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Markets brace for record US unemployment numbers

◆ Futures point to a lower open even after US Senate sends US\$2 trillion stimulus package to House vote.

◆ Economists are forecasting a record spike in jobless claims, which are one-week delayed.

◆ Pension fund rebalancing, short-covering and quarter-end buying, however, are still giving some support to stock markets.

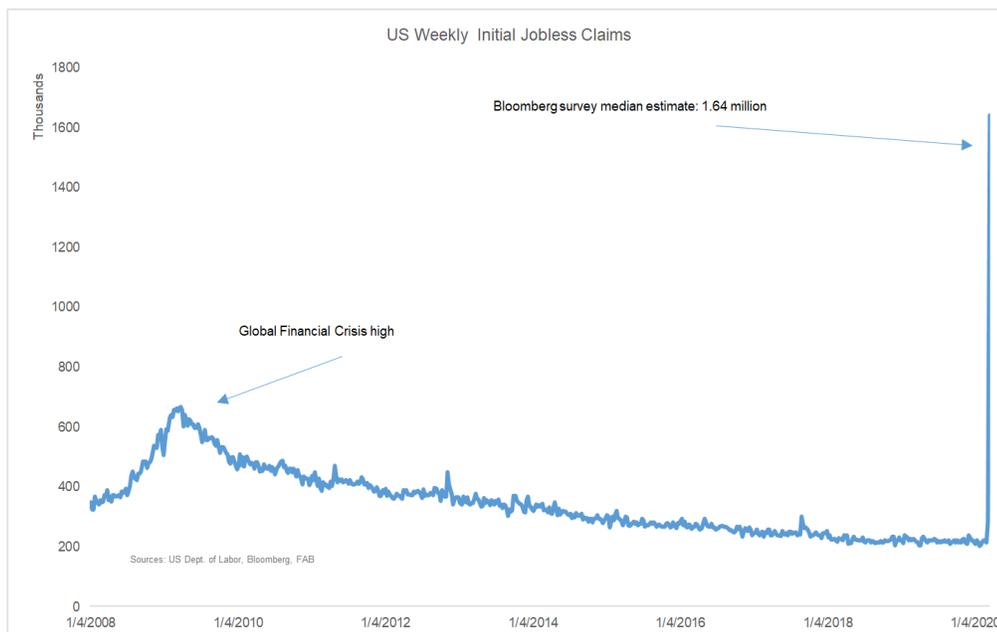
◆ European Union mulls 'Corona bonds' to boost stimulus spending in the region as death toll rises and economy tanks.

◆ US credit spreads retreat as Federal Reserve asset buying program starts to correct liquidity issues, but Libor-OIS difference keeps rising, suggesting continued stress in global dollar funding markets.

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

The US is about to show the world the impact of closing down a services-based economy, and that snapshot will be a week old. The median estimate of economists surveyed by Bloomberg points at initial jobless claims having risen by 1.6 million in the week ended 20 March, which would be the highest on record.

The most bearish of the economists in the Bloomberg survey expects 4.4 million people to have filed for welfare that week. The state of California alone has already reported more than 1 million filings and the highest national number ever printed was 695,000, in October 1968. So it will be a record, no matter which economist is right.



The realization of the magnitude of the pain the lockdown is causing is likely to give markets a reason to pause the rally started two days ago. There still may be some strength in coming days, however, with Goldman Sachs estimating that pension funds have to buy some US\$167 billion in equities to rebalance their portfolios in the coming days. That could be strengthened by some quarter-end buying, but overall most fund managers seem to be keen to conserve cash to meet redemptions and, in the case of hedge funds, margin calls.

