

## Coronavirus: what now for the global economy and financial markets?

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## Coronavirus: What now for the global economy and financial markets?

Dr Matthew Barnes\*

### *Abstract*

*The novel coronavirus has spread exponentially across the globe impacting many aspects of life and it continues to do so at an alarming pace. There are several concerns that stem from this pandemic such as when a vaccine will become available and the impact that it will have on human life. While the paramount concern is, without doubt, to conserve and protect life, there are other implications that should be acknowledged of which this paper is directed toward; the economy and financial markets. This paper will take a two-pronged approach focusing on the effects of the economy and financial markets; and looking to the future. Therefore, the focus of this paper is to illustrate the effects on the economy and financial markets during the beginning and heightened stage of the pandemic, including an up-to-date account, in three large economies, namely the UK, US and Japan. This will be followed by an observation of what the future holds taking into account financial stimulus packages, financial markets and the potential for financial crises. Data, literature and commentary from Governments, global organisations and other key entities will be included.*

### Keywords

Coronavirus, Covid-19, Economy, Financial Crisis, Financial Markets, Pandemic.

### I. INTRODUCTION

The last few months have seen events not witnessed in many a year. Markets tumbling, borders being closed, countries in lockdown, people bulk buying food, medicine and other necessities and supermarket shelves being emptied. The latter arguably a sign of hysteria. The impact of Covid-19 is monumental as reflected by the UK Prime Minister, Boris Johnson, who said "We must act like any wartime government and do whatever it takes to support our economy."<sup>1</sup>

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<sup>1</sup> Kevin Rawlinson, "This enemy can be deadly": Boris Johnson invokes wartime language' *The Guardian* (London, 17 March 2020) <<https://www.theguardian.com/world/2020/mar/17/enemy-deadly-boris-johnson-invokes-wartime-language-coronavirus>> quoting Prime Minister Boris Johnson, accessed 18 March 2020.

These are uncertain times for the world, people and communities, businesses and the economy. It is clear that in order to get through this difficult time, that everyone needs to come together. Giving consideration to a brief description of the virus and how it is spreading, and how it is affecting the economy and financial markets, will provide a quicker route to overcoming what is now a pandemic.<sup>2</sup>

The paper will consider two important aspects. Firstly, the economy and financial markets in the UK, US and Japan. Secondly, what the future may hold with consideration of financial packages, financial markets and the potential of financial crises. These two aspects will be tackled by looking at current literature, commentary from key figures and entities around the globe, and data in the form of financial markets and stimulus packages. By providing analysis on the aforementioned, the paper will contribute to literature on the economy and financial markets that are impacted by catastrophic events such as the current pandemic.

It should be briefly explained what the coronavirus is, or Covid-19 to be precise, so that the two aspects stated above can be given greater context. By doing so, the affects to the global economy and financial market(s) as well as what the future may look like, can be linked to the virus with more perspicuity.

Covid-19 is a strain of the Coronavirus family.<sup>3</sup> The more accurate name is SARS-CoV-2, or severe acute respiratory syndrome coronavirus 2.<sup>4</sup> This reflects the connection with the SARS virus that happened during 2002 and 2004,<sup>5</sup> but to remove any incertitude it has been named Covid-19 and this is the name now used by the media and the public. Covid-19 is a highly infectious disease that has spread across the globe. In the early stages, figures indicated that it had infected over two hundred thousand people, of which nearly nine thousand people proved to be fatal.<sup>6</sup> This has since become far greater of which there has been over fifty nine million cases and over one million deaths.<sup>7</sup> There are still uncertain elements to Covid-19 as the world tackles this pandemic. The impact of such an infectious and deadly disease is already evident as will now be explored.<sup>8</sup>

## II. THE EFFECTS SO FAR ON THE ECONOMY AND FINANCIAL MARKETS

The effects on the economy and financial markets were notably apparent at the early stage of the pandemic. Considering that Covid-19 first came to light toward the end of December 2019,

<sup>2</sup> World Health Organisation, 'WHO director-general's opening remarks at the media briefing on COVID-19 – 11 March 2020' (WHO, 11 March 2020) <<https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19--11-march-2020>> accessed 18 March 2020.

<sup>3</sup> World Health Organization, 'Coronavirus' <<https://www.who.int/health-topics/coronavirus>> accessed 20 March 2020.

<sup>4</sup> New Scientist, 'Covid-19' <<https://www.newscientist.com/term/covid-19/>>. Also see International Committee on Taxonomy of Viruses, <<https://talk.ictvonline.org/>> and Nature Microbiology, 'The species Severe acute respiratory syndrome-related coronavirus: classifying 2019-nCov and naming it SARS-CoV-2' (Nature Microbiology, 2 March 2020) <<https://www.nature.com/articles/s41564-020-0695-z>> accessed 20 March 2020.

<sup>5</sup> NHS, 'SARS (sever acute respiratory syndrome)' <<https://www.nhs.uk/conditions/sars/>> accessed 20 March 2020.

<sup>6</sup> As of 19 March 2020, but it continues to rise. See World Health Organization, 'Coronavirus disease 2019 (COVID-19) situation report – 59' <[https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200319-sitrep-59-covid-19.pdf?sfvrsn=c3dcdef9\\_2](https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200319-sitrep-59-covid-19.pdf?sfvrsn=c3dcdef9_2)> accessed 20 March 2020.

<sup>7</sup>As of 25 November 2020, see <<https://www.ecdc.europa.eu/en/geographical-distribution-2019-ncov-cases>> accessed 26 November 2020.

<sup>8</sup> To reiterate, this paper explores the impact that Covid-19 has had on the economy and financial markets. It should be said that the most important part of this pandemic is savings lives which takes priority over the economy and financial markets. Additionally, there needs to be an appreciation that the latter requires supporting too as both are linked – without people there would be no economy and financial market to discuss, without the economy and financial market society would be poorer for it.

although the first reported case was November 2019,<sup>9</sup> it has since spread to many countries around the globe. The months that have followed have proven turbulent on economies and financial markets.

(a) *Economy*

Economies have slowed down with noticeable effects in areas of travel and tourism, restaurant bookings and manufacturing, and this has continued into the latter part of 2020.<sup>10</sup> Additionally, there are other repercussions from Covid-19 such as oil prices dropping in the Middle East and Central Asia.<sup>11</sup> A drop in external (and domestic) demand for this commodity is proving detrimental combined with travelling restrictions and reduced market appetite for oil. This combined with poorer health systems intensifies the issues facing countries in these regions. The recent forecasts suggest that this will not improve anytime soon.<sup>12</sup>

As a result, economies are weakened, communities and people will, and are struggling to meet costs of living and paying bills. With lockdowns becoming more common and businesses unable to employ staff, despite governments ensuring a percentage of wages,<sup>13</sup> the outlook appears bleak. This is further supported by considering the reported loss of jobs in China where the virus began, and Italy which was the worst hit country outside of China in the early stages of the pandemic.<sup>14</sup> In China, for example, around five million people lost their jobs in the first two months of the pandemic,<sup>15</sup> and unemployment is set to rise further.<sup>16</sup> Italy, initially the worst hit country outside of China, began locking down regions in February 2020<sup>17</sup> and banned any movement inside the country.<sup>18</sup> It was troubling to see that Italy had more fatalities than China and was quickly catching the number of confirmed cases.<sup>19</sup> In the past few months this continues to be a challenging time for economies and it has been stated that

<sup>9</sup> Helen Davidson, 'First Covid-19 case happened in November, China government records show - report' *The Guardian* (Hong Kong, 13 March 2020) <<https://www.theguardian.com/world/2020/mar/13/first-covid-19-case-happened-in-november-china-government-records-show-report>> accessed 23 March 2020.

