

For inquiries related to this article, please contact:

Alain.Marckus@bankfab.com

Christofer.Langner@bankfab.com

3 May, 2020

Revival of trade war amid Covid-19 recession could sap rally

◆ **Stock market sell-off on Friday leaves US indices down for the week.**

◆ **Investors must assess the impact of a revival of the trade war against China amid a recessionary environment.**

◆ **Record unemployment in the US may explain President Donald Trump's renewed negativity towards China.**

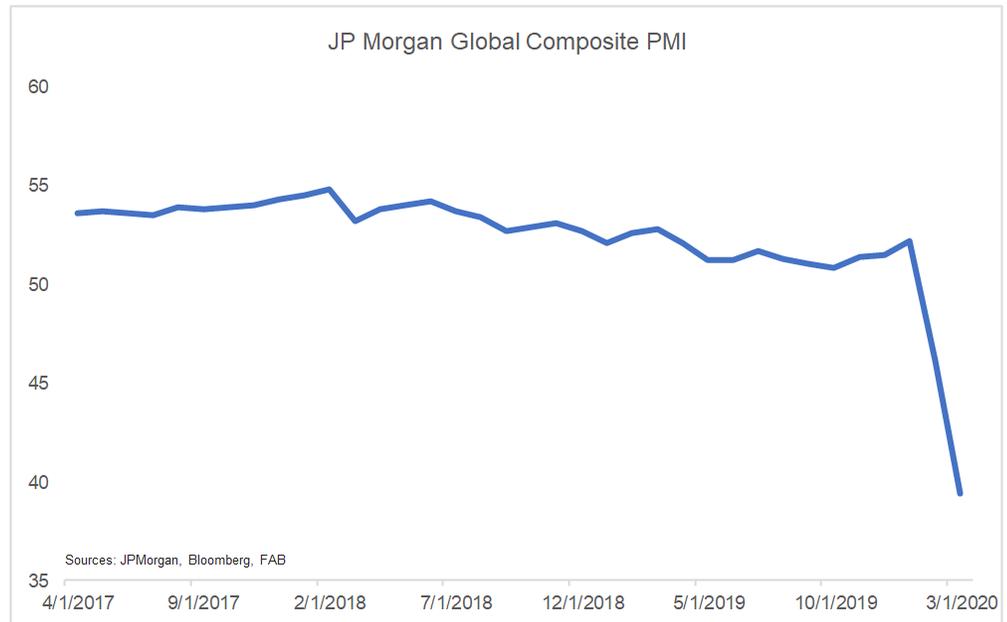
◆ **Factory output and employment in the US fell at the fastest pace in several decades in April.**

◆ **Investors are likely to also consider the potential impact of a Democratic president as Senator Joe Biden starts to take the lead in polls in key states.**

◆ **FAB AAC remains underweight equities and overweight gold amid continued market uncertainty.**

It was all going so well that a spanner had to be thrown into the works. On Friday, President Donald Trump turned his attention to China again as more signs of the depth of the US recession due to the Covid-19 lockdown emerged. The President suggested he may revisit tariffs, while some of his closest aides said that China should be "held accountable" for the global pandemic.

The prospect of a revival of the trade war while the world is still grappling with the fallout from closing the biggest economies added renewed uncertainty to markets. The S&P 500 fell 2.8% on Friday, erasing gains from earlier in the week and finishing the five-day trading negative, the first down-week in three. The index already had some negative sentiment associated with it as it approached a



technical resistance just below the 3,000 level, having rallied 30.2% between 23 March (its recent low) and 30 April.

It is still unclear whether Friday's sell-off will be the start of a new leg down, but there is reason to believe that risk asset prices could see downward momentum. It stems from the uncertainty about what President Trump might do, and the impact of such actions on an already frail world after two-thirds of the global economy stopped in an attempt to slow the spread of the virus. Investors always need some time to price in uncertainty.

