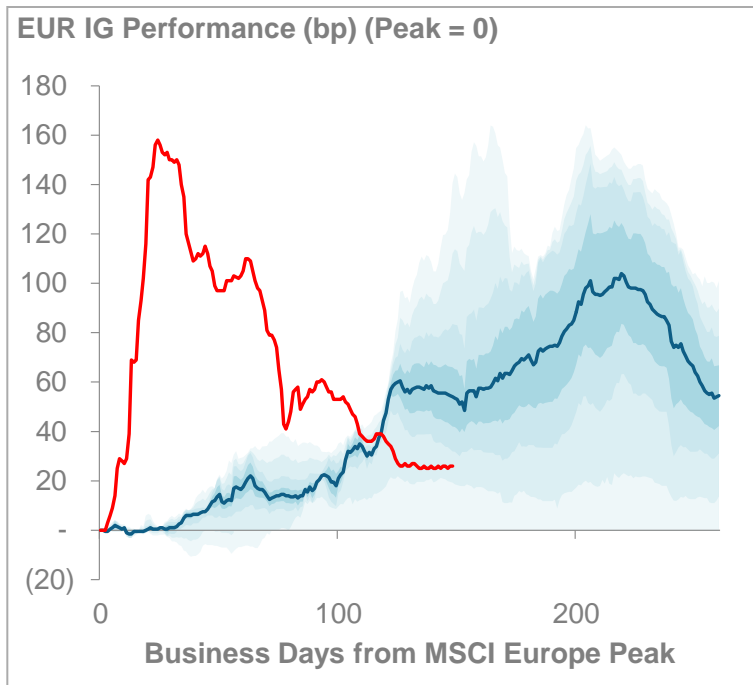
Lesson 1: Central Banks Are Powerful, Quick Policy Action Aided Quick Market Normalisation



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

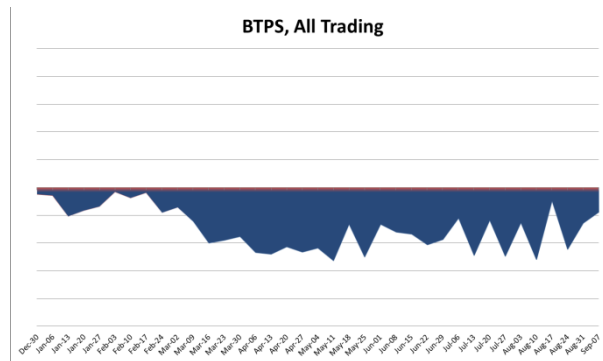
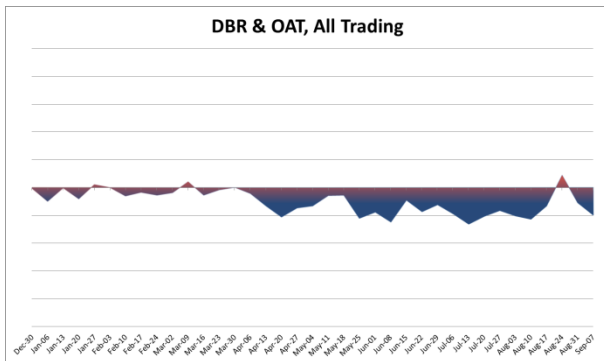


Source: Bloomberg, Morgan Stanley Research: The Bear Market Almanac 2020 (13 March 2020);

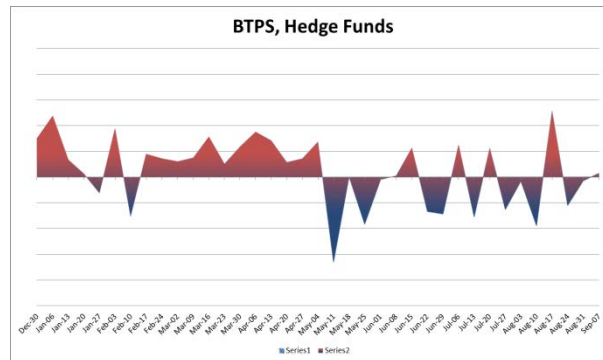
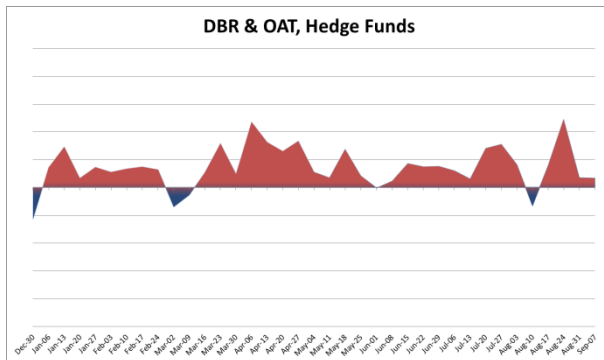
Note: Shows summary of bear market episodes. Each band represents observation decile starting at 10% to 90%, solid line is median. Red line is current sell-off.

