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Investors look for signs that stimulus measures will be effective

◆ **Stock markets in the US and Europe bounced on Friday but still ended in the red for the week.**

◆ **Volatility and liquidity measures start to show indications of normalization, though most of them are still far from February levels.**

◆ **Investment-grade bond issuance accelerates as companies take advantage of low rates.**

◆ **High-yield issuance also picks up as borrowers who can access the market raise cash to make it through the year.**

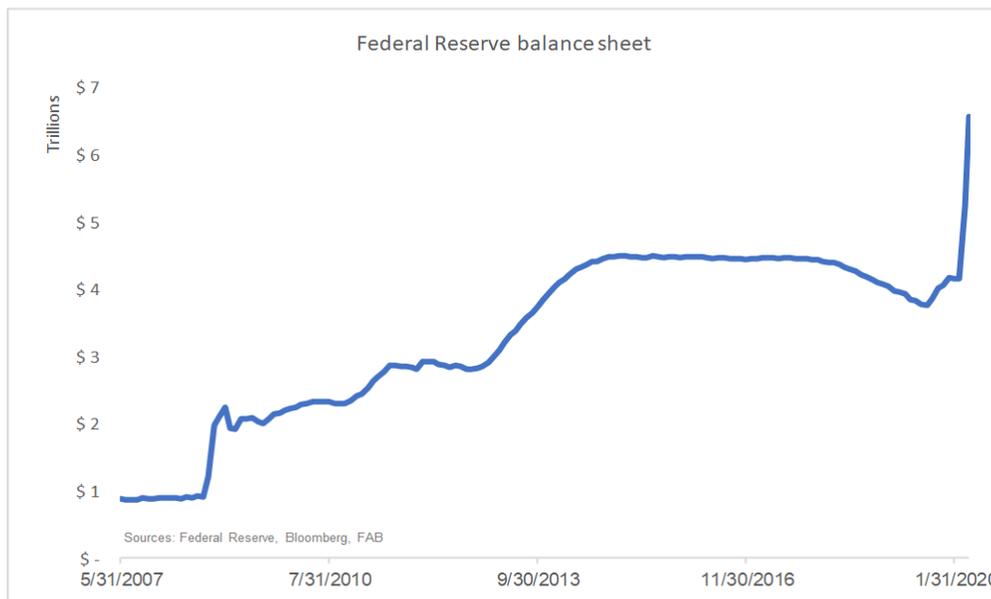
◆ **The number of Americans who filed for unemployment benefits since the start of March soars to 27 million.**

◆ **Europe nears stimulus agreement as the US approves an additional US\$484 billion package, bringing the total new fiscal spending to US\$2.9 trillion.**

◆ **The ECB expands its asset purchase program eyeing junk debt.**

◆ **FAB AAC remains underweight equities and overweight gold amid continued uncertainty in markets**

Markets wobbled last week as oil prices encountered a perfect storm, but there are increasing indications that investors are starting to look beyond this year and reassessing the underlying value of risk assets in various recovery scenarios. To be sure, the time such a recovery might take, and what the world will look like in it, are still open questions, likely to only start being answered after some of the world's largest economies begin lifting lockdowns and reopening for business.



One thing is for sure: policymakers are throwing an unprecedented amount of stimulus into the system. The US, the world's largest economy, is leading the pack in terms of fiscal spending. Last week, President Donald Trump approved a new US\$484 billion package, which included a US\$322 billion increase to the existing small business loan and grant program. With this plan, Washington DC has pledged to spend a total of US\$2.9 trillion, or about 15% of the country's recent GDP. That does not include more than US\$2.5 trillion of monetary stimulus from the Federal Reserve in the form of cheap loans and asset purchases.

Compared to the above, the amount that Europe is looking at spending appears small. Germany, the largest and richest country in the Eurozone, has agreed to spend 156 billion euros, or 4.5% of GDP. Meanwhile, France is looking at doling out 1.8% of its GDP, or 45 billion euros, while Italy has agreed to spend 20 billion euros, or 1.2% of GDP.

The Fed has already injected US\$2.5 trillion into the US economy and more is coming

The European Union was at the end of last week still bickering about exactly how to roll out a group-wide stimulus package. So far they have been able to agree on a 540 billion euro short-term plan, though there were reports of discussions regarding a package of at least four times that size. This amount equates to 2.8% of the group's GDP. Japan, by comparison, plans to spend 20% of its GDP.

