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Assessment of the economic damage begins

◆ **US faces record unemployment as nearly 10 million people file for jobless benefits in March.**

◆ **Bankruptcies soar across the world as hotels, restaurants and other services are closed indefinitely.**

◆ **Economists start to look at the World War period for relevant comparisons of what could happen to demand and jobs in the world after the pandemic.**

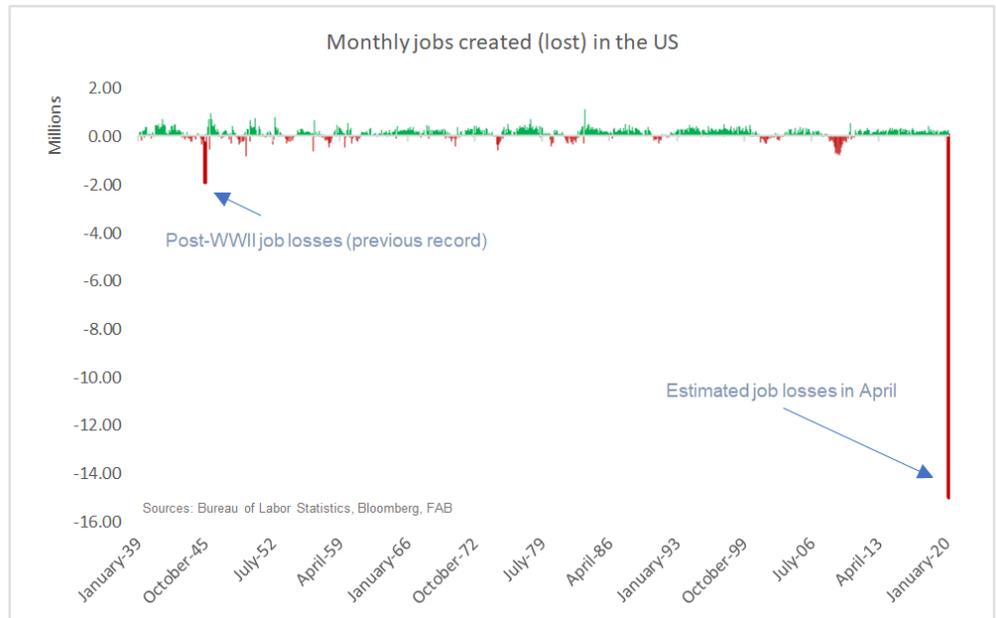
◆ **Investment-grade companies issue a record amount of bonds as credit markets reopen, though high-yield market remains shut for now.**

◆ **Covid-19 confirmed cases surpass 1.1 million across the world and more than 63,000 people have died from complications related to the disease.**

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

Economists are running out of crisis parallels to look for. Even during the Great Financial Crisis unemployment numbers in the US never got as bad they have become in just a matter of weeks. For two consecutive weeks, a record number of Americans filed for welfare benefits. On Thursday, the US Department of Labor revealed that 6.65 million Americans had claimed jobless benefits in the week ended 28 March. That was more than double the 3.3 million who had claimed such benefits the week before. Altogether, at least 11 million people in the US lost their jobs in March.

Then on Friday, the US Bureau of Labor Statistics revealed that non-farm payrolls



had shrunk by 701,000, the worst showing for the measure since 2009. The trouble is that the survey from which these numbers are generated was done before 12 March, so the bulk of the job losses will only become apparent in the April numbers, due on 8 May. Considering the initial jobless claims numbers, it is fair to predict that unemployment in the US will surpass 11%, with some economists forecasting a spike to 15%, or even more. Since the Bureau of Labor Statistics started to publish the unemployment figures in 1948 the highest unemployment ever recorded was in 1982, a 10.8% rate. The US population then was also 27% smaller, so the actual number of jobless people at that time was much lower.

The picture is dire, although not only in the US. A Swedish credit bureau revealed last week the bankruptcies among hotels and restaurants in the country had increased by 123% in the month of March compared to a year earlier. Jobless claims in Europe

The US is on track to see a record number of jobs lost in the month of April

have also skyrocketed and business and consumer confidence measures have dropped to record lows.

The current scenario appears far worse than what happened during the 2008-2009 financial crisis, and in many ways is worse than the 1929 crisis, too (although that one lasted a lot longer than this one is expected to, due to a series of policy mistakes). Perhaps the closest recent comparisons to the sudden destruction of global demand happening now are the first and second world wars. Even then, demand for military equipment and soldiers kept people employed for the years during the war. Once soldiers came back home and defense demand dropped, the economy tanked.