<sup>10</sup> Loran Jones, David Brown and Daniele Palumbo, 'Coronavirus: a visual guide to the economic impact' (BBC, 20 March 2020) <<https://www.bbc.co.uk/news/business-51706225>> taken from Bloomberg, 19 March 2020 accessed 23 March 2020. More recent data suggests this is still the case with the UK being an example, see BBC, 'Coronavirus: UK 'could lose £60m a day' as tourism slumps' (BBC, 26 August 2020) <<https://www.bbc.co.uk/news/business-53921106>> accessed 8 October 2020.

<sup>11</sup> International Monetary Fund, 'Covid-19 pandemic and the Middle East and Central Asia: region facing dual shock' (IMF, 23 March 2020) <<https://blogs.imf.org/2020/03/23/covid-19-pandemic-and-the-middle-east-and-central-asia-region-facing-dual-shock/>> accessed 27 March 2020.

<sup>12</sup> Natasha Turuk, 'IMF reveals 2021 forecasts for oil prices and the Middle East economy' <<https://www.cnbc.com/2020/10/19/imf-reveals-2021-forecasts-for-oil-prices-and-the-middle-east-economy.html>> accessed 26 November 2020.

<sup>13</sup> The UK, for example, has guaranteed to cover 80% of wages to ensure businesses do not lay people off. See BBC, 'Coronavirus: Government to pay up to 80% of workers' wages' (BBC, 20 March 2020) <<https://www.bbc.co.uk/news/business-51982005>> accessed 24 March 2020. This has been extended to the end of October at the time of writing.

<sup>14</sup> See BBC, 'Coronavirus: A visual guide to the pandemic' (BBC, 24 March 2020) <<https://www.bbc.co.uk/news/world-51235105>> global cases table as of 24 March 2020, accessed 24 March 2020.

<sup>15</sup> Evelyn Cheng, 'Roughly 5 million people in China lost their jobs in the first 2 months of 2020' (BBC, 20 March 2020) <<https://www.bbc.co.uk/news/business-51982005>> accessed 24 March 2020.

<sup>16</sup> CEIC, 'China unemployment rate' <<https://www.ceicdata.com/en/indicator/china/unemployment-rate>> accessed 26 November 2020. China's unemployment rate has increased in a recent report to that of 4.19% in September 2020.

<sup>17</sup> Rhea Mahbubani, 'Italy just recorder the highest single-day death toll of any country with a coronavirus outbreak. Here's how this catastrophe unfolded' (Business Insider, 18 March 2020) <<https://www.businessinsider.com/coronavirus-italy-updates-lock-down-pandemic-2020-3?r=US&IR=T>> accessed 24 March 2020.

<sup>18</sup> Michael Safi, Angela Guiffrida and Martin Farrer, 'Coronavirus: Italy bans any movement inside country as toll nears 5,500' *The Guardian* (London, 22 March 2020) <<https://www.theguardian.com/world/2020/mar/22/italian-pm-warns-of-worst-crisis-since-ww2-as-coronavirus-deaths-leap-by-almost-800>> accessed 24 March 2020.

<sup>19</sup> BBC (n18). Although it appears to have improved, see Mark Lowen, 'Coronavirus: how Italy has fought back from virus disaster' <<https://www.bbc.co.uk/news/world-europe-54356335>> accessed 26 November 2020.

“...global economic contractions...have far exceeded those of the Great Recession.”<sup>20</sup> Additionally, health care services continue to struggle with the rise in cases and demand placed on them with the continued spread of Covid-19.

It is poignant at this stage to note the stance from the International Monetary Fund (IMF) to improve economies, a stance that the author agrees with. The IMF put forward three action areas for a healthy global economy. One, that there will be a requirement for additional fiscal stimulus taking into account packages already in place. Two, monetary policy and the need for central banks to support their respective economies. Three, a regulatory response and the importance of managing financial stability, the banking system and economic activity.<sup>21</sup> In this paper, fiscal stimulus will be discussed below; along with monetary policy and regulatory measures through central banks in part.<sup>22</sup> In order to beat Covid-19 a collective response is paramount as will be highlighted moving forward.

### (b) *Financial Market*

The main stock exchanges saw a significant downturn from December 2019 through to March 2020. The FTSE 100 saw a massive drop in the early part of 2020 - see fig 1.<sup>23</sup> To be as accurate as possible, the FTSE 100 stood at 7,644.90 on the 27 December 2019. As of 20 March 2020, in the height of the epidemic, the figures were 5,190.78.<sup>24</sup> Since the first case of Covid-19 entering the UK, estimated to be late January 2020, to the first recorded death 5 March 2020,<sup>25</sup> the market had fallen, although fig 1 suggests that there have been three key drops in the FTSE 100. Firstly, around the 21 February 2020 at which point there were a total of thirteen UK persons whom tested positive, then around 4 March 2020 which saw a surge in cases and a one day increase of thirty four persons totalling eighty seven, and then around 10 March 2020 which saw the first MP to test positive including six fatalities and nearly four hundred persons testing positive.<sup>26</sup>

The data reflects the timeline of decline with three cliff-like drops that can be associated to the aforesaid reasons. This sparked a monumental fiscal stimulus package from the Bank of England (BoE) which consisted of £330 billion government backed and guaranteed loans to help businesses, the equivalent of fifteen percent of Gross Domestic Product (GDP);<sup>27</sup> a further £30 billion for public services and individuals and struggling businesses; and a £5 billion

<sup>20</sup> Dana Sand, 'Covid-19 and the great reset' (McKinsey & Company, 7 October 2020) <<https://www.mckinsey.com/business-functions/risk/our-insights/covid-19-implications-for-business#>> accessed 26 November 2020.

<sup>21</sup> International Monetary Fund, 'Policy action for a healthy global economy' (IMF, 16 March 2020) <[https://blogs.imf.org/2020/03/16/policy-action-for-a-healthy-global-economy/?utm\\_medium=email&utm\\_source=govdelivery](https://blogs.imf.org/2020/03/16/policy-action-for-a-healthy-global-economy/?utm_medium=email&utm_source=govdelivery)> accessed 27 March 2020. For fuller details see <<https://www.imf.org/en/Publications/Policy-Papers/Issues/2020/03/16/Policy-Steps-to-Address-the-Corona-Crisis-49262>>.

<sup>22</sup> The author's paper falls closely to the IMF actions, especially fiscal stimulus. It will be clear at the end of this paper that collaboration is essential. The governments providing fiscal stimulus, the central banks providing monetary policy, and regulatory measures from regulatory bodies providing a sustainable economy and banking system that promotes economic activity; all need to work together.