Unfortunately, there is also reason to believe that President Trump's anti-China rhetoric could be intensified. With the US November presidential elections looming closer, President Trump seems to be defaulting to the strategy that helped him win in 2016: bashing China. That message helped him carry three traditionally Democratic states in the so-

The global PMI survey, a measure of activity, has fallen to a record low in April

called 'rust-belt': Michigan, Pennsylvania, and Wisconsin which won him the election. Retaining them will be key for President Trump to remain in the White House. They have also been among the worst-hit by the lockdown-generated recession, as factory employment has dropped sharply.

About one in five of the people in the workforce in Michigan and Pennsylvania have filed for welfare benefits in the past five weeks, according to state data. While the states had seen some of the fastest job creation in decades during the first two years of President Trump's mandate, most of those jobs were erased in the past month. It is no wonder, therefore, that these two states are already leaning

toward the Democratic presumptive nominee Joe Biden for the November election, according to the latest polls. More clarity on just how many jobs were lost will come on Friday, when the Department of Labor releases its nonfarm payrolls report. It is likely to be very bad, and could trigger more ranting in the White House.

A Democratic victory in November is another element of uncertainty that markets are likely to start grappling with, along with the heightened rhetoric against China. While Senator Joe Biden has not indicated clearly whether he would roll back corporate tax cuts enacted by President Trump, he has used language suggesting he could do so (such as calling large corporations “greedy”). Much of the market rally during President Trump’s tenure can probably be traced back to his tax reduction policies, and any sign that these might be reversed is likely to have a major impact on risk asset prices.

Such a reassessment comes at a time when valuations were already relatively stretched for many asset classes. Take stocks, for instance. The S&P 500 was trading at 17.3 times its expected earnings in 2021 (investors seem to have completely written-off 2020), the highest level by that forward-looking metric since 2002. That still implied that earnings would grow 27.1% in 2021, after dropping only 12.4% this year, with both forecasts probably sounding optimistic.

Those levels, naturally, were taking into account some relatively good news that came to the fore in the past few weeks, as well as unprecedented stimulus — just the European Union, Japan and the US have committed to a combined US\$10 trillion of fiscal and monetary easing.

In addition, Gilead Sciences, a US pharmaceutical company, announced last week that it was aware of positive data emerging from a study being conducted by the National Institute of Allergy and Infectious Disease on the efficacy its drug, Remdesivir, in the treatment of Covid-19. Yesterday, Bloomberg reported that the

drug had been cleared for emergency use by the US Food and Drug Administration.

A potential treatment would remove the risk that the world goes into lockdown again if there is a second round of infections after the current social distancing measures are lifted. Being sure that life will go back to normal (and stay like that) is key for investors. Hence, stocks were rallying on the prospects of a more limited probability of another lockdown and of nearly unlimited stimulus to restart the world economy.

Throwing a new trade war into the mix is the last thing that investors need, and that could easily derail the rally. Eventually, the result of the US election and the outcome of the trade war will be fully reflected in the pricing of high-yield bonds and stocks, but until that time investors who are still overweight risk may have to brace for a rough ride.