Central Bank Support Kept Flows More Balanced Than Expected

1

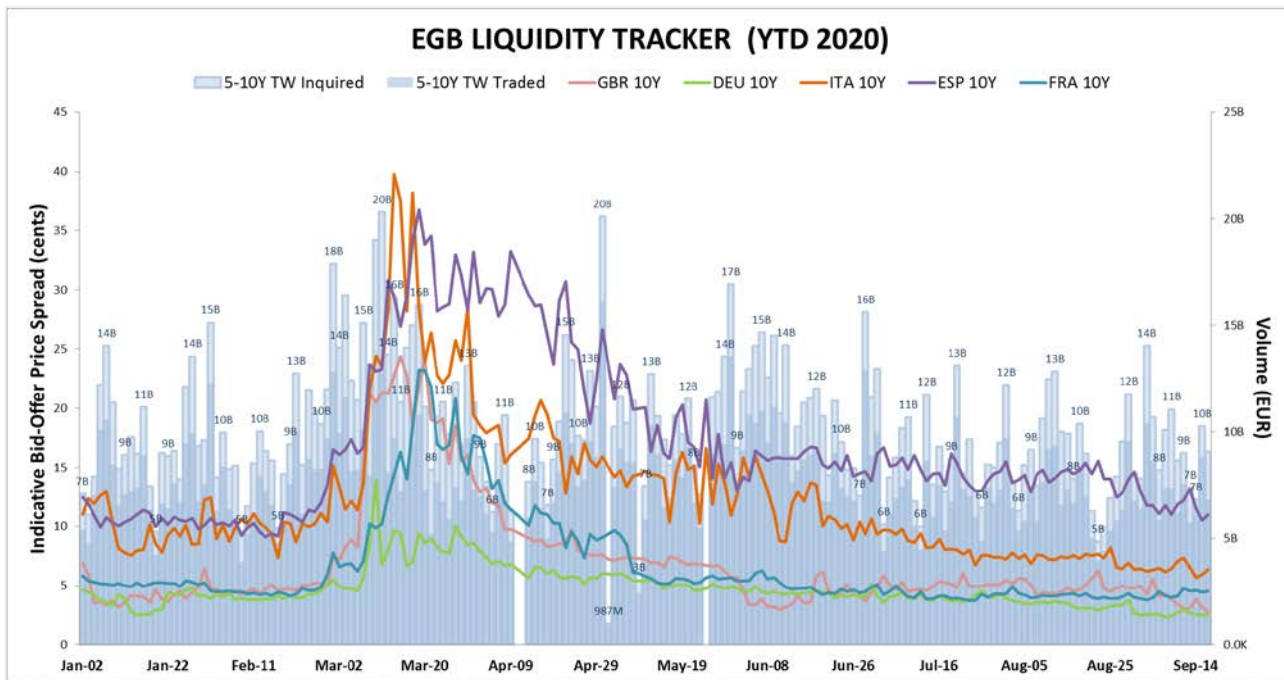


■ Selling Bias
■ Buying Bias



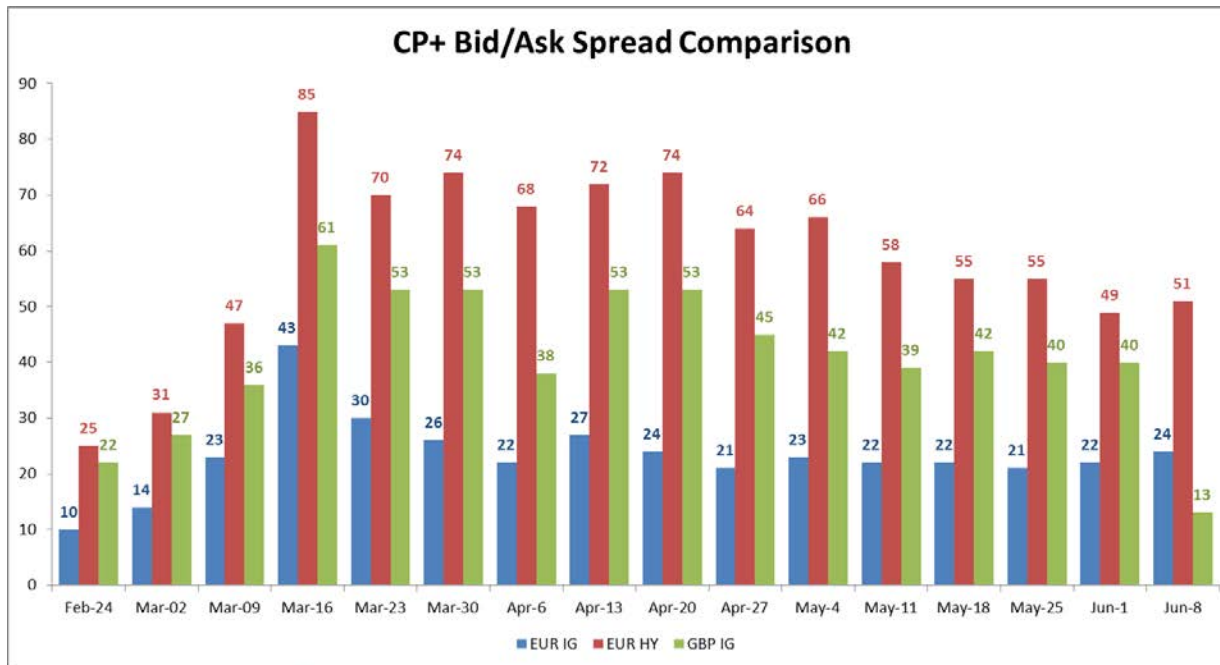
Source: Morgan Stanley Government Bond Trading Desk

