A *gattopardesca* abnormality

It would be easy to simply say that it is not normal for stock markets to go up while economies are struggling. Because then you would have to ask yourself what is normal. The adjective "normal" means, according to the vocabulary, *"customary, regular, usual, habitual".* The term therefore seems to indicate something that does not change. But in the dynamics of life, of any form of life, everything changes, is transformed. Only the human mind often seeks the comfort of habit even at the cost of choosing not to see the movement. And even in the extraordinary nature of an event, such as the Coronavirus, we try to normalize it quickly with the parameters to which we are accustomed. The world of finance, expressed in the stock exchanges, in the continuous negotiations, is the place where there can be no habit. It is intrinsically an expression of change, of the infinite transformations that intersect each other creating a *new*, continuously unstable. Unfortunately, it is not enough to "see" what changes, it is also necessary to understand how the viewer acts, how he modifies reality with his intervention. The markets, as Soros says, are reflective.

At this stage, central banks were the first to intervene by flooding the markets with liquidity. They were ready to do so, because since the last crisis in 2008 they have been developing models to act in case of an extraordinary new event. The Federal Reserve took action, whose statutes make it worry about inflation, but also about unemployment. The European Central Bank has also moved, which must modulate inflation (therefore also deflation) and which, thanks to the intervention of Mario Draghi in 2012, also has the task of saving itself, therefore the European Union, from dissolution. Almost with a common direction - given by the search for a common preparation in recent years - have then reacted other central banks. What to do with all this liquidity? First of all, invest in the possible winners that the change from Coronovirus and lockdown produce. Then great attention to IT, applications concerning telework and social media, Amazon, Apple, Microsoft, Facebook, etc.. But also to the pharmaceutical companies, first

mistreated for the fear that the American government would decide to intervene on the high prices of medicines and now hailed as a hope for humanity in the face of pandemic threats. And so the S&P, the flagship index of world stock exchanges, in May recorded the best two-monthly growth since 2009, 17.8%, with a recovery of 36% from the low of 23 March. Investing in these stocks has been an old reflection of the market economy: rewarding those who make profits or, having to choose, those who lose less. Having a lot of liquidity at their disposal and seeing these leaders moving further and further away from multiples compatible with reality, the markets began to search for the securities most affected by the pandemic: cyclicals, banks, automotive. The approaching end of the lockdown justifies, for the doped markets, a return to important growth expectations. So much so that we have started to withdraw some investments from more conservative indices, such as the Swiss one, and push to the more cyclical ones, such as the German one. Or reduce a little bit the presence in the NASDAQ biotech stocks to push the Russel 2000 of small capitalisations as well.

In addition to liquidity, markets need growth projects. And these have not been lacking either. The United States is allocating colossal figures to speed up the recovery of demand. And the European Union is even making everyone dream with the proclaimed intention of taking the first, albeit uncertain and painful, step towards the communion of debts for the relaunch of the economy. All this liquid positivity has not, for the moment, been affected even by the rekindling of the new Cold War between China and the United States. On the contrary, it almost seems that this clash is now part of a process of rebalancing where the contenders have decided their own priorities, but at this stage they cannot cross the threshold of pain: attacking China and reviewing the relationship with Hong Kong without exasperating the trade war. In short, even with a Coronavirus-like real economy, the betting on the future and the central banks seem to be running towards a new normality while waiting for the American votes, as before the pandemic. But, while equity earnings estimates are falling, pushing S&P valuations to extreme levels, bond yields have stood still at the end of April, indicating that there are no great expectations of recovery in the United

States, while in Europe for now there is only one bet that the appreciation of the euro against the dollar seems timidly rewarding. But it is a good thing that the bond market does not even price the rise in inflation and this still favours the generous policies of the central banks and the refuge in gold for those who are afraid to stray too far from the principles of the old normality.

There has already been a big news. Thanks to the Coronavirus, Saudi Arabia and Russia have perhaps managed to defeat the American shale oil, better than ecologists would ever have been able to do. With the restart of the economies, they now have some chance of bringing the price of oil back up to fifty dollars without suffering too much competition from the United States on international markets. And, above all, if their victory is confirmed, they could be the arbitrators of that inflation that the markets do not see, but that deglobalization announces.

After this first phase of stock market expansion, markets could take a break to assess how much the liquidity injected into the markets really contributes to the improvement of main street, of everyday life, while waiting to understand the residual destructive force of the virus. But as the central banks have been saying for some time, we must now also see the implementation of infrastructure renewal projects in the US and Europe. This is the only way that the generous shower of liquidity from the central banks will acquire a constructive sense, and not just an emergency one. The Coronavirus has put back on track the role of the states from which these initiatives must pass, with the synergies of the private sector. Portfolio rotations give stock market time to these changes. If they helped to lower volatility, they would open the door to those investors left on the edge of the rebound: those estimated $500 billion that are only moving at low volatility. Does everything have to change so that everything stays the same? The new abnormality is in the midst of its intimate transformations that are leading us towards a new economy.