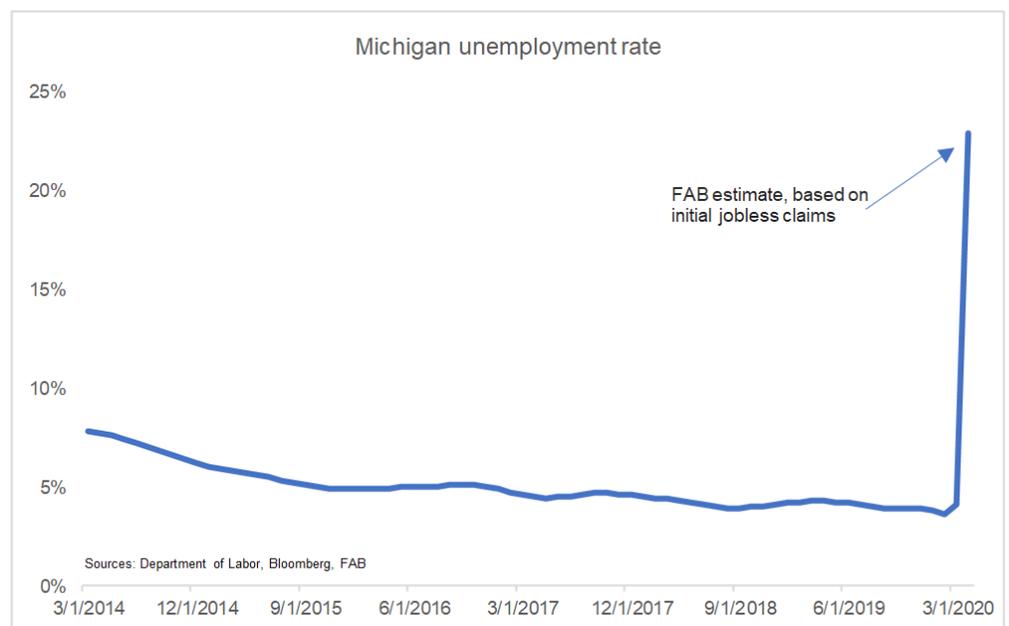
This will also be the case for investors in oil-related assets, including those in the MENA region. Crude prices recovered last

week after a record sell-off the week before, which was partly the result of technical issues related to the lack of storage. West Texas Intermediate crude rallied 16.8%, while Brent was up 23.3% in the week as investors weighed the reduction in investment from several oil majors (which translates into lower future supply), as well as the official start of an output cut agreement by the OPEC group.

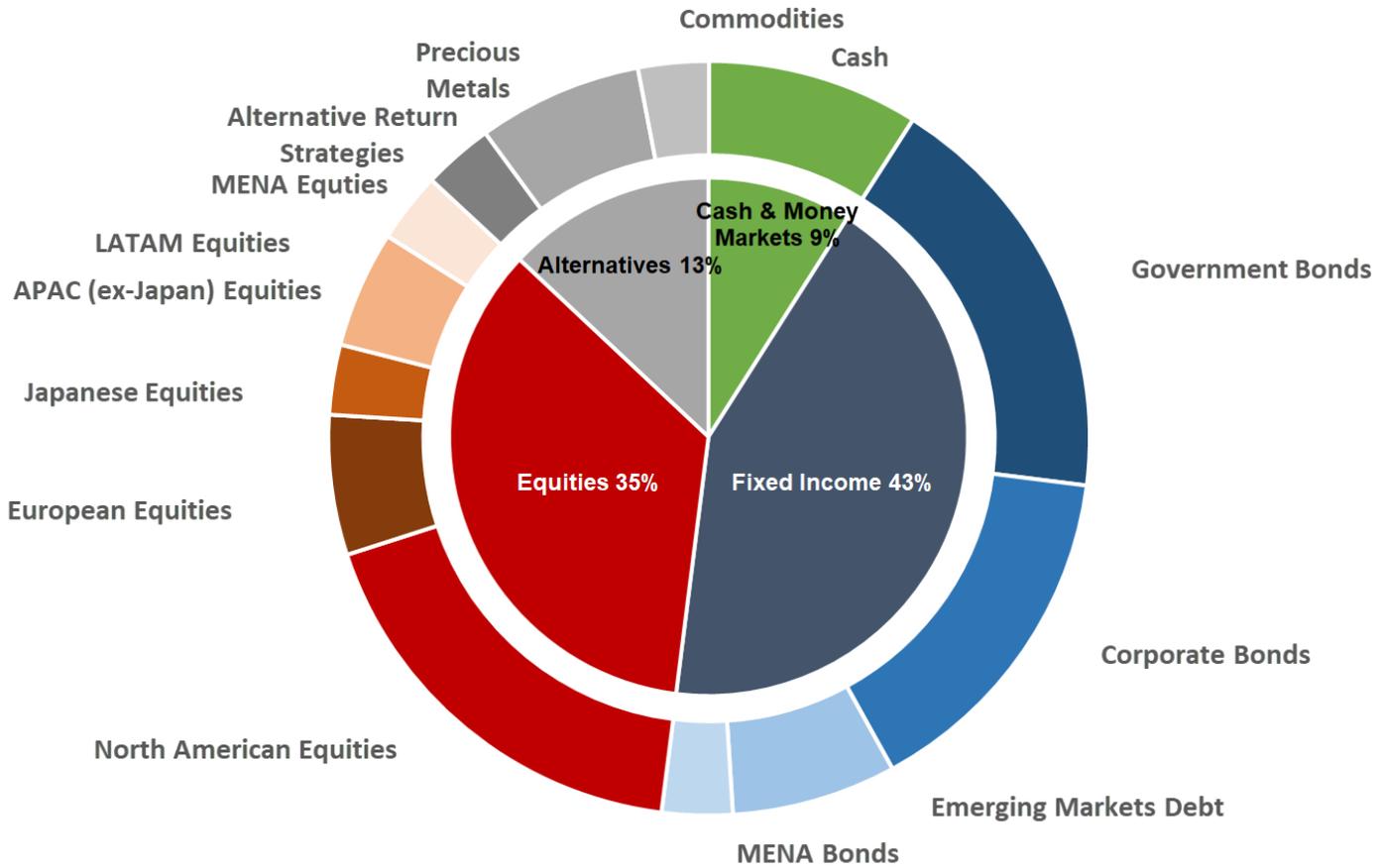
Crude oil prices could weaken once again this week, as investors start to consider what impact a new trade war and a political reversal in the US could have on oil prices. Perhaps a preview of that was being seen in the Saudi Tadawul index on Sunday, as it dropped as much as 7% at one point. The fall, however, also reflected the sovereign’s rating move into negative by Moody’s, as well as sober comments from the Saudi Finance Minister, who said the country will have to take “painful” measures to deal with low oil prices and slower global growth.

