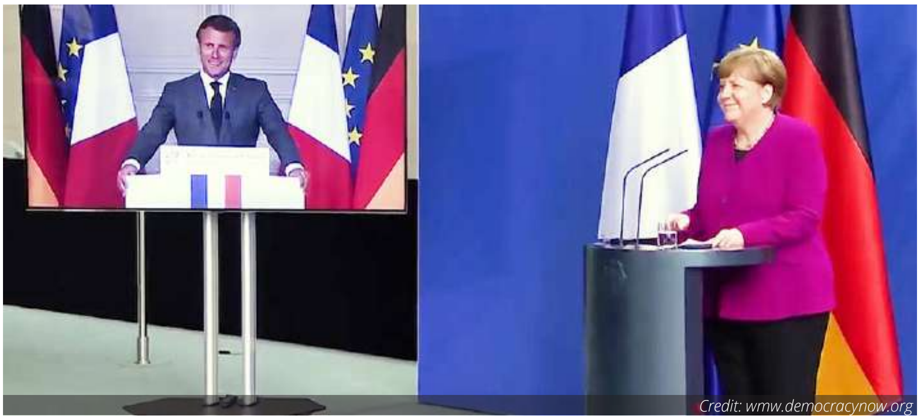
Quilter

Between the lines | Week 21



Credit: www.democracynow.org

EU plans €1trn coronavirus recovery package

The European Commission has revealed it will outline a bold recovery plan to tackle the consequences of the coronavirus pandemic, which could exceed €1trn in the form of grants and loans to hard hit regions.

It followed France and Germany's initial proposal on Monday (18 May) of a €500bn recovery fund that would offer grants to European Union regions and sectors hit hardest by the coronavirus pandemic.

However, on Tuesday (19 May) executive vice president of the European Commission, Valdis Dombrovskis, said the EU aimed to be bolder, with an ambition to increase financing by a figure exceeding €1trn. The resulting loans and grants would be linked to economic policies and structural reforms.

The plans for the EU's 'recovery instrument', which are expected to be unveiled next Wednesday (27 May), would be closely linked to the EU's budget plans and is likely to include the creation of a recovery and resilience facility, which will concentrate on investments and structural reforms, said Dombrovskis.

The initial proposal from France and Germany signalled a step change in the eurozone's attitude to sharing debt, by providing grants to harder hit regions, such as Italy and Spain, with the proposals pushing government bond yields from southern European countries lower, and the euro higher.

CJ Cowan, assistant portfolio manager at Quilter Investors, says: "The suggestion of grants rather than just loans is a positive but this is still some way from the sort of debt mutualisation often argued for by economists. The conditionality attached to access the funding will be a sticking point between northern and southern European states as well, but this is a notable step in the right direction and lessens the risk of a dramatic adverse move in Italian and Spanish government bond markets in the near term."

Nasdaq rule tightening to hit Chinese firms

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The US Nasdaq stock market is reportedly planning to tighten the rules around company listings through initial public offerings (IPOs), which could curb listings by Chinese companies.

Reports suggest the rules will require companies from some countries, including China, to raise at least $25m in their IPO, or least a quarter of their expected post-listing market capitalisation. This would mark the first time the Nasdaq has put a minimum value on the size of an IPO, a move that would reportedly have prevented the listing of a number of Chinese companies currently on the Nasdaq. It also plans to tighten auditing requirements for international franchises to comply with global standards.

The proposed rule changes appear to stem from the fallout of the Luckin Coffee scandal, which listed on the Nasdaq in 2019, after the company revealed in April that around $310m of sales figures had been fabricated by senior executives and other staff.

The *Quilter Market Explainer*

In response to the severe market volatility that has accompanied the outbreak of the global coronavirus pandemic, Quilter has launched the Quilter Market Explainer, a special fortnightly webcast for advisers and clients.

All our previous broadcasts in this series are available on demand, to listen please click on the play button above.

The next *Explainer* will air at midday on Friday 29 May and will feature panellists from across Quilter Investors and Quilter Cheviot. With just a month to go until the UK has to confirm whether or not to extend the Brexit transition deadline, the topics under discussion will include where Brexit stands in the midst of the coronavirus pandemic and what it means for investors.

***Click here** to find out more*

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