# JAKE SIEWERT

Welcome to our *Exchange at Goldman Sachs* markets update for March 27<sup>th</sup>. Every week we check in with leaders across the firm to get their quick take on what they're watching in markets, and there's certainly a lot to watch. I'm Jake Siewert, and today's guest is Andrew Wilson of our Consumer and Investment Management Division. We're obviously working remotely like many others, so I'm dialing in from New York, and Andrew is over in London, and he'll be catching us up on the latest movements in European markets. Welcome, Andrew.

## ANDREW WILSON

Thank you very much, Jake.

# JAKE SIEWERT

So before we jump in, just, Andrew, give us a quick intro and tell us what your focus area is here at the firm.

## ANDREW WILSON

So my responsibility is for fixed income and liquidity business within the Goldman Sachs asset management business.

# JAKE SIEWERT

Okay. So obviously we've been seeing a lot of volatility in U.S. equity markets. How have European markets been churning the last few weeks, and has it been pretty much working in parallel with the volatility we've seen in the U.S.?

# ANDREW WILSON

Yeah. I think if you look at what the underlying cause here, of course, it's a global phenomenon, the coronavirus having started in Asia and moving around the rest of the world. You know we've seen that volatility across all markets and, as listeners will be aware, really Europe is now being described as the epicenter. There are certainly many more deaths that have happened unfortunately in Europe than there has been in China.

So European markets really have been very much in the eye of the storm. So the volatility that you will have witnessed in the U.S. has played out across European markets, whether that is in the fixed income, equity or currency markets in the same way that we've seen in the U.S. So certainly the focus in on what policy responses are coming out of Europe just as much as it is out of the U.S.

## JAKE SIEWERT

Okay, so obviously this week we're taping on Thursday. There's been somewhat of a rebound in global markets, driven partially by stimulus both from the Federal Reserve on the monetary side and out of the U.S. Congress on the fiscal side. Are European markets closely following the U.S. Fed response?

#### ANDREW WILSON

Well, I think firstly we've got to acknowledge that, as you said, Europe was ahead of this, and so the focus really was what are the response from the

European Central Bank, but importantly the U.S. dollar is still the world's reserve currency. So the actions of the Federal Reserve and their ability to ensure that there are liquid markets functioning effectively in U.S. dollars remains critical to all financial markets.

So one, it's important that the U.S. liquidity remains as good as it possibly can and then, secondly, that the actions that deal specifically with European assets – and here I would point point to Italian government bonds – again is being supported by the European Central Bank measures. So that combination of the reserve currency and the importance that plays or the Fed plays in determining market liquidity combined with measures specifically dealing with the European issues, I think that combination is important in terms of providing some stability and liquidity to global markets.

And quantitative easing went a long way to reducing spreads on Italian yields and bringing yield levels right across the euro zone down. And so it was particularly I think impactful that the ECB could do or implement such a large package, and I think we really saw that play out in markets, and equally market participants have been focused on events in the U.S. The U.S. of course is still the world's reserve currency, so it is pretty important that liquidity remains open in those markets and the measures.

I think the combination of measures from both the ECB and the Fed really have been very, very powerful, and we saw this play out in 2008, but the coordination between central banks around the world really does a lot to help calm market nerves and provide some sense of stability, and certainly liquidity is the really big issue that we're facing in markets still today.

## JAKE SIEWERT

So the U.S. obviously has the ability to do a national stimulus package on the fiscal side and, as you said, with new leadership at the ECB they were able to step in and make a big move on QE. What are you seeing on the fiscal side in Europe, and are market participants focused on that at all?

### ANDREW WILSON

Look. You make a very good point, Jake, that in the U.S. it's not always straightforward as we're seeing through the passage of this two-trillion package, but it certainly is much easier to do it in a single country than it is across a large number of countries. So I think the ECB has really been the driving force behind providing stimulus and liquidity to the market but, like other countries, what is important equally is the combination of monetary and fiscal, and there has been some more talk and, indeed.

Today we have a meeting of EU leaders that was following a meeting of EU finance ministers earlier in the week to try and come up with some measures to have a coordinated fiscal response. The discussion is around using the European Stability Mechanism, so the ESM to provide some form of funding to countries. The debate and discussion is really around the terms and conditions or what is being referred to as conditionality around the use of that facility.