In conclusion, for various reasons the immediate outlook for risk asset prices may deteriorate. At times like these it is worth focusing on increasing the overall quality of investment portfolios, potentially preparing them for pending opportunities to make judicious selected purchases in the months to come.

The unemployment rate in Michigan, a battleground state, is likely to hit a record this week



Current Tactical Asset Allocation



Asset Class	Positioning	Detail
Cash	Overweight	After taking profits on some equity positions.
Fixed Income	Overweight	Keeping slightly overweight focused on EM dollar debt and corporate investment grade bonds
Equities	Underweight	After taking profits on part of the US and European equity exposures
Alternatives	Underweight	However, overweight on precious metals specifically

Disclaimer: This report has been prepared and issued by Products & Services - Elite & Private Banking ("P&S-EPB") of First Abu Dhabi Bank PJSC ("FAB") outlining particular services provided by P&S-EPB. This report is for general informational purposes and does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase or subscribe for, any shares in FAB or otherwise or a recommendation for a particular person to enter into any transaction or to adopt any strategy nor shall it or any part of it form the basis of or be relied on in connection with any contract therefore. Anyone proposing to rely on or use the information contained in this publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts.

This report is provided on a confidential basis for informational purposes only and is proprietary to P&S-EPB. This report may not be disclosed to any third party or used for any other purpose without the prior written consent of P&S-EPB. The manner of circulation and distribution may be restricted by law or regulation in certain countries, hence any unauthorised use or disclosure of this document is prohibited.

The information in this report reflects prevailing conditions and our views as of this date, which are accordingly subject to change. In preparing this report, we have relied upon and assumed, without independent verification, the accuracy and completeness of all the information available from public sources or which was otherwise reviewed by us. FAB PJSC makes no representation or warranty, expressed or implied, as to the accuracy, timeliness or completeness of the information in this report. FAB PJSC shall have no liability to the Customer or to third parties for the quality, accuracy, timeliness, continued availability or completeness of any data or calculations contained and/or referred to in this report nor for any special, direct, indirect, incidental or consequential loss or damage which may be sustained because of the use of the information contained and/or referred to in this report or otherwise arising in connection with the information contained and/or referred to in this report, provided that this exclusion of liability shall not exclude or limit any liability under any law or regulation applicable to FAB PJSC that may not be excluded or restricted.