<sup>23</sup> BBC, 'FTSE 100' <<https://www.bbc.co.uk/news/topics/c9qdqkqg27t/ftse-100>> accessed 23 March 2020.

<sup>24</sup> FTSE 100. Market Summary.

<sup>25</sup> Dominic Gilbert and Ashley Kirk, 'Where in the UK have cases of coronavirus been detected - and how many are there?' *The Telegraph* (London, 23 March 2020) <<https://www.telegraph.co.uk/news/2020/03/23/coronavirus-uk-map-cases-deaths-united-kingdom/>> accessed 23 March 2020. A UK citizen on board a cruise ship was the first, off-shore, UK citizen to die from the coronavirus. See Tom Embury-Dennis, 'Coronavirus: a timeline of how Britain went from 'low risk' to an unprecedented national shutdown' *Independent* (London, 22 March 2020) <<https://www.independent.co.uk/news/uk/home-news/coronavirus-uk-timeline-deaths-cases-covid-19-nhs-social-distancing-a9416331.html>> accessed 23 March 2020.

<sup>26</sup> Ibid, Tom Embury-Dennis. The UK Prime Minister has since tested positive for Covid-19.

<sup>27</sup> GDP - a gauge for measuring size and health of a country's economy i.e. value of goods and services.

package to support the NHS.<sup>28</sup> To aid this further, the BoE also dropped interest rates twice in the matter of days from 0.75% held between August 2018 to March 2020 to 0.25%, which then held for eight days before being reduced to 0.1% in the same month.<sup>29</sup> It is uncommon for rate cuts to occur in the same month with the last time of this occurrence dating back to February 1991;<sup>30</sup> reflecting the speed at which the virus was spreading and measures being put in place by the UK Government.<sup>31</sup> The BoE has been considering negative interest rates in recent times in order to support the market,<sup>32</sup> with key policy maker Gertjan Vlieghe supporting this approach<sup>33</sup> among others.

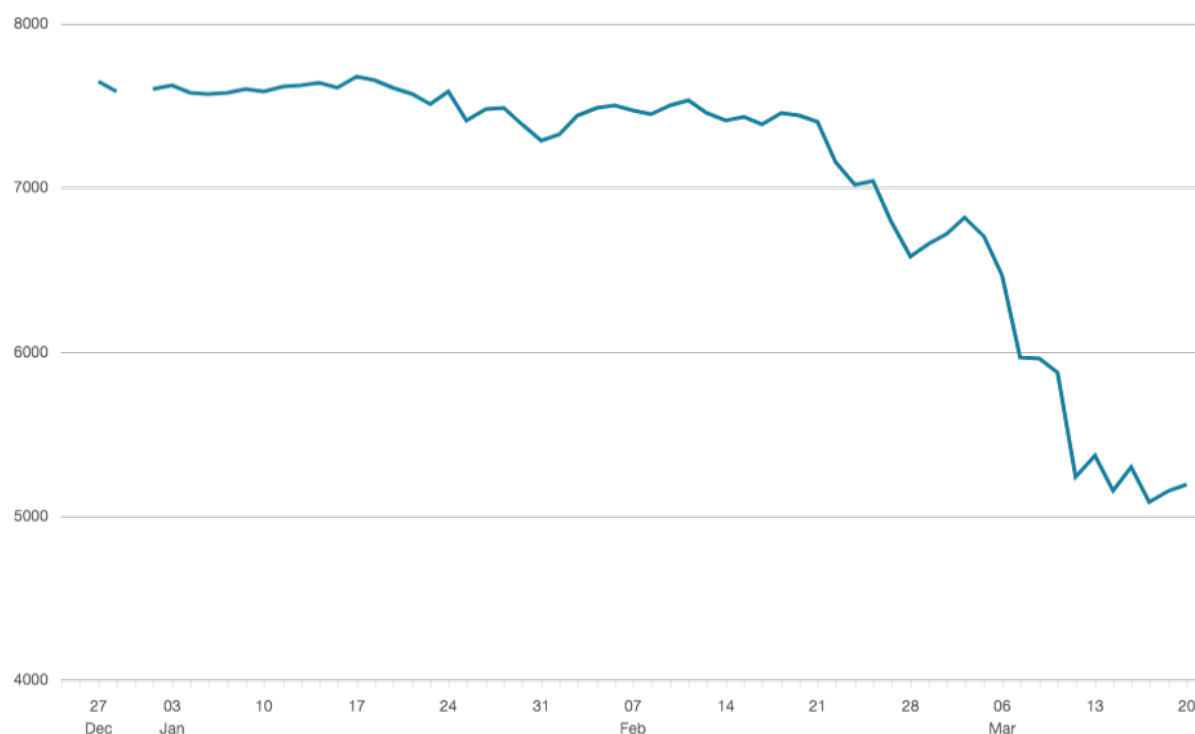


Fig 1. FTSE 100, UK. December 2019 – March 2020.

It is evident from the first three months of 2020 that the UK market was hit heavily. Since late October there has been improvement which does emit positivity - see fig 2 below.<sup>34</sup> It can be appreciated how the effects of Covid-19 impacted the UK market at the early part of 2020, seeing a significant drop around March 2020 and gradually rising due to financial stimulus packages put forward by the UK Government and lockdown measures put in place. It has since declined gradually from June through to late October, however since late October to early November, the UK market has seen a strong resurgence which can be associated with reduced

<sup>28</sup> HM Treasury, 'Guidance support for those affected by Covid-19' <<https://www.gov.uk/government/publications/support-for-those-affected-by-covid-19/support-for-those-affected-by-covid-19>> accessed 23 March 2020.

<sup>29</sup> Bank of England, 'Statistical interactive database – official bank rate history' <<https://www.bankofengland.co.uk/boeapps/iadb/Repo.asp>> accessed 23 March 2020.

<sup>30</sup> Ibid.

<sup>31</sup> The UK government are also encouraging bank lending to facilitate this process. See Bank of England, 'Covid-19 and bank lending' (HM Treasury, 25 March 2020) <<https://www.bankofengland.co.uk/-/media/boe/files/letter/2020/covid-19-and-bank-lending.pdf?la=en&hash=2C9C1BDD88BBD0746F4049B985279913BA6B2344>> accessed 26 March 2020.

<sup>32</sup> Eva Szalay and Chris Giles, 'Bank of England upends market expectation with comments on negative rates' *Financial Times* (London, 19 September 2020) <<https://www.ft.com/content/5a6ecbce-f88a-4de7-89ae-59f49bf8f831>> accessed 8 October 2020.

<sup>33</sup> Philip Inman, 'Bank of England policymaker backs negative interest rates' *The Guardian* (London, 20 October 2020) <<https://www.theguardian.com/business/2020/oct/20/bank-of-england-negative-interest-rates-gertjan-vlieghe-covid>> accessed 26 November 2020.