Fortunately, central banks and governments have acknowledged the seriousness of the situation and are facing the pandemic as they would a war. They are printing money and opening the lending spigots so that economic activity rebounds quickly once the global lockdown is lifted. Lots of money, however, may not be enough, particularly in service-based economies such as the US. Two in every three dollars of domestic production in the US comes from the services industry, the one that has been the most impacted by the global lockdown.

Many small businesses in the US do not have cash to get through more than a month with their doors closed, so the number of SME bankruptcies is likely to skyrocket. These companies are responsible for 44% of economic activity in the US, and usually generate two thirds of new jobs. Most of the small companies that close are likely to never reopen their doors. Sadly, many of the jobs lost in this crisis may take years to return.

In the meantime, oil demand data is probably providing a realistic picture of what is happening to economic activity. The US consumed 2.2 million fewer barrels/day of oil by the end of March than it did at the end of February, according to data from the Department of Energy. Overall, global demand for energy is estimated to have fallen by 20-25 million barrels/day (approximately the same in terms of a percentage change), a drop that has few historic precedents.

As said before, perhaps the postwar period in the US provides the closest roadmap of what might be expected ahead. Between 1946 and 1949 the US GDP shrank 9.5%, as hundreds of thousands of soldiers returned home to no jobs. The crisis only improved in 1950, amid government initiatives to help people find jobs and improve their living standards. Also, the Korean war boosted manufacturing and defense employment. To be sure, this time policymakers have learned from previous crises.

The longer the world remains in lockdown, the worse the crisis will be and the longer it will take to reverse it. This means the debate has started to become whether the extreme measures in place to slow down the virus spreading are worth their economic cost. The discussion can hardly be rational amid the growing number of deaths from the virus. More than 60,000 people across the world have already died from the virus (or complications due to it), according to Johns Hopkins numbers. More than 1.1 million are confirmed to have been infected.

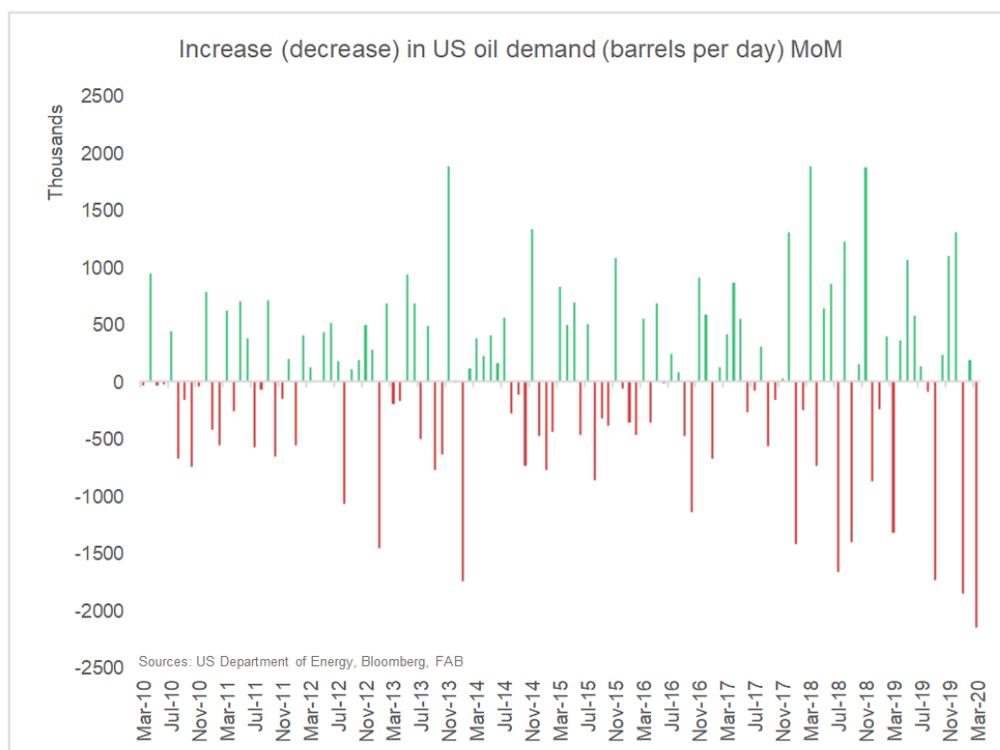
Indeed many deaths attributed to the new coronavirus have been due to so-called 'co-morbidity'. That means that the people who died were already sick in some way. Italian data shows that more than 2.9 million people die every year in the country from co-morbidity. If all the people who catch the flu and die from some other disease they already carried are counted

as flu deaths, the flu would probably be as scary as Covid-19.