Price Normalisation Came With Liquidity Normalisation



Source: Morgan Stanley Government Bond Trading Desk

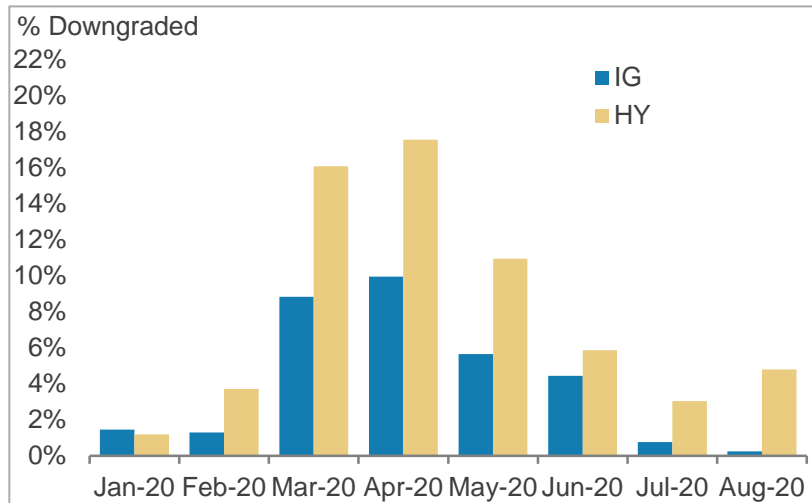
Credit Markets Were Slower To Normalise



Source: ICMA Group

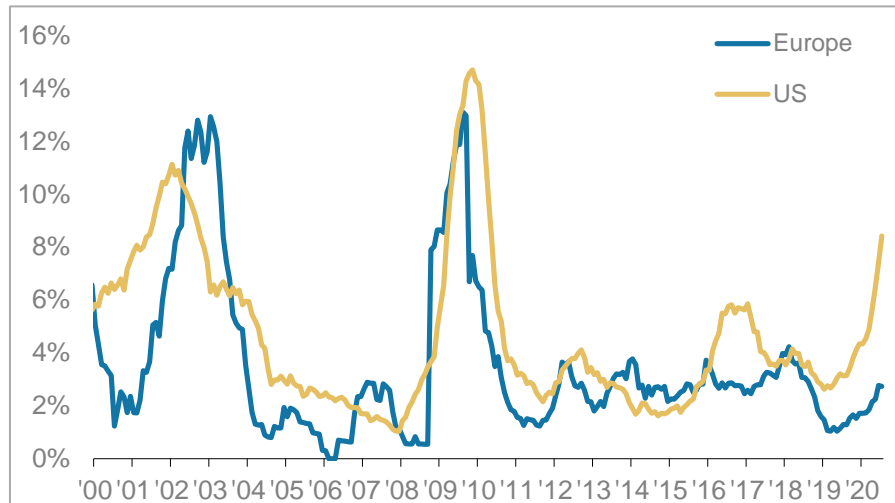
Perhaps Understandably?