<sup>34</sup> BBC, 'FTSE 100' <<https://www.bbc.co.uk/news/topics/c9qdqqkgz27t/ftse-100>> accessed 26 November 2020.

numbers of reported cases, less fatalities<sup>35</sup> and further stimulus responses.<sup>36</sup> Additionally, the UK is currently in a second lockdown period due to end 2 December 2020.

As noted above, the FTSE 100 read 7,644.90 on the 27 December 2019, as of the beginning of 26 November 2020 it reads 6,391.08.<sup>37</sup> An improvement from the early months of 2020 but still far below the value at the end of December 2019.

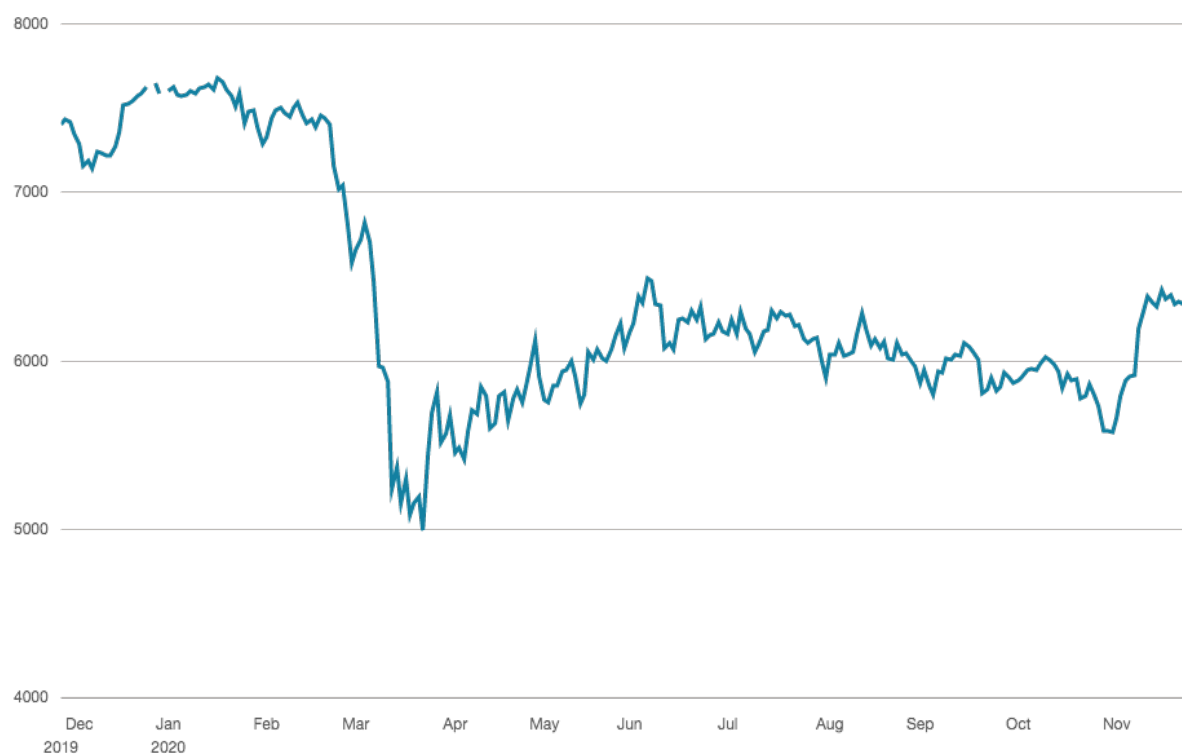


Fig 2. FTSE 100, UK. December 2019 to November 2020.

The Dow Jones also fell in the early months of 2020 - see fig 3.<sup>38</sup> The Dow Jones was at 28,645.26 on the 27 December 2019. As of 20 March 2020, in the height of the pandemic, the figures read 19,173.98.<sup>39</sup> Again reflecting the impact of Covid-19 and portraying several key falls in the market which, like the FTSE 100, can be associated to Covid-19 progressing in the US and the governments' response. Looking at fig 3, two of the biggest drops occurred middle of March 2020; this can be linked to President Trump banning all travel from EU member states (26, UK not included at that time but shortly after included), and the US stating a national emergency.<sup>40</sup> During this time the US were in the process of putting several measures in place ranging from a \$1 trillion flooding of the market of which \$50 billion would go toward the airline industry, and

<sup>35</sup> When compared to the height of Covid-19 in the first few months of 2020.

<sup>36</sup> Alexandra Topping, 'Stimulus package for UK's poorest families vital, report says' *The Guardian* (London, 26 October 2020) <<https://www.theguardian.com/society/2020/oct/26/stimulus-package-for-uks-poorest-families-vital-report-says>> accessed 26 November 2020.

<sup>37</sup> BBC, 'FTSE 100' <<https://www.bbc.co.uk/news/topics/c9qdqqkgz27t/ftse-100>> accessed 26 November 2020.

<sup>38</sup> BBC, 'Dow Jones' <<https://www.bbc.co.uk/news/topics/clyeyy8851qt/dow-jones-industrial-average>> accessed 23 March 2020.

<sup>39</sup> Dow Jones. Market Summary

<sup>40</sup> Holly Secon, Aylin Woodward and Dave Monsher, 'A comprehensive timeline of the new coronavirus pandemic, from China's first Covid-19 case to the present' (Business Insider, 24 March 2020) <<https://www.businessinsider.com/coronavirus-pandemic-timeline-history-major-events-2020-3?r=US&IR=T>> accessed 23 March 2020.

monies being sent to US citizens totalling \$1000 and \$2000 for households under a certain income level.<sup>41</sup>



Fig 3. Dow Jones, US. December 2019 to March 2020.

Similarly, to the FTSE 100, the Dow Jones has seen a sharp rise since late October early November - see fig 4.<sup>42</sup> However, unlike the FTSE 100, the US market has been far stronger and generally followed an upward trend from around April. It has continued to rise steadily over the past few months and is now at the highest it has been since the beginning of 2020.

<sup>41</sup> Erica Werner, Jeff Stein and Mike DeBois, 'White House expresses support for immediate cash payments to Americans as part of coronavirus stimulus package' *The Washington Post* (Washington, 18 March 2020) <<https://www.washingtonpost.com/us-policy/2020/03/17/trump-coronavirus-stimulus-package/>> accessed 23 March 2020. This has since been confirmed, albeit more monies to support, see n71.

<sup>42</sup> BBC, 'Dow Jones' <<https://www.bbc.co.uk/news/topics/cljeyy8851qt/dow-jones-industrial-average>> accessed 26 November 2020.





Fig 4. Dow Jones, US. December 2019 to November 2020.

As noted above, the Dow Jones read 28,645.26 on the 27 December 2019. As of the beginning of 25 November 2020 it read 29,872.47.<sup>43</sup> Signalling a steady return and surpassing the value at the end of December 2019.

In Japan, the Nikkei 225<sup>44</sup> also saw a huge fall in the early part of 2020 - see fig 5. The Nikkei 225 on the 27 December 2019 read 23,837.72 and at 19 March 2020 (20 March not open due to market holiday – Vernal Equinox) read 16,557.80.<sup>45</sup> Again, looking at the graph indicates a decline with several key drops falling around late February and early to mid-March. This coincides with Japan closing all schools in February and President Trump voicing that the Olympic Games should be cancelled - this combined with uncertainty of the Tokyo 2020 Games already.<sup>46</sup>

<sup>43</sup> BBC, 'Dow Jones' <<https://www.bbc.co.uk/news/topics/clyeyy8851qt/dow-jones-industrial-average>> accessed 26 November 2020.

