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## Record bounce on stimulus hopes gets undone by data

◆ The Dow Jones Industrial Average rose 11.4% on Tuesday, its biggest one-day gain since 1933.

◆ Shares in Asia posted their best day since 2008, following the action from the US.

◆ S&P 500 futures, however, turned negative before Wall Street opened, suggesting the move could have been a bear market rally.

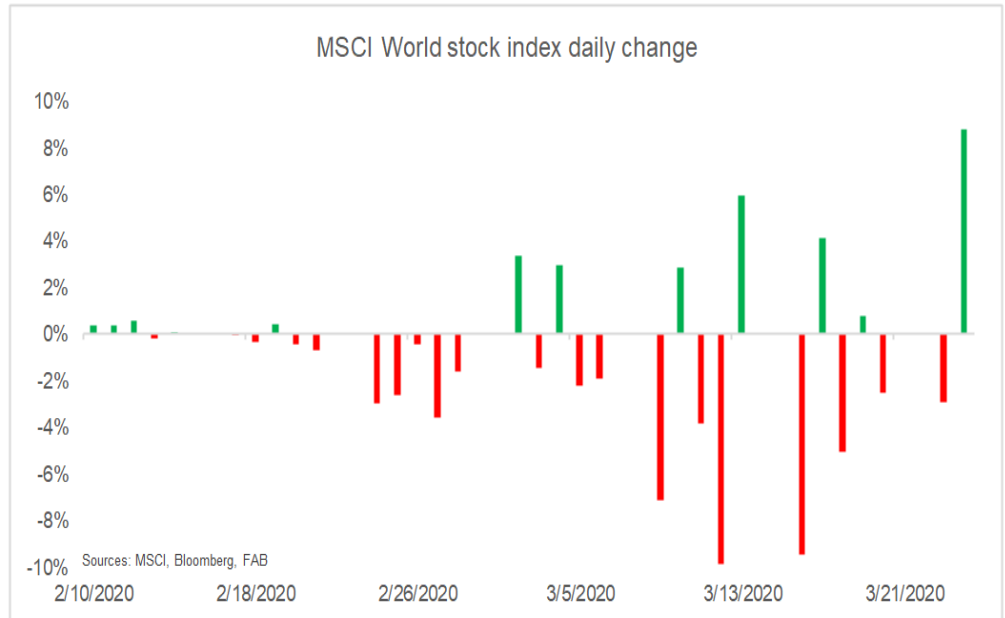
◆ Investors were still waiting for the US Congress to approve a record stimulus package to avoid a deeper recession in the US.

◆ US PMI and Germany's Business Expectations plunge, underscoring the impact of the virus-driven lockdowns on the global economy.

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

Stocks saw a record day on Tuesday, prompting many to consider whether the time has come to start adding risk to portfolios. However, an 11.4% one-day rally in the Dow Jones Industrial Average, its largest daily move since 1933, is, perhaps, reason to remain cautious.

Such a strong sudden move is more indicative of position-squaring than widespread buying. In fact, until stocks start to return to their historically normal pattern, it may be risky to add too much risk to portfolios as there may be more downside. For reference, in the five years ended 31 January, the median daily move in the S&P 500 was 0.5%, whereas since the start of March, the median is 2.8%, and 3.6% in the past 10 sessions.



In simple terms, as long as global stocks are moving by high single digits a day, whether up or down, it is probably safer to remain as a bystander. Especially because the buying in the market yesterday had many hallmarks of short-covering and of quarter-end buying.

For instance, volume was relatively low, unlike what was seen on Friday's 4.3% sell-off, when the largest number of stocks changed hands in nearly two years. Large volumes in sell-offs and low liquidity in rallies are usually a sign that there could be more pain ahead. Some buying yesterday may also have been prompted by funds starting to add some risk before they close their first quarter numbers, the so-called 'window dressing'. Still, there are signs that some of the liquidation selling is reaching its end.

Unfortunately, the economic data is not encouraging and delays to a US stimulus package only add to the uncertainty.

### World stocks are still seeing some of the most extreme swings in nearly 100 years

In the past 24 hours survey data from Germany and the US, two of the world's biggest economies showed the same dismal picture. The March services Purchasing Managers Index (PMI) in the US came at 39.1, its worst print on record. The country's composite PMI was at 40.5. A level below 50 indicates economic contraction and these numbers suggest the US economy could already be retreating to the tune of 5%. The IFO German Business Expectations index similarly fell to 79.7, near the 79.2 low hit in December 2008. These numbers are unlikely to improve in April.

As the impact of the global lockdown is felt, markets could remain choppy and it may be safest to watch from afar for now.

## Investment Strategy Update

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