FINANCIAL MARKET REVIEW

MARCH 2020

MAIN EVENTS

In March, it became clear that the global economy entered a completely uncharted territory and a recession is absolutely inevitable this year. The head of the International Monetary Fund (IMF) Kristalina Georgieva said that the global economy plunged into a recession as bad or worse than in 2009, emphasizing that recovery in 2021 can only begin if the international community succeeds in containing COVID-19 everywhere. Georgieva sees a special threat in the possibility of a wave of bankruptcies and layoffs that not only can undermine the ability of the economy to recover, but can erode the fabric of our societies. After a videoconference, the G20 countries confirmed their readiness to do everything necessary to restore confidence and maintain financial stability in the world, minimize disruptions in trade and global supply chains, provide assistance to all countries in need, coordinate financial and health measures. Leaders agreed to continue large-scale financial assistance to maintain global financial stability. By the end of March, total allocated aid was 5 trillion dollars for measures needed to counter the negative impact of the pandemic on the global economy. Despite the fact that we expect to receive fiscal stimulus in the amount of 6% of the world's GDP in addition to the unlimited purchase of debt securities by central banks of developed countries, a sharp drop in prices for risky assets has not stopped. As a result, March 2020 will be one of the worst periods in the history of monitoring financial markets.

In March, the US Dow Jones Industrial Average and Standard & Poor's 500 stock indices fell by 13.74% and 12.51%, respectively. The European EuroStoxx 600 Index fell by 14.80% over the month, the British FTSE 100 Index – by 13.81%, and the Japanese Nikkei 225 Index – by 10.53%. Prices of all debt securities of corporate issuers also tumbled and the value of highly risky securities collapsed in the debt securities market. The yield on 10-year US Treasury bonds in March fell to 0.6% in March. At the end of March, interest rates in the key developed countries were as follows:

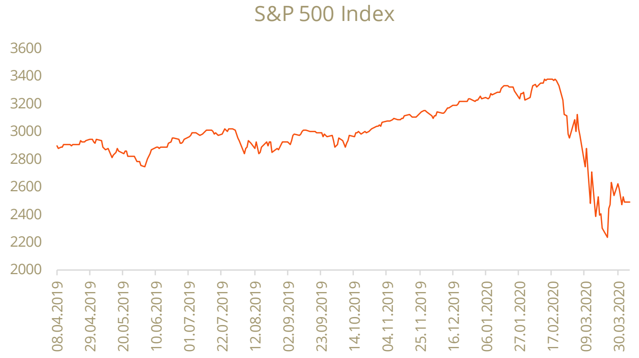
FED Effective Rate	0.05
ECB Deposit Rate	-0.5
BOE Official Rate	0.1
BOJ Policy Rate	-0.1

We continue to refrain from entering the capital market and prefer to stay on the money market as we expect continues decline in risky assets. As to the debt securities market, we deem that securities with a good credit rating are in a more favourable situation, since we believe that the repurchase of assets by central banks will favourably affect the value of these assets. We view the financial markets of developing countries as the most risky ones in view of the expected slowdown in global economic growth.

USA

On 3 March, the US Federal Reserve unexpectedly lowered the benchmark interest rate by 0.5 percentage points up to 1-1.25 percent, in turn, US Treasury Secretary Steven Mnuchin said he would study all options to limit the impact of the spread of the virus on the country's economy. Despite this, the US Federal Reserve decided to lower the target range of the federal funds rate even up to 0-0.25% at the unscheduled meeting on 15 March. The Fed said it intends to keep the rate at a near-zero level until it feels confident the economy has weathered recent events and is moving towards the maximum employment and stability of prices. The Fed also announced a number of additional measures to protect the economy from the impact of coronavirus: in the coming months it will increase its portfolio of US government bonds by at least $ 500 billion and the portfolio of mortgage bonds issued by parastatal agencies Ginnie Mae, Fannie Mae and Freddie Mac by at least $ 200 billion. A week later, the Fed said that the purchase of treasury bonds and bonds issued by mortgage agencies will be virtually unlimited. The Fed also changed the terms of loans it gives banks directly through the so-called discount window, almost the same as it did in the 2008 crisis. The interest rate on these loans was immediately reduced by 1.5 percentage points - more than the key rate - up to 0.25%. This is a new historical minimum of the discount rate. In addition, as in the crisis of 2008-2009, the Fed increased the term for such loans from one day to 90 days. In addition, the Fed decided to reduce reserve requirements for banks (the share of funds that a bank must keep in reserve with the Fed) to zero from the current 10%. This action removes reserve requirements for thousands of financial institutions and helps support lending to households and businesses. Finally, the Fed announced that it and five other central banks (the Bank of Canada, the Bank of England, the Bank of Japan, the ECB and the Swiss National Bank) have agreed to take a coordinated action to enhance the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements. These central banks have decided to lower the pricing on the standing U.S. dollar liquidity swap arrangements by 25 percentage points. The foreign central banks borrowing dollars from the Fed have also agreed to begin offering U.S. dollars weekly in each jurisdiction with an 84-day maturity, in addition to the 1-week maturity operations currently offered. The US Senate unanimously passed a $2 trillion economic rescue package to respond to the coronavirus pandemic. The bill now heads to the House of Representatives, and then shall be signed by President Donald Trump. The president promised to sign a stimulus package for the US economy immediately upon receipt. On 25 March, the Trump administration and the Senate agreed on measures to help the national economy, which became the largest in US history. The funds will go to additional financing of the healthcare system, support for businesses and the states most affected by coronavirus as well as direct payments to Americans. In particular, people with an annual income of up to $ 75 thousand will receive $ 1200, and families with children will receive an additional $ 500 per child. Those who have lost their jobs because of the coronavirus will temporarily receive increased unemployment benefits; citizens who faced a reduction in wages will be granted benefits too. $ 367 billion will be given as loans to small businesses. Another $ 130 billion will go to cover the needs of medical institutions. The remaining funds will be used to support companies that have lost customers due to the spread of COVID-19.