EU Corporate Credit Downgrades



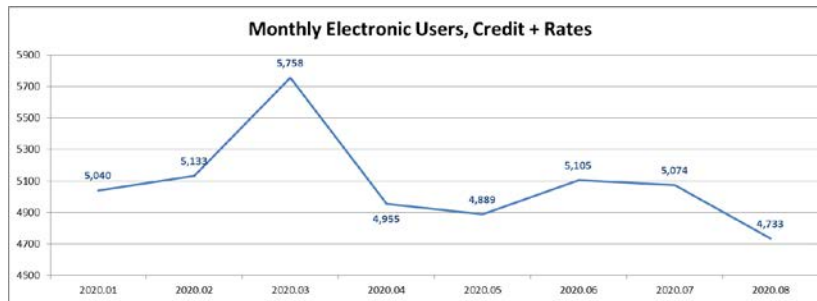
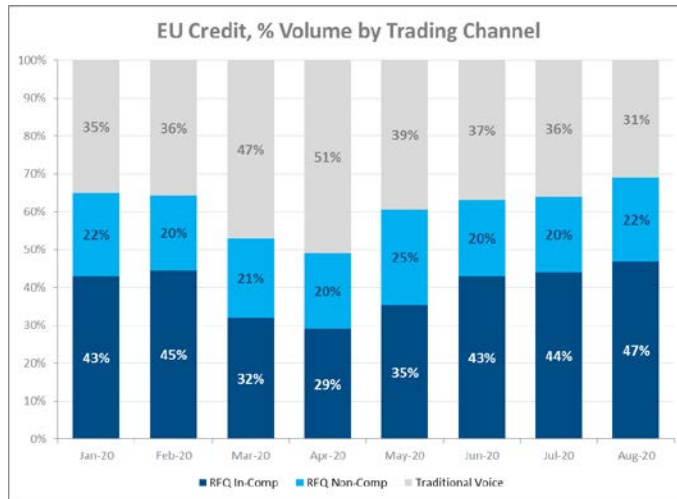
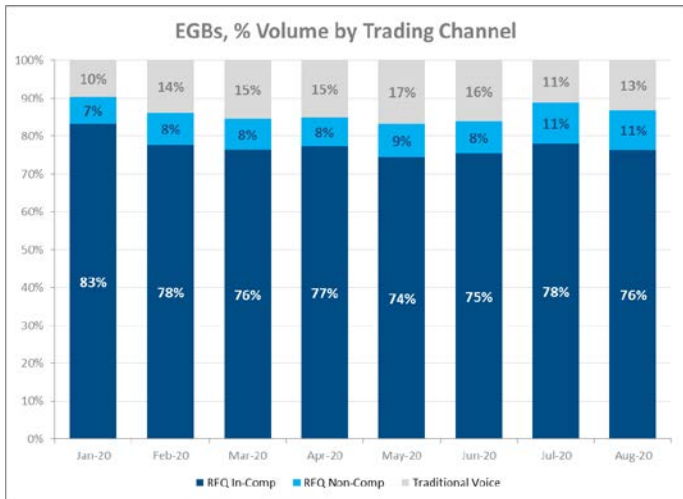
Source: Bondradar, Morgan Stanley Research-
What We're Watching (14 Sep 2020)