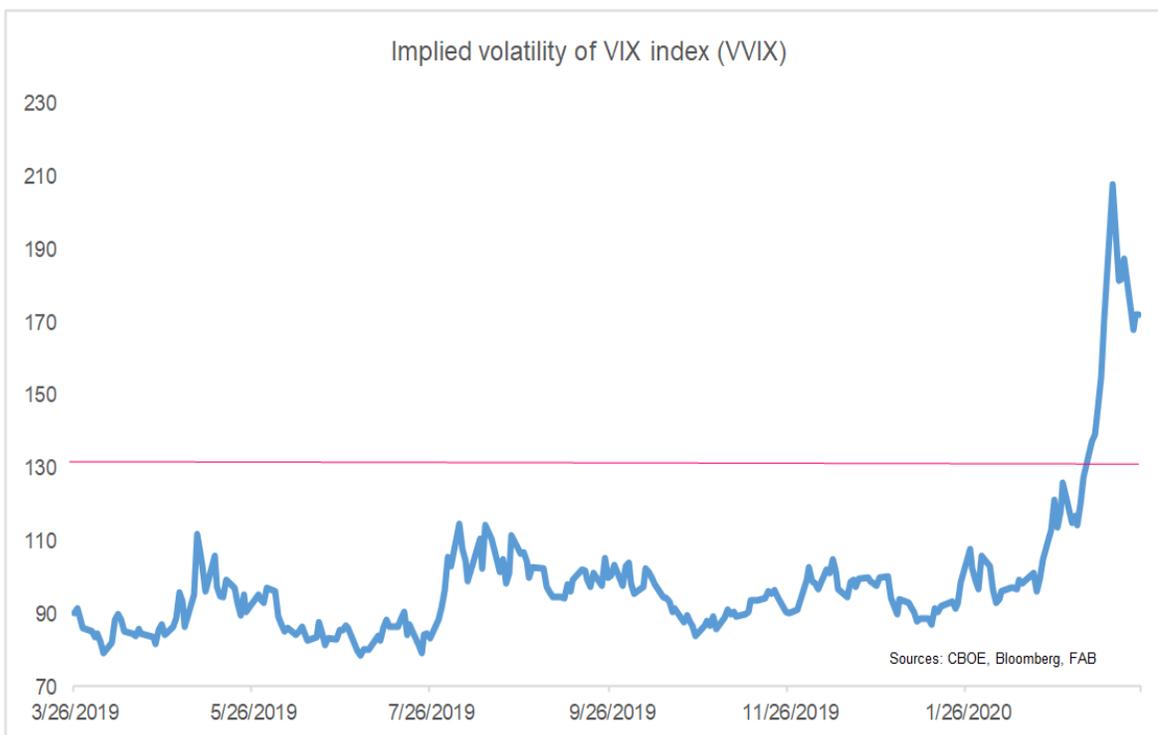
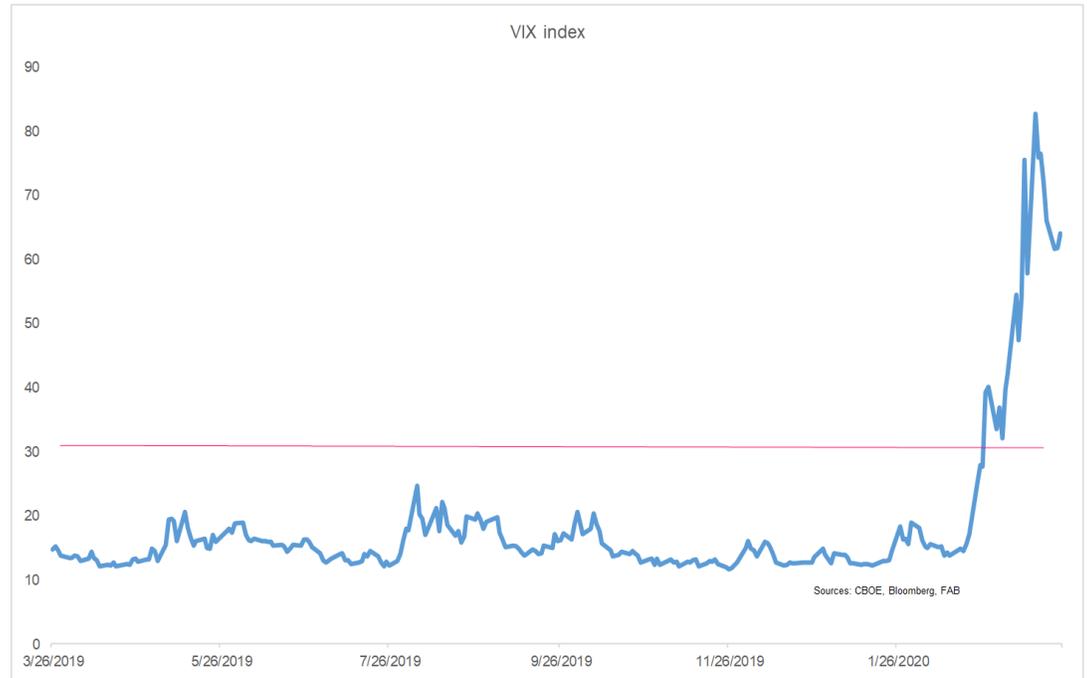
As investors try to see the bottom, one of the measures to watch is the difference between Libor and the overnight indexed swaps (OIS). Both are bank funding cost measures, but the OIS is perceived as having lower costs since one of the parts of the swap is normally the Fed Funds rate. These two gauges normally trade at similar levels but tend to detach in times of funding stress.