At the end of March, the first data appeared that confirmed the gravity of the situation. The number of initial applications for unemployment benefits received from 16 to 23 March reached 3 million 283 thousand, which is for 3 million more than a week earlier and exceeded analyst expectations for 2.5 million. Such increase in unemployment is the highest since the beginning of statistics, namely since 1967. At the same time, until the previous week, the data had never exceeded 650 thousand. In turn, next week the number of initial applications for unemployment benefits amounted to 6.6 million, which doubled the previous record. The results of the initial assessment of the PMI business activity index also worsened in March, the indicator fell by 9.1 points and amounted to 40.5. The indicators that make up the index were as follows: business activity in the service industry fell by 10.3 points to 39.1, while the manufacturing sector fell by only 1.5 points to 49.2.

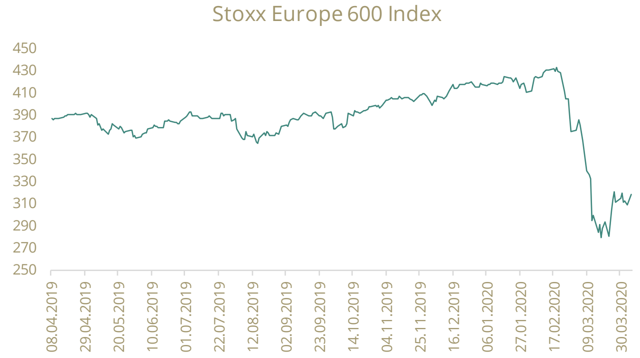


In March, the S&P 500 Index fell by 12.51% as compared to the beginning of the month; the index fell by 20% from the beginning of the year.

EUROPEAN UNION

On 12 March, the European Central Bank approved new stimulus moves and temporarily reduced capital requirements for banks to help the eurozone cope with the crisis, but maintained the level of interest rates disappointing markets. The ECB said it would provide cheap loans to banks at minus 0.75% per annum and increase asset purchases by 120 billion euro by the end of the year. However, the regulator left the deposit rate at a record low of minus 0.50%, signalling that officials may consider the rate to be close to reverse when further reductions are counterproductive because they put pressure on banks' margins limiting lending. The ECB said it would allow banks to not fully comply with a number of key capital requirements in order to ensure the preservation of the influx of loans into the economy. The central bank left the door open for further reductions in borrowing costs without changing the rate forecast. The regulator announced additional temporary long-term refinancing operations (LTRO) to maintain liquidity of the financial system and the provision of much more favourable conditions for targeted long-term refinancing operations (TLTRO) from June 2020 to June 2021. Lagarde urged governments to work together to contain the aftermath of the pandemic. She said that an ambitious and coordinated fiscal policy response is required to support businesses and workers at risk. The head of the ECB said that she was ultimately waiting for the economic recovery. After such an unexpectedly weak program of the ECB, markets continued to collapse in debt securities in particular in the southern countries of the Eurozone, which forced the European Central Bank to try to calm the markets by announcing the launch of a new, unprecedented in scale program for the purchase of bonds worth 750 billion euro, within which both government and corporate securities will be purchased. Subsequently, Lagarde, like the Fed, hinted that assets could be bought in unlimited quantities.