<sup>44</sup> BBC, 'Nikkei 225' <<https://www.bbc.co.uk/news/topics/c55p555ng9gt/nikkei-225>> accessed 23 March 2020.

<sup>45</sup> Nikkei 225. Market Summary.

<sup>46</sup> Nippon, 'Coronavirus cases in Japan by prefecture' (Nippon, 23 March 2020) <<https://www.nippon.com/en/japan-data/h00657/coronavirus-cases-in-japan-by-prefecture.html>> accessed 23 March 2020. The Olympics have since been postponed until 2021.



Fig 5. Nikkei 225, Japan. December 2019 to March 2020.

Comparisons can be made to the UK and the US with a decline between January 2020 to March 2020. However, and resembling the US, the market has recovered far stronger, unlike the UK - see fig 6.<sup>47</sup> Reflecting the impact of Covid-19 in the early part of 2020, the Nikkei 225 has risen steadily since April and saw significant strength toward the end of October 2020 to which it has now reached and surpassed January 2020 figures. As noted above, the Nikkei 225 as of 27 December 2019 read 23,837.72, as of 26 November 2020 it reads 26,537.31. Similarly, to the US, it appears that the stimulus packages introduced have improved the market.

<sup>47</sup> BBC, 'Nikkei 225' <<https://www.bbc.co.uk/news/topics/c55p555ng9gt/nikkei-225>> accessed 26 November 2020.



Fig 6. Nikkei 225, Japan. December 2019 to November 2020.

To contextualize this further, the three stock markets above all saw, on average, around a thirty one percent drop since the beginning of January 2020 to the latter stages of March 2020 - see fig 7,<sup>48</sup> although this has since recovered for two of the leading economies. The common theme throughout is the progression of Covid-19 combined with state measures and locking down of educational institutions and other services.<sup>49</sup>

There are two ways that could change this output for other countries based on the measures put in place by countries listed above, which has been effective in respect of strengthening the market for the US and Japan. The first is to implement a substantial financial stimulus package providing support to key public services such as hospitals, police and businesses, in order to stifle the amount of job losses and keep businesses from going into insolvency proceedings. The second, is to curtail the number of rising cases and limit the number of fatalities; this can only be done by introducing quarantine and lockdown measures, depending on the country and exposure, this could be one region as seen in Hubei province, China, or a whole country such as Italy. Introduction of these quarantined conditions, will constrict the virus and speed of the epidemic, and it will also alleviate the impact on the health system(s).<sup>50</sup>

<sup>48</sup> Loran Jones, David Brown and Daniele Palumbo (n18).

<sup>49</sup> Also see Elliot Smith, 'Here's why financial markets are tanking around the world' (CNBC, 9 March 2020) <<https://www.cnbc.com/2020/03/09/coronavirus-heres-why-financial-markets-are-tanking.html>> accessed 23 March 2020.

<sup>50</sup> The success of these measures is already confirmed in China i.e. quarantine and lockdown, support to the health system in the form of, for example, erection of new hospitals just to deal with Covid-19 patients.

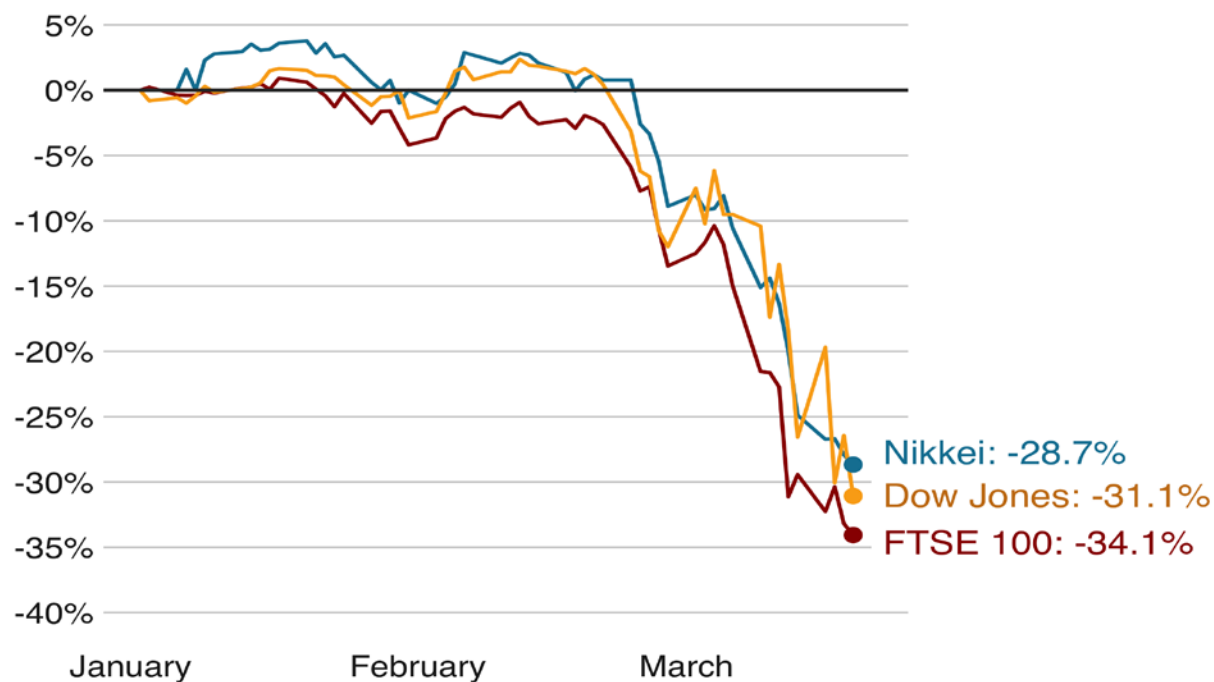


Fig 7. Bloomberg, The impact of coronavirus on stock markets since the start of the outbreak.

Identical scenes can be seen in other stock markets around the globe. For example, there were small signs of recovery for China's Shanghai Stock Exchange around March 2020 which despite the last few days in March<sup>51</sup> of no new reported cases (domestic),<sup>52</sup> the Chinese market was still evidencing a state of shock. This has since improved from 2 March 2020 at 2270.93 and now as of 26 November 2020 reads 3369.73.<sup>53</sup>

### (c) Summary

The negative impact on the economy and financial markets are apparent and while it seems that China has been able to contain and suppress the virus and lifted the lockdown in Wuhan on 8 April 2020,<sup>54</sup> the global spread is taking hold of many countries and in some ways to greater consequence.<sup>55</sup> One of the reasons for this is that the way in which China is governed enables for wider ranging and faster response times to control a virus of this nature compared to other countries that are managed differently. China has a different infrastructure and monetary position to combat a pandemic of this type with speed. For example, China built two hospitals in the matter of days.<sup>56</sup> The difficulty here is that for many countries this is simply not feasible.