Moody's Trailing 12 Month Default Rate



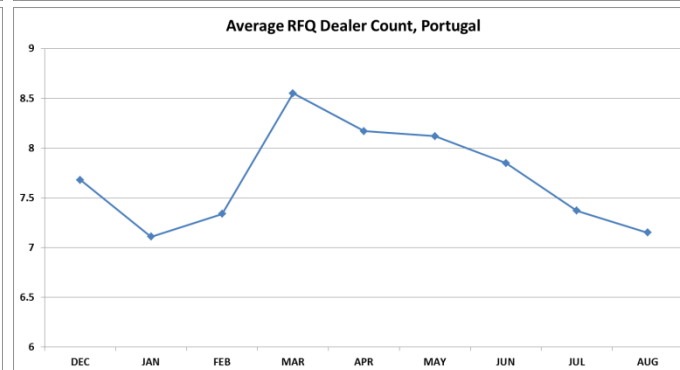
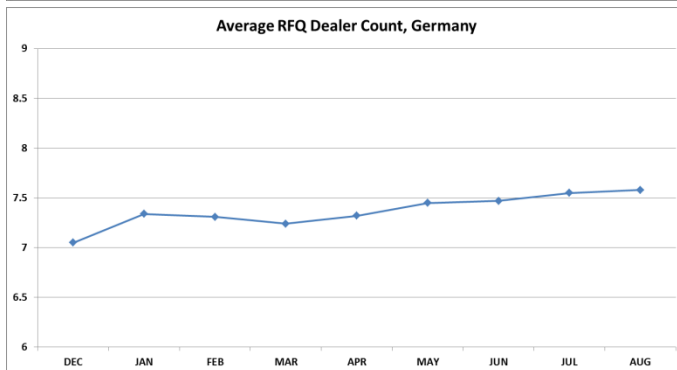
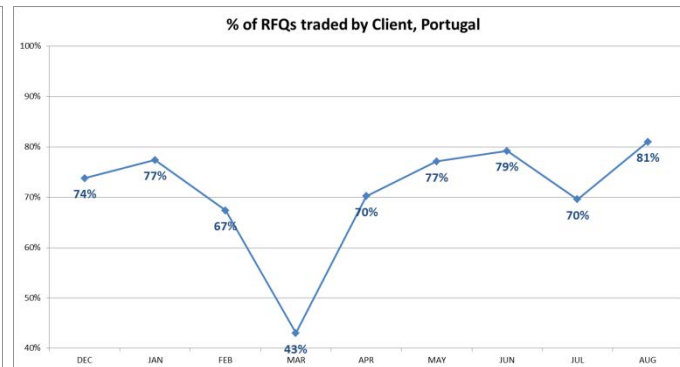
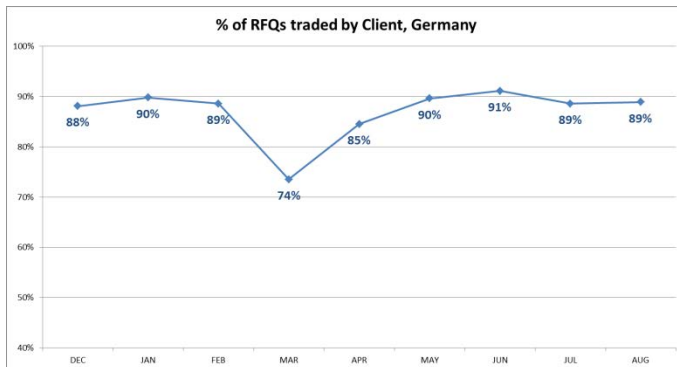
Source: Moody's

Lesson 2: WFH Didn't Structurally Change Trading Channels



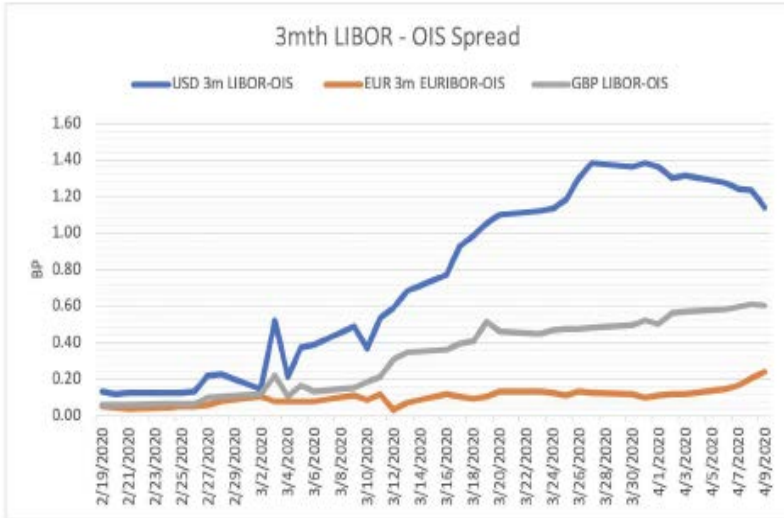
Sources All Graphs: TradeWeb, Bloomberg, MS EGB Trading Desk

