DWS

Marketing Material

# GOVERNMENTS AND CENTRAL BANKS, HELPING LARGELY

The stimulus measures being passed in response to the coronavirus pandemic are unprecedented. However, a recession seems inevitable. Who will ultimately have to bear the costs?

IN A NUTSHELL

_ The scale and pace of fiscal- and monetary-stimulus measures to support the economy are without parallel since World War II, if not before.
_ In view of the speed with which some packages have been pushed through the legislative process, it seems almost impossible to rule out technical errors.
_ In times like these, staying power, patience and sound risk assessments are required. To panic would definitely be bad advice.

Talk about speedy responses! Many analysts have come to the conclusion that the economic slump in the United States and Europe could cause gross-domestic-product (GDP) ratios to shrink by up to a tenth. Plenty of (usually optimistic) economists have now turned to pessimists. The record 3.3 million first-time applications for unemployment benefits in the United States in the week ending last Saturday, March 21, illustrates just how fluid and dramatic the situation is. Even at the height of the financial crisis new weekly claims peaked at 0.66 million.

The scale and pace of fiscal and monetary-stimulus measures to support the economy are also without parallel since World War II, if not before. By comparison, the interventions in the aftermath of the bankruptcy of Lehman Brothers almost twelve years ago look almost quaint. Back then, there was still wide-spread criticism of the hesitancy in the political decision-making process. By contrast, the speed this time around has been downright breath-taking.

## MONETARY AID PACKAGES

Central banks have cut interest rates at a record speed, to almost zero in most industrialized countries. Other monetary policy makers have not (yet?) followed the Eurozone experiment with negative interest rates. However, most major central banks have decided to buy bonds on a large scale, including corporate bonds. Their goals are to lower interest rates on longer maturities and to inject liquidity into the banking sector. In addition, the credit facilities for the banking sector were increased or new ones were created to secure the liquidity supply of the economy.

## FISCAL AID PACKAGES…

Even more than on monetary policy, however, the focus is on fiscal policy. At the moment, the U.S. stimulus package in the amount of a whopping $2 trillion is making headlines. Not so long ago, two trillion dollars were brandished around as the order of magnitude for the expected global economic damage. Now, the U.S. stimulus package alone is already as large; the House of Representatives is expected to approve it on Friday. This is equivalent to almost 10% of U.S. GDP[1], which might serve as a benchmark for other finance ministers, too.

Broadly speaking, there are two types of economic aid: First, there is direct fiscal aid, such as short-time work benefits or the assumption of social-security contributions for companies that have been hit particularly hard by the Covid-19 crisis. Second, governments are offering loans and loan guarantees to ensure the supply of liquidity. In the case of Germany, fiscal aid amounts to 3.5% and loan guarantees to up to 14% of GDP. France has also announced fiscal aid of 1.9% and loan guarantees of 12.7% of GDP. The size of the aid packages in the United Kingdom is in between those of France and Germany. As a supranational institution, the European Union (EU) has initiated its own support measures amounting to 0.9% of the EU GDP.[2]

## ...HAVE STILL TO BE IMPLEMENTED...

In view of the speed with which some packages are pushed through the legislative process, it seems almost impossible to rule out technical errors. It is unclear, for example, how and exactly when the U.S. government will deliver the direct transfers of $1,200 per adult and $500 per child, and how the promised checks will reach even the poorest (who are most in need of the aid). Further measures and clarifications on this, and similar packages in other countries, will probably be needed.

[1] See: https://www.ft.com/content/0925d61e-6eaa-11ea-89df-41bea055720b
[2] National Ministries of Finance as of 3/26/20

All opinions and claims are based upon data on 3/26/2020 and may not come to pass. DWS does not promote any particular outcome in the upcoming elections. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Source: DWS Investment GmbH

## … AND PAID

The question of who will ultimately have to bear the costs has also been postponed. Savers will probably pay a part of it in the form of even lower real interest rates on their savings or investments. The taxpayers will probably not get off scot-free, either.