The US initial jobless claims numbers today are expected to be the highest in history

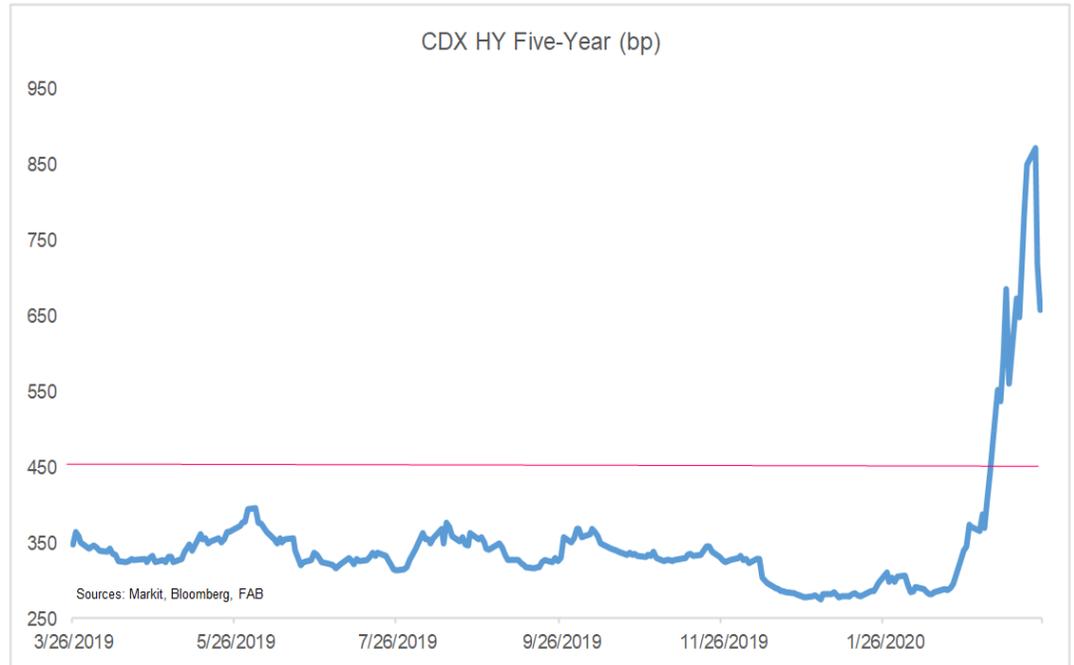
That is exactly what is happening, with the spread between Libor and OIS now at 112 basis points, the widest it has been since 2009. Perhaps more important, the recent stock rally did nothing to stop the ascent of that spread, which had started the week at 97 basis points. The continued stress in funding markets is a sign that the pain in stock and bond markets is not yet over.

To be sure, the recent rally did help some markets and the spread on the Bloomberg US High Yield index dropped 75 basis points this week to 1,025 basis points. Yet, even with this and other asset classes looking very cheap compared to recent history, the potential economic pain ahead suggests investors looking to enter the market may want to wait a bit longer.

Indicators to watch - Stocks



Indicators to watch - Credit



Investment Strategy Update

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