Some Additional Price Discovery Took Place

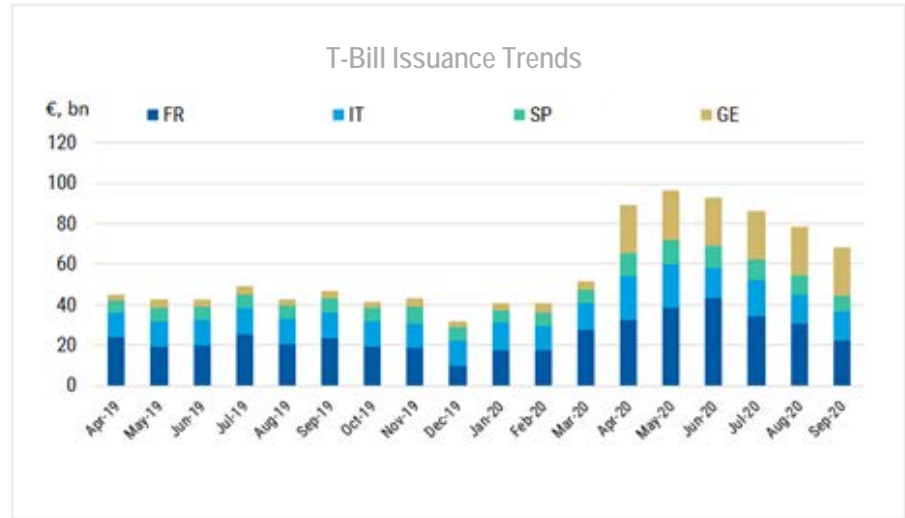


Source All Graphs: Morgan Stanley European Government Bond Trading Desk

Lesson 3: This Was Not A Balance Sheet Crisis

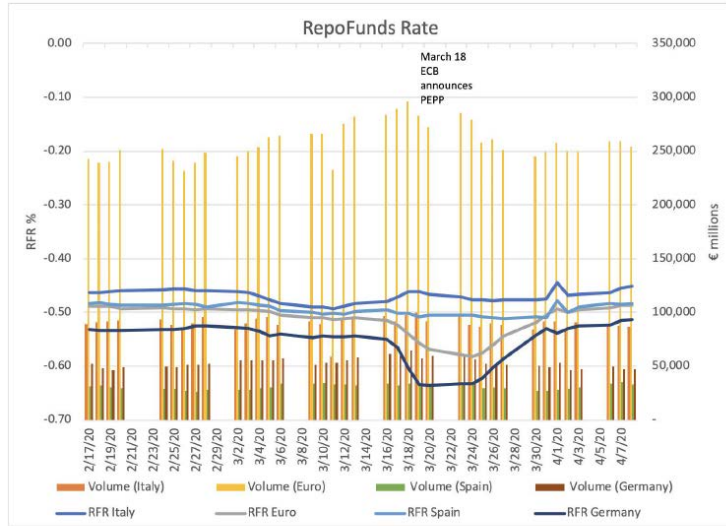


Source: ICMA analysis using Bloomberg data

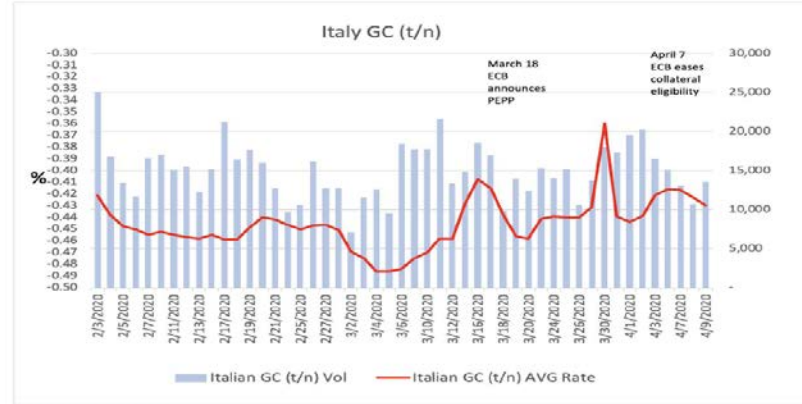


Source: National DMOs (France, Italy, Spain, Germany)

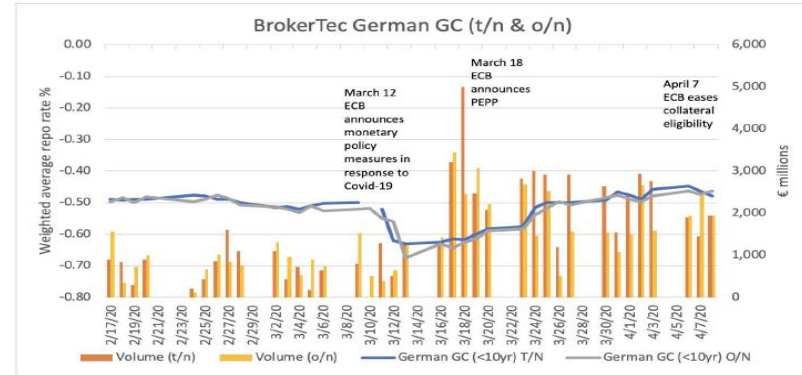
This Was Not A Balance Sheet Crisis



Source: ICMA analysis using CME Group and MTS Markets data



Source: MTS Markets



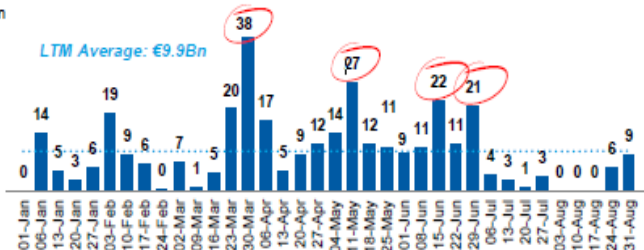
Source: ICMA analysis using data provided by BrokerTec Europe (CME Group)

Lesson 4: New Issue Markets Brought Back Liquidity ...