It's probably worth it: the measures taken by central banks and finance ministers are likely to cushion the economic slump. The risk that the economic downturn will turn into a wave of bankruptcies and thus a financial crisis has fallen, but it has not been eliminated. However, a recession seems inevitable.

## AID PACKAGES DO NOT RULE OUT MEDICAL AND ECONOMIC SETBACKS

The volatility in the markets is likely to continue, at least until the extent of the crisis can be fully assessed. This is not just a question of the number of new infections in particular countries, such as Italy. After all, the danger with Covid-19 seems as if every time there is a decline in one country or region, the next wave might already be underway in one or more other places. Vaccines and better medical treatments are also likely to be a long time coming. On the positive side, the dealing with the disease is improving in some countries and testing capacities are being increased. In the meantime, however, we should not lose sight of conventional sources of danger, from non-performing loans among Italian banks and Chinese property developers to ongoing turbulence in the market for high-yield U.S. corporate bonds. In times like these, staying power, patience and sound risk assessments are required. To panic would definitely be bad advice.

## GLOSSARY

A central bank manages a state's currency, money supply and interest rates.

A corporate bond is a bond issued by a corporation in order finance their business.

The European Union (EU) is a political and economic union of 28 member states located primarily in Europe.

The Eurozone is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

The financial crisis refers to the period of market turmoil that started in 2007 and worsened sharply in 2008 with the collapse of Lehman Brothers.

Fiscal policy describes government spending policies that influence macroeconomic conditions. Through fiscal policy, the government attempts to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy.

The gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

High-yield bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

The United States House of Representatives is a legislative chamber consisting of 435 Representatives, as well as non-voting delegates from Washington, D.C. and U.S. territories. Representatives are elected for two-year terms and each state's representation is based on population as measured in the previous Census.

Liquidity refers to the degree to which an asset or security can be bought or sold in the market without affecting the asset's price and to the ability to convert an asset to cash quickly.

Monetary policy focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

In economics, a real value is adjusted for inflation.

A recession is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

All opinions and claims are based upon data on 3/26/2020 and may not come to pass. DWS does not promote any particular outcome in the upcoming elections. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Source: DWS Investment GmbH

## IMPORTANT INFORMATION: EMEA

The following document is intended as marketing communication.

DWS is the brand name under which DWS Group GmbH & Co. KGaA and its subsidiaries operate their business activities. Clients will be provided DWS products or services by one or more legal entities that will be identified to clients pursuant to the contracts, agreements, offering materials or other documentation relevant to such products or services.

The information contained in this document does not constitute investment advice.

All statements of opinion reflect the current assessment of DWS Investment GmbH and are subject to change without notice.

Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical performance analysis, therefore actual results may vary, perhaps materially, from the results contained here.

Past performance, [actual or simulated], is not a reliable indication of future performance.

The information contained in this document does not constitute a financial analysis but qualifies as marketing communication. This marketing communication is neither subject to all legal provisions ensuring the impartiality of financial analysis nor to any prohibition on trading prior to the publication of financial analyses.

This document and the information contained herein may only be distributed and published in jurisdictions in which such distribution and publication is permissible in accordance with applicable law in those jurisdictions. Direct or indirect distribution of this document is prohibited in the USA as well as to or for the account of US persons and persons residing in the USA.

DWS Investment GmbH 2020

## IMPORTANT INFORMATION: UK

Issued in the UK by DWS Investments UK Limited. DWS Investments UK Limited is authorised and regulated by the Financial Conduct Authority (Registration number 429806).

DWS is the brand name of DWS Group GmbH & Co. KGaA. The respective legal entities offering products or services under the DWS brand are specified in the respective contracts, sales materials and other product information documents. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively “DWS”) are communicating this document in good faith and on the following basis.