Past performance is not a guarantee of future performance and should not be seen as an indication of future performance due to a variety of economic, market or other factors. The information contained in this report does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Any projections of potential risk or return are illustrative and should not be construed as limitations of the maximum possible loss or gain. Data included in this report may not take into account all potentially significant factors, such as market risk, liquidity risk and credit risk. Undue reliance should not be placed on forward looking statements in making an investment decision.

In addition, our analysis are not and do not purport to be appraisals of the assets, stock or business of the recipient and has been prepared without taking into account the objectives, financial situation or needs of particular person. Even when this presentation contains a kind of appraisal, it should be considered preliminary, suitable only for the purpose described herein and not be disclosed or otherwise used without the prior written consent of P&S-EPB. FAB clients may already hold positions in the assets subject to this report and may accordingly benefit from the buying or selling of such assets as referred to in this report. This document does not purport to set out any advice, recommendation or representation on the suitability of any investment, transaction or product (as referred to in this document or otherwise), for potential purchasers. In receiving this report, the client is fully aware that there are risks associated with investment activities. Potential purchasers should determine for themselves the relevance of the information contained in this document and the decision to purchase any investment contained herein should be based on such investigation and analysis as they themselves deem necessary. Before entering into any transaction potential purchasers should obtain the investment offering materials, which include a description of the risks, fees and expenses and ensure that they fully understand the potential risks and rewards of that transaction (including, without limitation, all financial, legal, regulatory, tax and accounting consequences of entering into the transaction and an understanding as to how the transaction will perform under changing conditions) and that they independently determine that the transaction is appropriate for them given their objectives, experience, financial and operational resources and other relevant circumstances. Potential purchasers should consider consulting with such advisers and experts as they deem necessary to assist them in making these determinations.

FAB is acting solely in the capacity of a potential arm's-length contractual counterparty and not as a financial adviser or fiduciary in any transaction unless we have otherwise expressly agreed so to act in writing. FAB does not provide any accounting, tax, regulatory or legal advice. FAB is licensed by the Central Bank of the UAE.

London: FAB London Branch is Authorized by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from FAB London branch on request. Registered in England & Wales: Company No: FC009142: VAT No: GB245 3301 91.

Paris: FAB Paris Branch is licensed by the French Prudential Control Authority as a credit institution. FAB Paris is registered in France under the company number: RCS Paris B 314 939 547.

Switzerland: This publication is for informational purposes only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. This report is for distribution only under such circumstances as may be permitted by applicable law. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness. All information and opinions as well as any prices indicated are currently as of the date of this report, and are subject to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. At any time the First Abu Dhabi Bank PJSC and/or FAB Private Bank (Suisse) SA may have a long or short position, or deal as principal or agent, in relevant securities or provide advisory or other services to the issuer of relevant securities or to a company connected with an issuer. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. Futures and options trading is considered risky. Past performance of an investment is no guarantee for its current or future performance. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. First Abu Dhabi Bank PJSC and/or FAB Private Bank (Suisse) SA expressly prohibit the distribution and transfer of this document to third parties for any reason. First Abu Dhabi Bank PJSC and/or FAB Private Bank (Suisse) SA will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document.

Singapore: First Abu Dhabi Bank P.J.S.C., Singapore Branch is regulated by the Monetary Authority of Singapore and holds a Wholesale Bank license.

For more details relating the investment products, please refer to the Prospectus and/or offering document on <https://www.bankfab.ae/en/invest>. Please contact your relationship manager for information relating to subscription, redemption, dividends, client eligibility and/or any other information relating to the investment products.