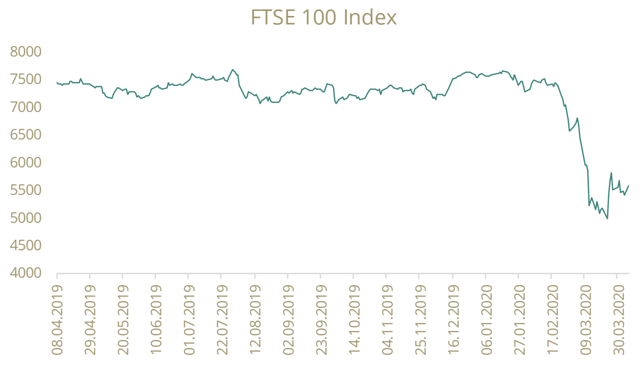
In turn, the finance ministers of member states of the European Union supported a proposal of the European Commission to mitigate existing tax and budgetary norms of the EU. The European Commission proposed to suspend the clause of the Stability and Growth Pact, according to which an annual budget deficit of the EU member states must not exceed 3% of GDP and government debt must not exceed 60% of GDP. Such measures shall allow governments to take loans without restrictions, increasing budget deficits, and to allocate additional funds to combat the aftermath of the pandemic. The first indicators of the upcoming recession also appeared in the Eurozone, where according to the results of the initial assessment of the PMI business activity index in March, the indicator fell by 20.2 points and amounted to 31.4, which is the lowest indicator for a short history of observations. The indicators that make up the index were as follows: business activity in the service industry fell by 24.2 points to 28.4, while the manufacturing sector fell by only 4.4 points to 44.8.



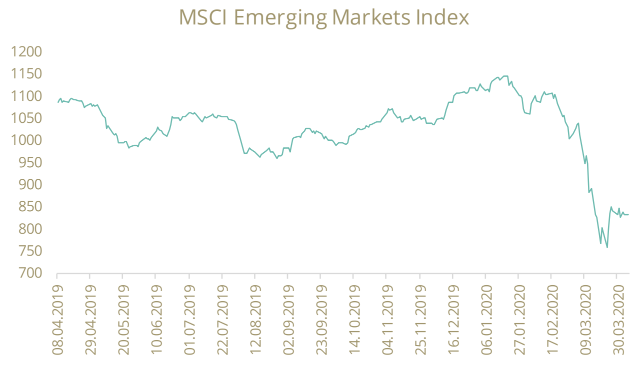
The EuroStoxx 600 Index dropped by 14.8% over the month, while the total index decline amounted to 23.03% from the beginning of the year.

UNITED KINGDOM

The Bank of England cut the benchmark rate that remained unchanged from August 2018. A decision to reduce the rate by 50 b.p. - from 0.75 to 0.25% - was made at an emergency meeting, and explained by the need to respond to an economic shock. The regulator has expressed confidence that the reduction in the bank rate be able to support the business and family finances, reduce the cost of loans and increase their accessibility and to preserve jobs. The Bank of England recognizes that the outbreak of COVID-19 has become an economic shock, which can become a large scale problem and affect both the demand and the offer, however, they believe that the difficulties are temporary in nature. Small companies may be affected most seriously. In this regard, the Bank of England announced the launch of a new program of funding of banks (TFSME), which will increase lending to small and medium-sized businesses. Over the next year, TFSME members will be able to receive financing for a period of four years at interest rates at the benchmark rate level. The British government has decided to allocate 330 billion pounds to support the businesses that suffer from a coronavirus outbreak. This amount is unprecedented: it is about 15% of the UK's GDP and more than a third of the budget.



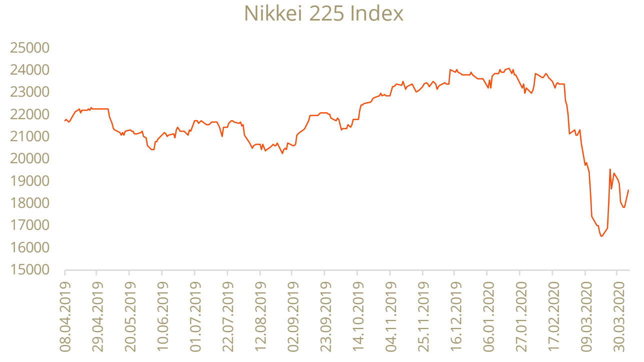
In March, the British FTSE 100 Index fell by 13.81%, while the annual index drop amounted to 24.8%.



In March, the MSCI Emerging Market Index fell by 15.61%, while the annual index drop amounted to 23.87%.

JAPAN

The Bank of Japan will increase incentive measures in connection with the coronavirus pandemic, but the regulator did not change key parameters of the monetary policy. The interest rate on deposits of commercial banks was left at minus 0.1% per annum, the target yield of ten-year government bonds of Japan is about zero. At the same time, the Central Bank doubled - up to 12 trillion yen - the buyback programme of exchange-traded index funds (ETF), and also announced its intention to adjust the corporate bond buyback programme. The regulator also promised to introduce a new corporate loan scheme.



The Nikkei 225 Index fell by 10.53% over the month, while the annual index decrease amounted to 20.04%.

EMERGING MARKETS

The IMF has already recorded an unprecedented surge in requests for emergency financing, about 80 developing countries have already submitted such requests. The IMF said many of the emerging economies had problems due to declining foreign exchange earnings, which ensured the influx of tourists as well as the export of certain goods. The IMF estimated the total need of developing markets for financing at $ 2.5 trillion. The IMF is ready to use its financial potential of $ 1 trillion to support member countries.

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