<sup>51</sup> Reported 23 March 2020. 5 consecutive days.

<sup>52</sup> Sorvar Alam, 'Covid-19: China reports 39 new imported, no local cases' (Anadolu Agency, 23 March 2020) <<https://www.aa.com.tr/en/asia-pacific/covid-19-china-reports-39-new-imported-no-local-cases/1775453>> accessed 23 March 2020.

<sup>53</sup> CNBC, 'Shanghai (SSEC:Shanghai Stock Exchange)' <<https://www.cnbc.com/quotes/?symbol=.SSEC>> accessed 26 November 2020.

<sup>54</sup> Bloomberg, 'China to lift lockdown over virus epicentre Wuhan on April 8' (Bloomberg, 24 March 2020) <<https://www.bloomberg.com/news/articles/2020-03-24/china-to-lift-lockdown-over-virus-epicenter-wuhan-on-april-8>> accessed 24 March 2020.

<sup>55</sup> Italy has already surpassed China in terms of fatalities. Spain, France and Germany are quickly developing in terms of confirmed cases and or fatalities.

<sup>56</sup> Hilary Brueck, Anna Medaris Miller and Shira Feder, 'China took at least 12 strict measures to control the coronavirus. They could work for the US, but would likely be impossible to implement' (Business Insider, 24 March 2020)

The manpower it would take to erect such a building in days (or convert), the land to build the hospitals, and in some cases the finances to put this plan into action, are problematic. This type of response, fast and militaristic, is needed in order for other countries to suppress Covid-19. However, this may not always be possible and therefore will take a longer time to contain the virus for many.

The aggressive response seen in China combined with an early draconian lockdown of parts of Hubei province, Wuhan specifically, has now reaped the reward of a faster curtailment of Covid-19 with fewer cases being confirmed. The only persons having the virus are those of international origin coming into the country. China combatted this by enforcing restrictions on incoming persons.<sup>57</sup> The future of global economies and financial markets is under extreme pressure with central banks and governments introducing drastic measures, some of which have not been seen since the first half of the twentieth century. In the penultimate section, this paper will explore the possibilities of what the future may look like.

#### IV. LOOKING TO THE FUTURE

There are a number of points that should be considered when looking to the future, these being: financial stimulus packages, financial markets, and the likelihood of a financial crisis. Looking to the future is a difficult task, even more so when trying to predict financial markets and other unknowable events. However, reviewing the current and proposed stimulus plans can provide some guidance as to what economies and financial markets may look like moving into 2021.

##### (a) *Financial Stimulus Packages*

For continuity, three of the big G7 countries as highlighted in the previous section will be discussed - UK, US and Japan - and the financial stimulus packages in place.

In the UK,<sup>58</sup> the government introduced one of the biggest financial support packages that any UK government has produced, even the world. Some of the key parts included a £330 billion mechanism to support businesses; £30 billion for public services and individuals and businesses in difficulty; and a £5 billion response fund.<sup>59</sup> There are further important measures such as mortgage assistance (payment breaks) and furlough schemes whereby the government will pay eighty percent of wages up to a maximum of £2,500 per month.<sup>60</sup> Further

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<<https://www.businessinsider.com/chinas-coronavirus-quarantines-other-countries-arent-ready-2020-3?r=US&IR=T>> accessed 24 March 2020.

<sup>57</sup> Ryan Woo and others, 'Coronavirus: China report no new local transmission, but 34 cases from abroad' (World Economic Forum, 19 March 2020) <<https://www.weforum.org/agenda/2020/03/beijing-coronavirus-china-transmissions-covid19-international/>> accessed 24 March 2020.

<sup>58</sup> Also see material used in the previous section of this paper - THE AFFECTS SO FAR ON THE ECONOMY AND FINANCIAL MARKETS.

<sup>59</sup> HM Treasury, 'How to access government financial support if you or your business has been affected by Covid-19' (HM Treasury, 18 March 2020)

<[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/873676/Covid-19\\_fact\\_sheet\\_18\\_March.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/873676/Covid-19_fact_sheet_18_March.pdf)> accessed 25 March 2020.

<sup>60</sup> It is up to the employer if they choose to pay the remaining twenty percent.

support has been introduced with a new £150 billion stimulus intervention due to a second lockdown<sup>61</sup> and with rising numbers of reported cases and fatalities.<sup>62</sup>

In the US, an agreement came into place that represented a \$2 trillion package.<sup>63</sup> Some of the measures in this package included monies being sent to citizens (\$1,200); \$367 billion for small businesses; and \$500 billion for industries and states.<sup>64</sup> This is a much needed and far superior package compared to the original proposal of \$1 trillion.<sup>65</sup> There is now increased pressure for the US to provide further stimulus<sup>66</sup> due to rising numbers<sup>67</sup> before the end of 2020.

In Japan, the government deliberated a stimulus package of ¥30 trillion (around \$270 billion).<sup>68</sup> The package was similar to the US and the UK, i.e., there will be monies sent to citizens, equating to around ¥12,000 to ¥20,000. Since these discussions in the early part of 2020, Japan approved late May 2020 a package worth ¥117 trillion (around \$1.1 trillion).<sup>69</sup> Similarly to the UK and the US, Japan is under increased pressure to do more with discussion of providing a new stimulus package.<sup>70</sup>

The results of these packages appear to show a positive impact for the US and Japan. This has been reflected in the previous section whereby the Dow Jones and Nikkei 225 have recovered considerably since the first half of 2020. The current efforts by the UK are not as successful. It should be acknowledged that there are other factors at play here such as BREXIT which will continue to impact the FTSE 100 due to the transition period of negotiations currently taking place. While recent figures of infection rate and death are much lower than the first half of 2020, over the past few weeks this has begun to rise, indicating measures being put in place and a second lockdown.<sup>71</sup>

## (b) *Financial Markets*

The indication from the markets in the first half of 2020 appeared positive from the financial stimulus packages brought in (UK), recently announced at the time (US), and soon to be confirmed at the time (Japan). To illustrate this point, consider the figures stated earlier in this

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<sup>61</sup> Richard Partington, 'Bank of England launches new £150bn stimulus package' *The Guardian* (London, 5 November 2020) <<https://www.theguardian.com/business/2020/nov/05/bank-of-england-launches-new-150bn-stimulus-package>> accessed 26 November 2020.

<sup>62</sup> Jasmin Gray, 'UK's daily coronavirus death toll nears 700 for first time in more than six months' <[https://www.huffingtonpost.co.uk/entry/uk-coronavirus-death-toll-696-november-25\\_uk\\_5f9e9751c5b61d04bfa6659f](https://www.huffingtonpost.co.uk/entry/uk-coronavirus-death-toll-696-november-25_uk_5f9e9751c5b61d04bfa6659f)> accessed 26 November 2020.

<sup>63</sup> Erica Werner and others, 'Senate, White House reach \$2 trillion stimulus deal to blunt coronavirus fallout' *The Washington Post* (Washington, 26 March 2020) <<https://www.washingtonpost.com/us-policy/2020/03/24/trump-coronavirus-congress-economic-stimulus/>> accessed 25 March 2020.