I don't think there's a large amount of optimism in the markets today that we are expecting anything imminent, but it is I think encouraging that that is being talked about and discussed, and certainly markets are focusing on that. I think where we are today, any announcement within the next week even would be viewed as a positive surprise if we can find some way to have a coordinated fiscal response, but it is

definitely more challenging across the EU-27 than it is across the U.S.

# JAKE SIEWERT

As you mentioned, Italy has been at the epicenter of this for a while now, and one thing that's restored a little bit of confidence it seems is that there were some early signs of a virus slowdown in Italy. How are markets responding to that, and what's your analysis?

## ANDREW WILSON

Yeah, look. I think we need to acknowledge that we're not medical experts, and all of us are learning in terms of how the virus is playing out. I think we take a small amount of comfort from the fact that we are seeing a reduction in the number of infections. Equally I think we're looking at China. Clearly they were hit in this process and did the lockdowns that seemed to be necessary to reduce infections, and of course we've seen, as people refer to, the curve flatten there, so over the course

of the last week or so, very few new cases, certainly new on-the-ground cases.

So it's early days in Italy to get too optimistic, and we have to be humble about our ability to analyze an event like this, but I think there is some encouragement from Asia that with the right measures, the lockdown measures – although they have a great deal of economic harm – they certainly reduced significantly the infection rates and, given that's what we're also seeing in Italy now, I think there is some optimism, maybe cautious optimism admittedly, but nevertheless some optimism that we may be getting to the point that we begin to see a reduction in infection rates, but I wouldn't want to put too much weight on it. It's still relatively early days, but we're all keeping our fingers crossed that we are able to get this terrible virus under control

JAKE SIEWERT

So you're obviously in dialogue with a lot of clients. What's the biggest question you've been getting from clients this week?

# ANDREW WILSON

Yeah. It's very interesting, Jake, because as you say, we are in discussion with a large number of clients, and I think that it's amazing how sentiment can change the tone of those conversations.

This week as we've seen markets bounce back actually pretty strongly as we talk here today, suddenly those

conversations, and really this is just the last few days, have turned into opportunities.

This is a time to deploy more capital into some of the riskier assets that have really seen very significant markdowns. So there are people now beginning to think about deploying capital. Too early to say that that's going to turn into a flood money, but nevertheless there is a little more optimism around having a view on where the end game is here and thinking that this could be a good time to deploy at least some capital at prices that look significantly cheaper than they were at the start of the year. That's for sure.

## JAKE SIEWERT

There's always a buyer for every seller. So what's one thing you're looking at in the week ahead for European or more broadly the global markets?

## ANDREW WILSON

Well, I think the key issue is there's been a large number of fiscal measures put in place both in the U.S., Europe and even here in the U.K. One of the key aspects is going to be the ability to deploy that capital. So as we know, business activity is absolutely stopped. It's going to have a very significant impact on the financial position of particularly smaller companies and all the employees of those companies.

Governments are being very proactive in

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responding to that with the various measures, but the money may have stopped today, and we've got to be sure that the government measures get that money to where it's needed to the businesses, to the individuals in a timely manner. So I think looking at those measured, the deployment of them and how effective they're going to be I think is going to be the critical issue in terms of just seeing how severe this downturn is going to be.

I think looking beyond just the sort of one to twoweek time horizon, I think we will all continue to watch the infection rates in China and, as the measures there to reduce many of the restrictions that were put in place, just to see what happens to infection rates. So if we do see the economy is able to open up, people get back to work and not see any meaningful uptick in infection rates, I think the markets will again take a great deal of comfort from the fact that there is an ability to really restrain this spread of the virus.

# JAKE SIEWERT

Well, it's nice to end on an encouraging, a

cautionary but encouraging note. Thanks for

joining us today, Andrew.

ANDREW WILSON

My pleasure. Thank you.

# JAKE SIEWERT

That's all for this week's markets update on *Exchanges at Goldman Sachs* and, in case you missed it, check out our other episode this week with Goldman Sachs Research top strategists and economists who discuss revisions to U.S. growth forecasts amidst the ongoing COVID-19 outbreak. Thanks for listening, and we hope everyone is staying heathy and safe.

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