The EU's difficulty in reaching an agreement came as IMF Chairwoman Christine Lagarde warned that the group of nations risked seeing its GDP shrink by as much as 15% this year without aggressive government spending to restart economic growth. The magnitude of the global slowdown will become apparent this week as the Eurozone,

Japan and the US release their preliminary GDP readings for the first quarter. The consensus forecast is for the common currency area to have shrunken by 3.3% in the first three months of the year, compared to the same period in 2019, while US GDP is thought to have fallen by 3.9% on an annualized basis.

Those numbers, however, are set to get worse, given that first quarter GDP calculations will only have included one or two weeks of lockdowns, as most countries only began to impose social distancing measures towards the end of March. Still, they will provide a yardstick for economists to try and model what the second quarter will look like. Worse-than-expected readings could prompt another wobble in the markets.

Yet a lot of bad news may already be priced into markets, at least for now. While worse-than-expected numbers can always get investors on their backfoot, there seems to be some optimism. That suggests that investors are looking beyond the current economic slump.

The risk remains, however, that a second round of infections brings the world back to a halt. In fact, the World Health Organization warned of just that this week as it said there still is no evidence that people who have contracted the Covid-19 coronavirus and recovered would not get sick from a second infection.

The announcement came as some countries began to test people for antibodies against the virus, a way to determine whether that person had already been infected and fought off Covid-19. Chile, for instance, started to hand out 'health passports' that indicate people are considered immune to the virus. Germany has floated similar plans.

In fact, Germany has already started to reopen some venues and signaled that it may even restart Bundesliga football matches next month as virus cases have fallen. Italy is expected to unveil a detailed plan for its own reopening this week.

Meanwhile, in the US, a growing number of protesters have taken to the streets to ask states to lift quarantines, helping to support the market optimism.

Again, the risk here becomes that, as people get excited about going back to normal life they ignore some necessary precautions and the number of infections and deaths from the new coronavirus increases once again. Such a development could trigger another sell-off in risk asset markets.

This explains why the FAB Asset Allocation Committee (FAB AAC), has remained cautious about equities, despite the rally since 23 March. Previous bear markets have seen strong rallies that were thwarted later, prompting a further correction and new lows. To be sure, though, such bear markets did not see the same level of stimulus applied, which is partly why investors may appear less concerned this time around.

The FAB AAC has also remained overweight in gold, despite a nearly 35%

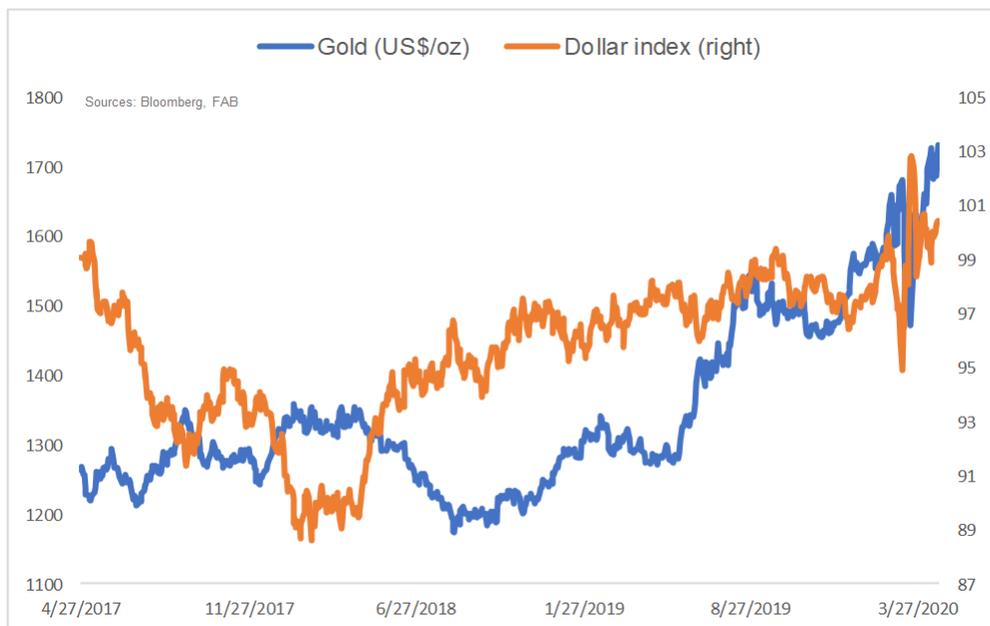
rally in its prices over the past year. Part of the reason for that is the extent of fiscal and monetary stimulus being rolled out.

All this stimulus is likely to result in even more negative or low-yielding debt, which tends to support the case for holding gold as a store of value. Inflation is likely to accelerate in emerging markets, while developed markets are more likely to face deflation for the next couple of years, and the former could drive higher demand for gold in poorer nations. Finally, retail investors continue to pile into the metal, as evidenced by inflows into gold ETFs.