1 Reopening of the Euro IG Corporate Market

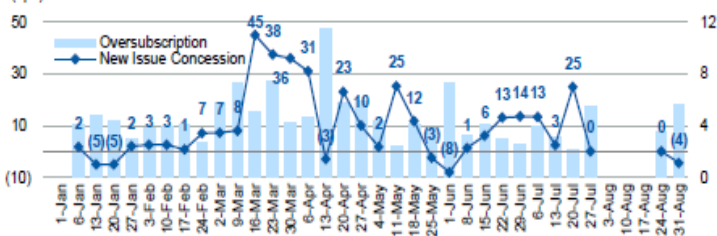
Since January 2020

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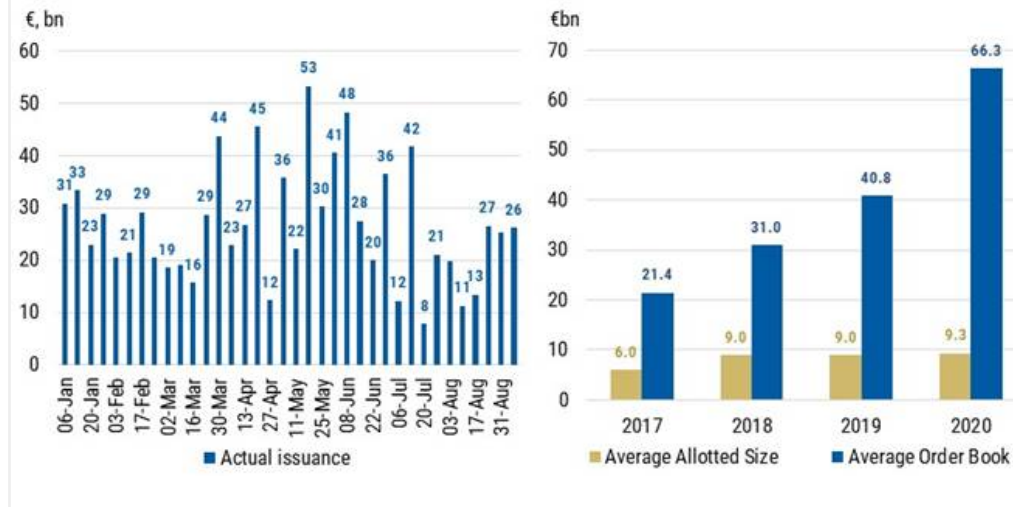
2 Strong Technicals post summer break

(bps)



