

Perspectives on COVID-19: 'The New Normal'

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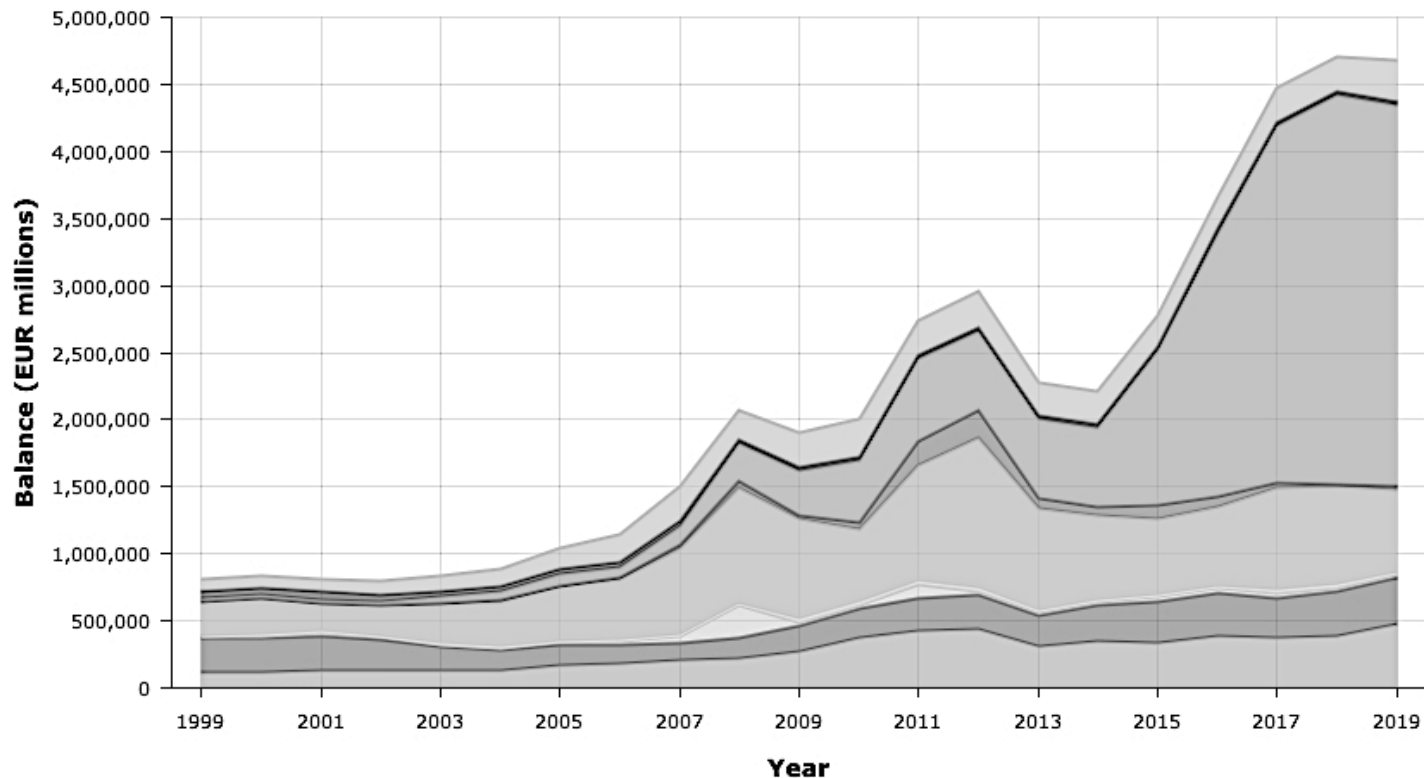
Worst Recession since World War 2

- Covid-19 pandemic to trigger worst recession in EA-19 since end of World War 2
- preliminary estimates indicate that Germany's GDP could contract by 8% in 2020, whereas France's could shrink by 11% and Italy's by 15% y/y (!)
- recession's magnitude clearly exceeds that witnessed after 2008/09 financial market crisis

The ECB's Monetary Policy

- quantitative easing (QE): €2,600bn APP plus €1,350bn PEPP
- (historically low) main refinancing rate anchored at its zero lower bound (0%)
- EA-19 flash HICP inflation at merely 0.1% y/y (May 2020)
- questionable to which extent ECB's *(un-)conventional monetary policies* still affects markets

ECB's Total Assets



Crisis? What crisis?

EuroStoxx 50



Crisis? What crisis?

DAX 30



Capital Markets – (Ir-)Rational Exuberance?

- with indices approaching pre-pandemic levels, markets witness ongoing *decoupling of stock prices from fundamental values*
- crowding-out resulting from central bank interventions paired with ongoing hunt for yield *forces* investors into potentially riskier asset classes such as shares of stock, (corporate) debt, etc.
- creation of (yet another?) speculative bubble (?)

Conclusion

- questionable whether or not ECB's €3.95tn unconventional monetary policy succeeds in stimulating euro area's economic growth
- strong emphasis on fiscal policy (with stimulus packages of up to €130bn in Germany alone)
- Germany and France's proposal to provide €500bn recovery fund for EU countries affected worst by corona pandemic triggered fierce political opposition by '*frugal four*'

Conclusion

- *omnibubble* (across virtually all asset classes) mounted in run-up to Covid-19 pandemic
- Covid-19 pandemic triggered sharp (but temporary?) correction
- more recently, however, capital markets appear to be poised for (irrational?) recovery rally (in absence of any higher yielding alternatives)

Thank you.

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