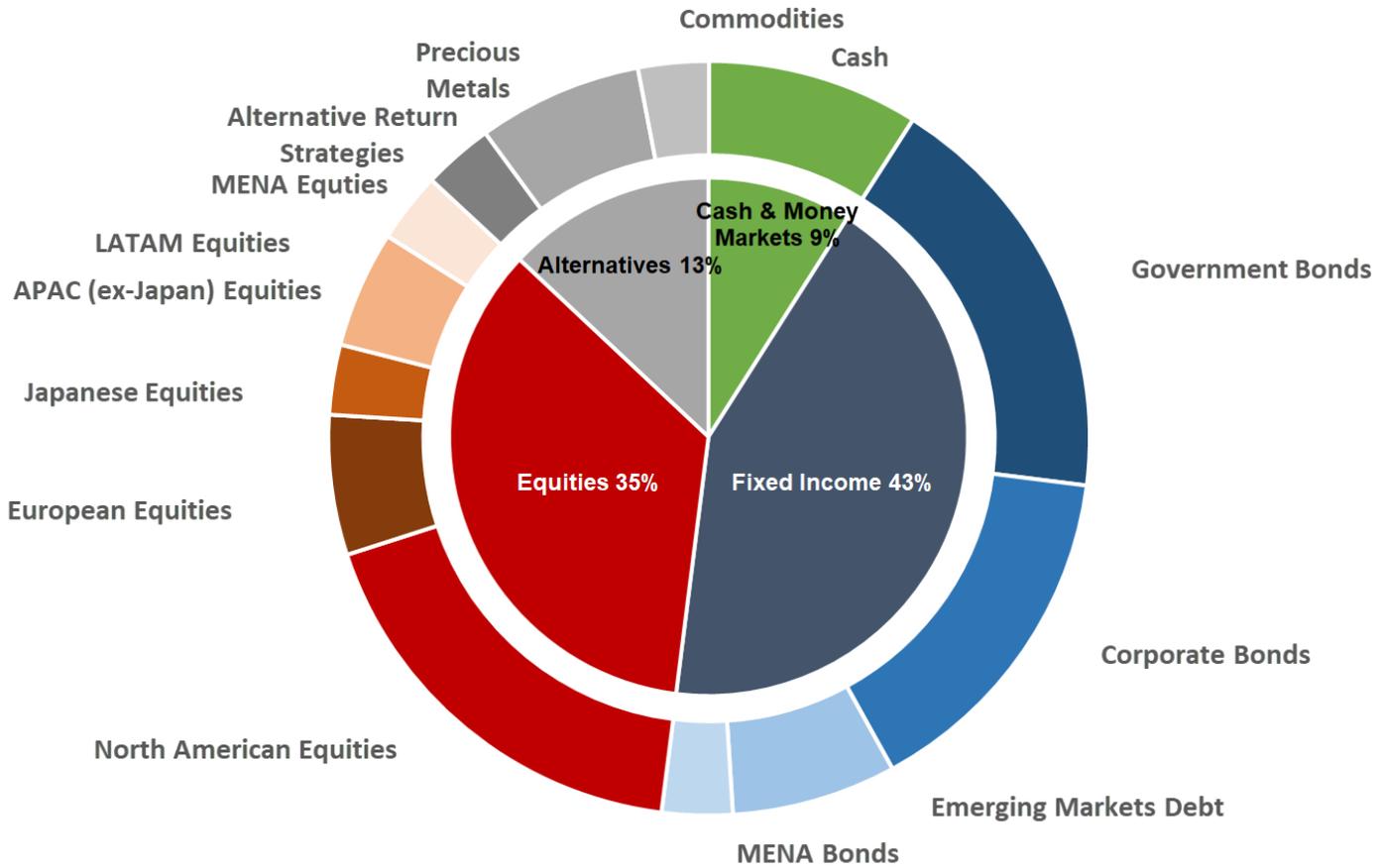
Meanwhile, an economic recession can cause a lot of deaths too. For instance, data from the Bureau of Justice in the US shows that domestic violence against women is closely related to unemployment and rose nearly 80% during the 2008-2009 recession. Also, note that a study by the London School of Economics using data from the US and the UK found that youth arrests increase by 10.4% on average in a recession. These studies looked at recessions which were not nearly as bad as the one shaping up across the globe.

Hopefully, the impact of the economic costs of the shutdown start to factor into the discussions across the world and businesses start to reopen. In the meantime, investors will continue to look for signs of a scientific breakthrough that makes ending the lockdown acceptable to all parties.

US oil demand dipped by the most since the Global Financial Crisis in March



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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