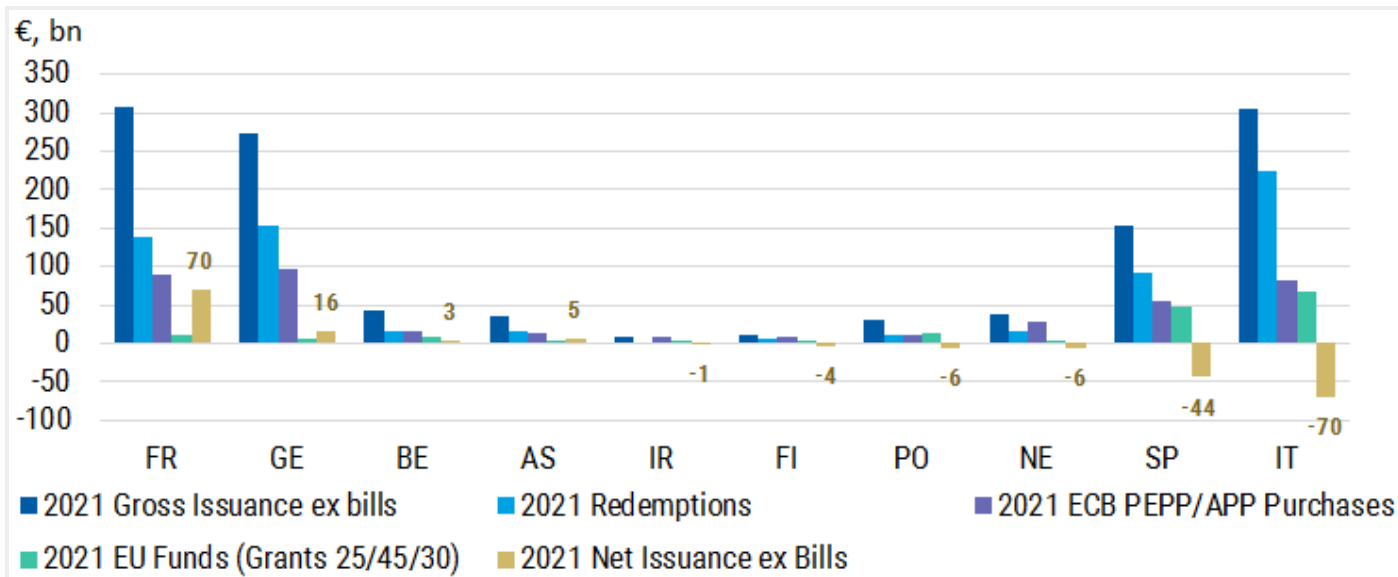
Source: MS Corporate Trading Desk

EGB Issuance and Auction Trends , 11 largest EGB issuers



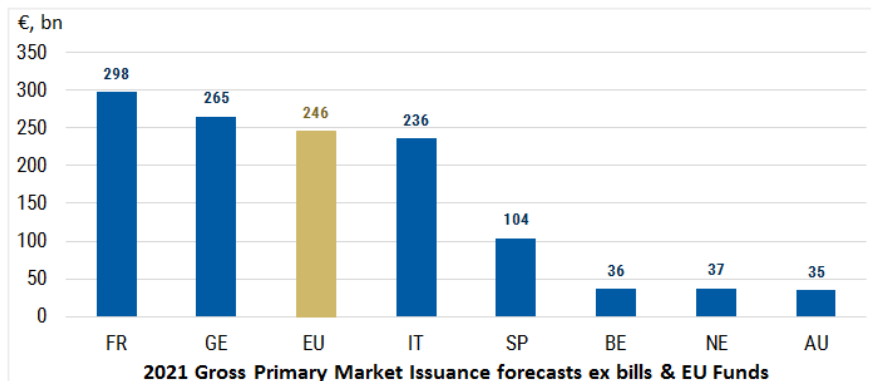
Source: National DMOs, Bloomberg

But Undergoing Significant Structural Change

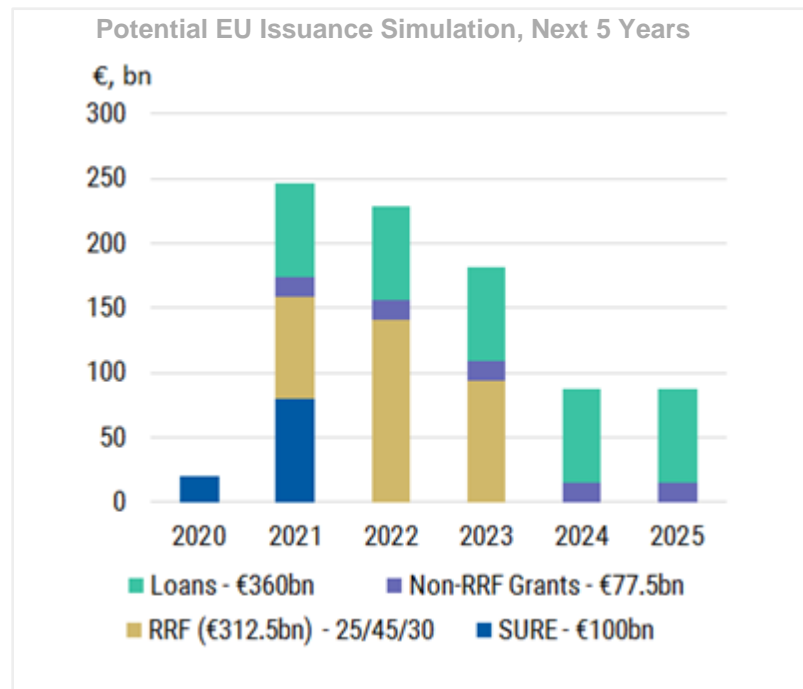


Source: EU, ECB, Bloomberg, Morgan Stanley Research : A Walk Down Easing Street (24 Jul 20)

With Potentially The Biggest Disruption Yet To Come



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



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

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