<sup>64</sup> *Ibid.*

<sup>65</sup> See n49.

<sup>66</sup> Jessica Dolcourt and others, 'Stimulus package: can a deal pass before 2020 ends? The real timeline to know' <<https://www.cnet.com/personal-finance/stimulus-package-can-a-deal-pass-before-2020-ends-the-real-timeline-to-know/>> accessed 26 November 2020.

<sup>67</sup> Peter Wells and Joshua Chaffin, 'US coronavirus deaths rise to highest level in more than six months' *Financial Times* (New York, 19 November 2020) <<https://www.ft.com/content/a70cc6f8-58df-417e-835f-feb9bf0a617>> accessed 26 November 2020.

<sup>68</sup> Jiji Kyodo, 'Japan mulls ¥30 trillion in economic stimulus to counter coronavirus impact' *The Japan Times* (Tokyo, 23 March 2020) <<https://www.japantimes.co.jp/news/2020/03/23/business/economy-business/japan-considers-%C2%A530-trillion-stimulus-fight-coronavirus-outbreak/#.XnsuFNP7TAw>> accessed 25 March 2020.

<sup>69</sup> Yuko Takeo and Takashi Hirokawa, 'Japan doubles down to deliver world's 'biggest' stimulus package' (Bloomberg, 27 May 2020) <<https://www.bloomberg.com/news/articles/2020-05-27/japan-to-unveil-another-1-trillion-in-stimulus-document-shows>> accessed 8 October 2020.

<sup>70</sup> Yoshifumi Takemoto and Daniel Leussink, 'Japan PM Suga instructs cabinet to compile new stimulus package' <<https://uk.reuters.com/article/us-japan-economy-stimulus/japan-pm-suga-instructs-cabinet-to-compile-new-stimulus-package-idUKKBN27Q066>> accessed 26 November 2020.

<sup>71</sup> As of November 2020.

paper.<sup>72</sup> As of 20 March 2020, the UK FTSE 100 read 5,190.78, the US Dow Jones read 19,173.98 and the Japan (19 March as 20 March was national holiday) Nikkei 225 read 16,557.80. As of the beginning of days trading 25 March 2020 the UK FTSE 100 read 5,446.01, the US Dow Jones read 21,050.34, and Japan Nikkei 225 read 18,446.80.<sup>73</sup> All signalling a boost that can be associated to the financial stimulus packages,<sup>74</sup> agreed or soon to be in force. On reflection and jumping forward several months to the latter part of 2020, it can now be appreciated that two of the three leading economies have been able to see further recoveries.<sup>75</sup>

It appeared in around March 2020, that a brighter picture for future markets was on the horizon. Key markets such as the above can influence and support other markets around the world. The US is a prime example whereby the announcement of the fiscal package being approved by the US Senate saw other markets, including the Dow Jones (by eleven per cent) improve, with the UK and Japan seeing an immediate four to five per cent increase.<sup>76</sup> The problem of looking into the future is whether this was a short and immediate response to the fiscal packages introduced or whether it could be more sustainable. We now know that it has been sustained by the US and Japan. In contrast, some economists during this time believed that it was a rebound and the worst was yet to come, predicting a deep depression.<sup>77</sup> This was on the basis that the fiscal packages in place would only cover a short period of time and as more job losses amounted, people spending less and economies becoming weaker, the financial markets would begin to drop again. With optimism, if more money can be provided by government(s) in addition to what has already been confirmed, then this would be the prudent and safer route which should prevent a global financial crisis. It would appear that those in doubt during this time were partly wrong, with markets becoming stronger. This being said, with new and current pressures for new stimulus packages being explored in the UK, US and Japan, it would seem that the fiscal measures put in place in the first half of 2020 did only last for a short period of time and further stimulus is very much needed.

### (c) *Financial Crisis*

The prospect of a financial crisis is still plausible. Bearing in mind the recent global financial crisis 2007-2009 (GFC), many would not have predicted seeing another crisis in such a short space of time. The Organisation for Economic Co-operation and Development (OECD) comparing it to other financial and social shocks stated, "The pandemic brings with it the third and greatest economic, financial and social shock of the 21st Century, after 9/11 and the Global Financial Crisis of 2008."<sup>78</sup> Evidencing why it may be bigger than the GFC with production dropping, supply chains slowing down and being unable to keep up with demand (food in the UK for example, although this now appears to be under control), and a decline in consumer consumption. Worryingly, the OECD denote that the pandemic has started a chain in motion toward a huge economic crisis. The OECD believe that the only way to circumvent this event is

<sup>72</sup> II THE EFFECTS SO FAR ON THE ECONOMY AND FINANCIAL MARKETS n31 n46 n52.

<sup>73</sup> FTSE 100, Dow Jones, Nikkei 225. Market Summary.

<sup>74</sup> It cannot be linked to confirmed cases or fatalities because the former continues to rise, and the latter is also rising.

<sup>75</sup> See up-to-date values in THE EFFECTS SO FAR ON THE ECONOMY AND FINANCIAL MARKETS b Financial Market.

<sup>76</sup> Marc Jones, 'Stocks rebound passes 10% after \$2 trillion U.S. stimulus boost' (Reuters, 25 March 2020) <<https://www.reuters.com/article/us-global-markets/stocks-rebound-passes-10-after-2-trillion-us-stimulus-boost-idUSKBN21C03S>> accessed 25 March 2020.

<sup>77</sup> Stephanie Bedard-Chateauf, 'Why the stock market recovery won't survive the Covid-19 depression' (CCN, 24 March 2020) <<https://www.ccn.com/why-the-stock-market-recovery-wont-survive-the-covid-19-depression/>> accessed 25 March 2020.

<sup>78</sup> OECD, 'Covid-19: Joint action to win the war' <<http://www.oecd.org/coronavirus/en/#op-ed>> accessed 25 March 2020.

for a “co-ordinated international effort”,<sup>79</sup> in relation to the initial actions already taken by leading governments.

