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## Markets bounce despite grim economic data as Wuhan reopens

◆ Wuhan, the Chinese city at the epicentre of the pandemic, says it will reopen its borders on 8 April.

◆ Announcement helps markets bounce as investors see potential for improvement.

◆ First economic prints reflecting the virus-driven slowdown, however, point at a grim picture.

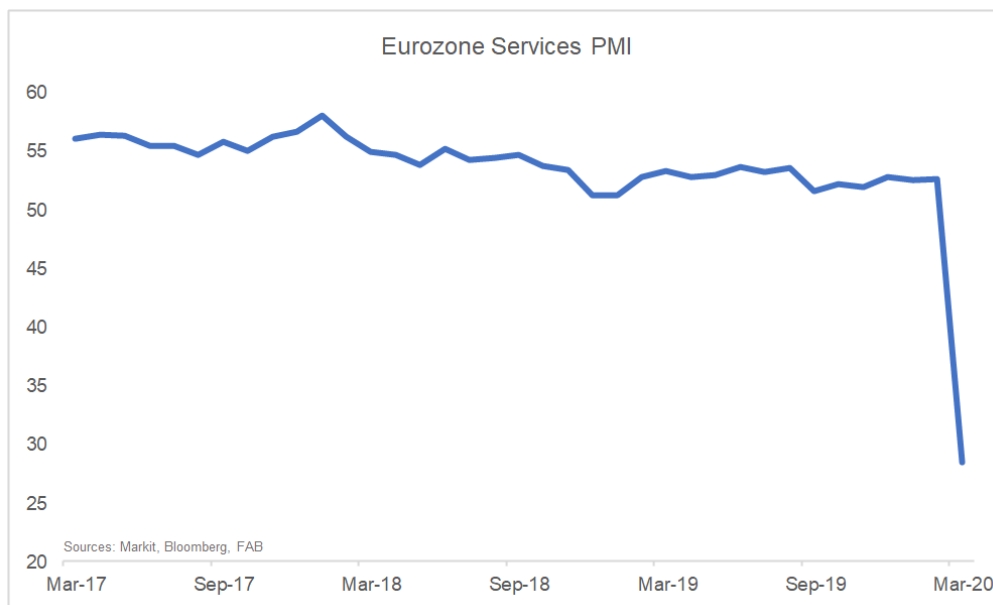
◆ Federal Reserve extreme measures fail to stem the rout as US Senate postpone approval of record fiscal stimulus package.

◆ Germany suspends commitment to balanced budget and is expected to announce additional stimulus soon.

◆ FAB AAC remains underweight in equities and overweight in gold.

While it may be too early to call a bottom to the sell-off, global investors are starting to see some green shoots. The Hong Kong Hang Seng Index rallied 4.5% amid news that the Chinese city of Wuhan, which was at the epicenter of the global coronavirus pandemic, was going to reopen its borders on 8 April, effectively ending a mass quarantine that started on 23 January.

Banks across the world have also been tapping the dollar swap lines set up by the Federal Reserve at a record pace and that liquidity wave seems to be starting to have its desired effect. Today, Japanese banks took over US\$90 billion of dollar funding through the swap line at rates of around 0.35%, compared to 2% costs in the foreign exchange markets, according to Bloomberg.



Japan also provided a glimmer of hope to bond markets as the US\$1.5 trillion Government Pension Investment Fund announced it would increase its allocation to foreign bonds to 25% from 15% of its portfolio, according to the Nikkei. The entry of the mammoth fund could provide a bid in a market that has been dogged by illiquidity, something that has helped increase the premium on the Bloomberg Barclays US Corporate High-Yield index to 1,100 basis points over US Treasuries, the highest since May 2009.

On the equities front, market activity also showed signs that there could be some respite ahead. US stock markets ended in the red yesterday after the US Senate failed to pass a record stimulus plan on partisan bickering. Despite a 2.9% drop in the S&P 500 index, the VIX ended the day lower, at 66.04. The VIX measures the implied volatility of the S&P 500, so a drop when its benchmark was also dropping suggests investors are seeing some respite in the future.

### The Eurozone PMI dropped to the lowest on record, indicating a recession ahead

The move lower in the VIX had continued in Asian and European trading hours, which bodes well for markets today. Indeed, the S&P 500 futures were also up by the limit at the time of writing. If the US Congress reaches an agreement on the spending bill, the optimism could increase. Signs that the US will relax curbs on its lockdown could also help, and yesterday President Donald Trump said that he plans to do just that in the next week or so, arguing that the economic pain the lockdown is causing will be larger than that of the new coronavirus spreading.

Still, until the VIX trades below 30 for a sustained period, it would be perilous to add risk to portfolios. In such volatile times, the best thing to do is stay quiet.

# Investment Strategy Update

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