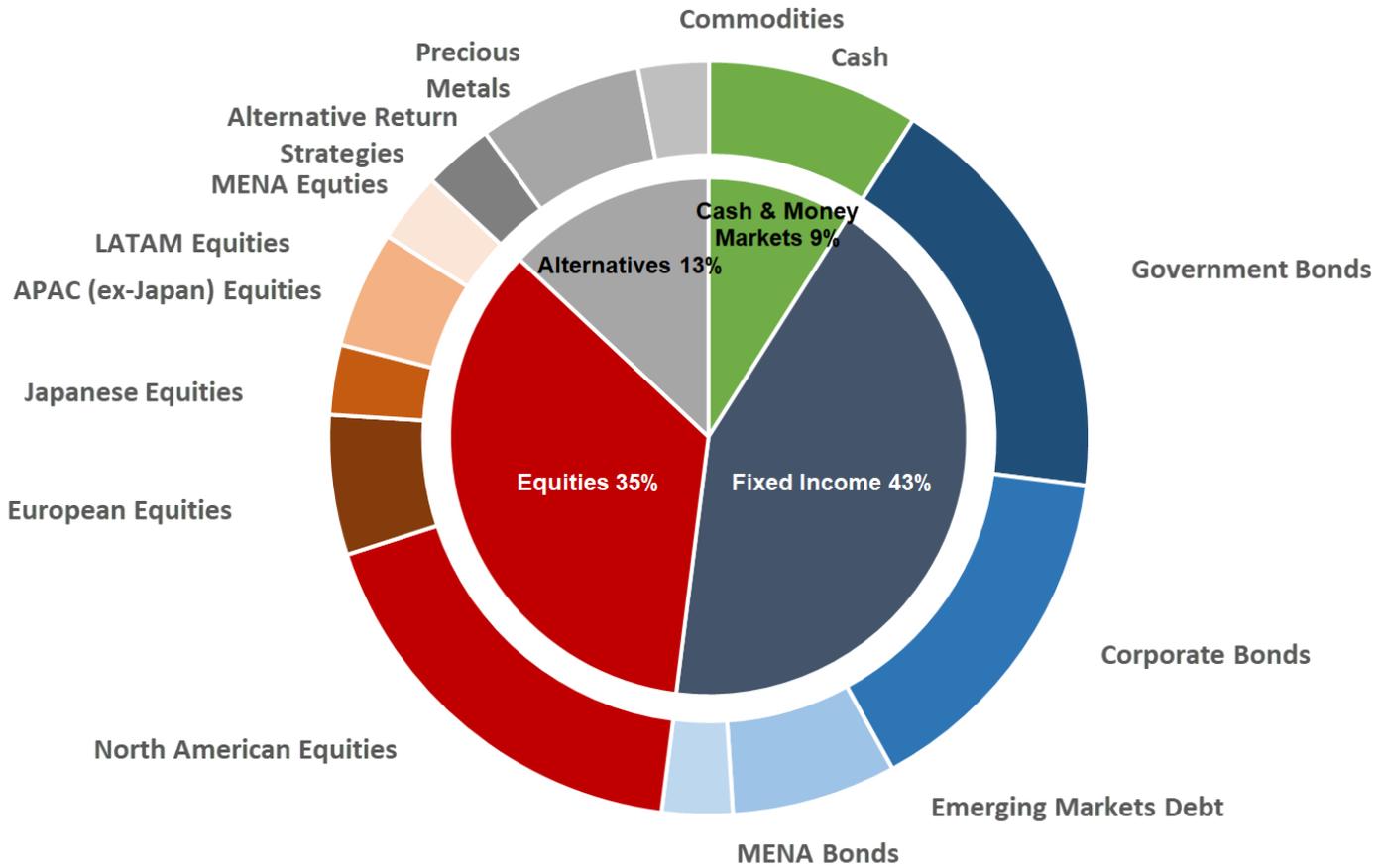
The price outlook, however, may not be a straight line. Speculative long positions in gold were last week near the highest since 2015, which themselves were near a historic high. Extreme positioning could presage increased volatility and any sudden downward move for gold could trigger a short-lived sell-off. If there is such an event, however, this should probably be viewed more as an opportunity to increase exposure, or for those who have not been involved to become so.

Gold and dollar levels normally move against each other but have been moving together

Going forward, what investors need to be reassured about, however, is whether the stimulus measures can be rolled out quickly enough and effectively to shorten what is shaping to be a deep recession.



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

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