Another concerning sign is that for the UK, the economy is contracting much faster than was the case leading to the GFC.<sup>80</sup> This is based on the Purchasing Managers’ Index (PMI) that measures services and manufacturing that looks into the direction of the economy. A reading of 37.1 in the first half of 2020 was alarming - see fig 8 below,<sup>81</sup> indicating a great warning. Considering that anything below 50 is illustrating contraction, and a reading of 38.1 was recorded in the turmoil of the GFC,<sup>82</sup> it was unsettling and would explain the continued struggles in the UK of managing Covid-19. This has since improved to 55.2 as of November 2020<sup>83</sup> but the current climate is still of concern.<sup>84</sup>

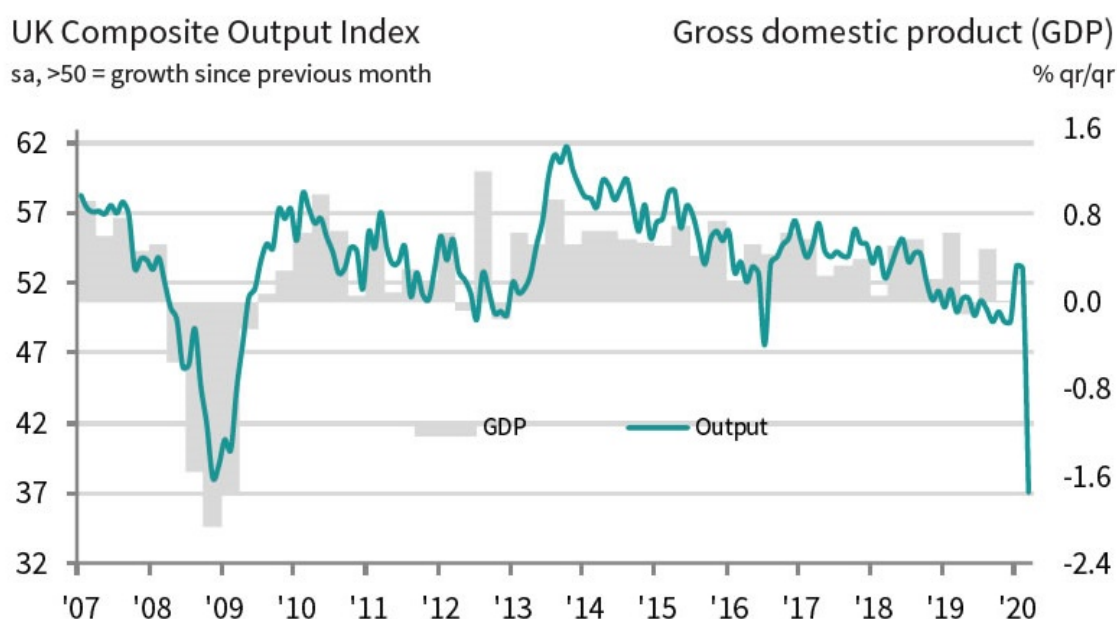


Fig 8. UK Composite Output Index and GDP.

It seems that there is strong evidence, from a UK perspective at least and potentially other key markets around the world, that another financial crisis is still possible but may not be as likely as was envisaged when Covid-19 began to spiral out of control in the early part of 2020. There is one way to avoid this trajectory and continue with the positive signs of recovery seen in some parts of the world – financial stimulus. The financial markets responded reasonably well to the confirmed financial stimulus packages<sup>85</sup> and have improved further for the US and Japan. But

<sup>79</sup> Ibid.

<sup>80</sup> Ben Chu, 'UK economy contracting faster than in 2008 financial crisis, new surveys show' *Independent* (London, 24 March 2020) <<https://www.independent.co.uk/news/business/news/uk-economy-coronavirus-covid-19-financial-crisis-2008-a9420631.html>> accessed 25 March 2020.

<sup>81</sup> HIS Markit, 'Flash PMI signals record slump in business activity amid emergency public health measures to halt spread of coronavirus' <<https://www.markiteconomics.com/Public/Home/PressRelease/0f164ac0128b429ea1c329104afd62c3>> accessed 26 March 2020.

<sup>82</sup> Ibid. Also see Will Green, 'Covid-19 blow to economy 'worst n 20 years'' (CIPS, 24 March 2020) <<https://www.cips.org/en-gb/supply-management/news/2020/march/covid-19-blow-to-economy-worst-in-20-years/>> accessed 25 March 2020.

<sup>83</sup> See <<https://tradingeconomics.com/united-kingdom/manufacturing-pmi>> accessed 26 November 2020.

<sup>84</sup> Also see BBC, 'Coronavirus: new covid restrictions could las six months, say Boris Johnson' (BBC, 22 September 2020) <<https://www.bbc.co.uk/news/uk-54250696>> accessed 26 November 2020.

<sup>85</sup> See n80 n81 n82.



more needs to be done. The aforementioned packages will win some of the battles, however the war is far from over. A stance similar to the UK where Rishi Sunak, Chancellor of the Exchequer, is needed in which he said "...to do whatever it takes to support our economy through this crisis – and that if the situation changed, I would not hesitate to take further action."<sup>86</sup> The assumption being that if more measures are needed of a monetary nature then more will be provided. It is this point that will be the saving grace, not just for the UK which arguably requires further stimulus, but other countries that are willing and able to inject more monies into the market and economy. Only then will the world be able to avoid the next financial crisis as a direct result of Covid-19.

## V. CONCLUSION

The world's landscape continues to change as the Covid-19 pandemic continues. Rising cases and fatalities in certain parts of the world will not stop anytime soon and the future is looking bleak for many countries. The leading light is that of China where the spread is slowing down. It appears that China continue to report low levels of infection and deaths in the latter part of 2020.<sup>87</sup> What this represents is that isolation and lockdown measures combined with financial stimulus and 'pop up' hospitals have contributed to China taking hold of Covid-19. Some of these measures<sup>88</sup> will not be feasible for some countries that do not have the financial capacity, manpower, or are now too late to impose a lockdown.<sup>89</sup>

The measures spoken of in this paper put forward the assertion that sufficient (and plentiful) financial support will drive Covid-19 into the shadows which will protect and restore health and life, people and communities, economies and financial markets. It is perhaps fitting to end with a final heed of warning, the fight to tackle Covid-19 should not be one of individual mentality. The world is fighting this pandemic, not one country alone. As was said at the beginning of this paper, everyone should come together.<sup>90</sup> Therefore, the world should fight together. It should be remembered that Covid-19, like many other deadly viruses, does not differentiate between people, neither does it differentiate between countries; it does not have borders.<sup>91</sup> Yes, it is reassuring that unprecedented financial stimulus packages have and are being put in place, but many countries cannot afford to do so. We should not forget to help our neighbours close and afar. Otherwise, and as Ably Ahmed the Ethiopian Prime Minister stated, "...if the virus is not defeated in Africa, it will only bounce back to the rest of the world."<sup>92</sup>

There is light at the end of the tunnel, how long it takes to get there is yet to be seen.

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<sup>86</sup> HM Treasury and Rt Hon Rishi Sunak MP, 'Chancellor of the Exchequer, Rishi Sunak on Covid19 response: The Chancellor announces further support in economic response to coronavirus' (Gov.uk 17 March 2020) <<https://www.gov.uk/government/speeches/chancellor-of-the-exchequer-rishi-sunak-on-covid19-response>> accessed 26 March 2020.

<sup>87</sup> See <<https://www.worldometers.info/coronavirus/>> accessed 8 October 2020.

<sup>88</sup> Building hospitals in the matter of days and locking down regions early into the spread.

<sup>89</sup> Although, even if a lock down is implemented does not mean Covid-19 will not be suppressed and extinguished. It means that it will take those countries, such as Italy, longer to fight the virus.

<sup>90</sup> INTRODUCTION.

<sup>91</sup> Ably Ahmed, 'If Covid-19 is not beaten in Africa it will return to haunt us all' *Financial Times* (London, 25 March 2020) <<https://www.ft.com/content/c12a09c8-6db6-11ea-89df-41bea055720b>> accessed 26 March 2020.

<sup>92</sup> Ibid.