This document is a financial promotion and is for general information purposes only and consequently may not be complete or accurate for your specific purposes. It is not intended to be an offer or solicitation, advice or recommendation, or the basis for any contract to purchase or sell any security, or other instrument, or for DWS to enter into or arrange any type of transaction as a consequence of any information contained herein. It has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor.

This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by DWS, are suitable and appropriate, in light of their particular investment needs, objectives and financial circumstances. We assume no responsibility to advise the recipients of this document with regard to changes in our views.

We have gathered the information contained in this document from sources we believe to be reliable; but we do not guarantee the accuracy, completeness or fairness of such information and it should not be relied on as such. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

DWS does not give taxation or legal advice. Prospective investors should seek advice from their own taxation agents and lawyers regarding the tax consequences on the purchase, ownership, disposal, redemption or transfer of any investments and strategies suggested by DWS. The relevant tax laws or regulations of the tax authorities may change at any time.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author‘s judgement as of the date of this document. Forward looking statements involve significant elements of subjective judgements and analysis and changes thereto and/ or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements or to any other financial information contained in this document.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

© DWS 2020

## IMPORTANT INFORMATION – APAC

DWS is the brand name of DWS Group GmbH & Co. KGaA. The respective legal entities offering products or services under the DWS brand are specified in the respective contracts, sales materials and other product information documents. DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively “DWS Group”) are communicating this document in good faith and on the following basis.

This document has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments

and strategies described or provided by DWS Group, are appropriate, in light of their particular investment needs, objectives and financial circumstances. Furthermore, this document is for information/discussion purposes only and does not constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice.

DWS Group does not give tax or legal advice. Investors should seek advice from their own tax experts and lawyers, in considering investments and strategies suggested by DWS Group. Investments with DWS Group are not guaranteed, unless specified.

Investments are subject to various risks, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time. Furthermore, substantial fluctuations of the value of the investment are possible even over short periods of time. The terms of any investment will be exclusively subject to the detailed provisions, including risk considerations, contained in the offering documents. When making an investment decision, you should rely on the final documentation relating to the transaction and not the summary contained herein. Past performance is no guarantee of current or future performance. Nothing contained herein shall constitute any representation or warranty as to future performance.

Although the information herein has been obtained from sources believed to be reliable, DWS Group does not guarantee its accuracy, completeness or fairness. No liability for any error or omission is accepted by DWS Group. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid. All third party data (such as MSCI, S&P, Dow Jones, FTSE, Bank of America Merrill Lynch, Factset & Bloomberg) are copyrighted by and proprietary to the provider. DWS Group or persons associated with it may (i) maintain a long or short position in securities referred to herein, or in related futures or options, and (ii) purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation.

The document was not produced, reviewed or edited by any research department within DWS Group and is not investment research. Therefore, laws and regulations relating to investment research do not apply to it. Any opinions expressed herein may differ from the opinions expressed by other DWS Group departments including research departments. This document may contain forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this material. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by DWS Group as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein.

This document may not be reproduced or circulated without DWS Group's written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject DWS Group to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

Unless notified to the contrary in a particular case, investment instruments are not insured by the Federal Deposit Insurance Corporation ("FDIC") or any other governmental entity, and are not guaranteed by or obligations of DWS Group.

In Hong Kong, this document is issued by DWS Investments Hong Kong Limited and the content of this document has not been reviewed by the Securities and Futures Commission.
© 2020 DWS Investments Hong Kong Limited

In Singapore, this document is issued by DWS Investments Singapore Limited and the content of this document has not been reviewed by the Monetary Authority of Singapore.
© 2020 DWS Investments Singapore Limited

In Australia, this document is issued by DWS Investments Australia Limited (ABN: 52 074 599 401) (AFSL 499640) and the content of this document has not been reviewed by the Australian Securities Investment Commission.

© 2020 DWS Investments Australia Limited

Publisher: DWS Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany