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31 March, 2020

Markets rally amid better news from China and Europe

◆ Chinese manufacturing PMI bounces and signals expansion, suggesting the country is getting back to work.

◆ World Health Organization says that Europe is showing signs of stabilizing as the rate of growth of new Covid-19 cases in the Old Continent slows.

◆ Oil prices bounce despite reports that Saudi Arabia had cut prices further for Asian sales.

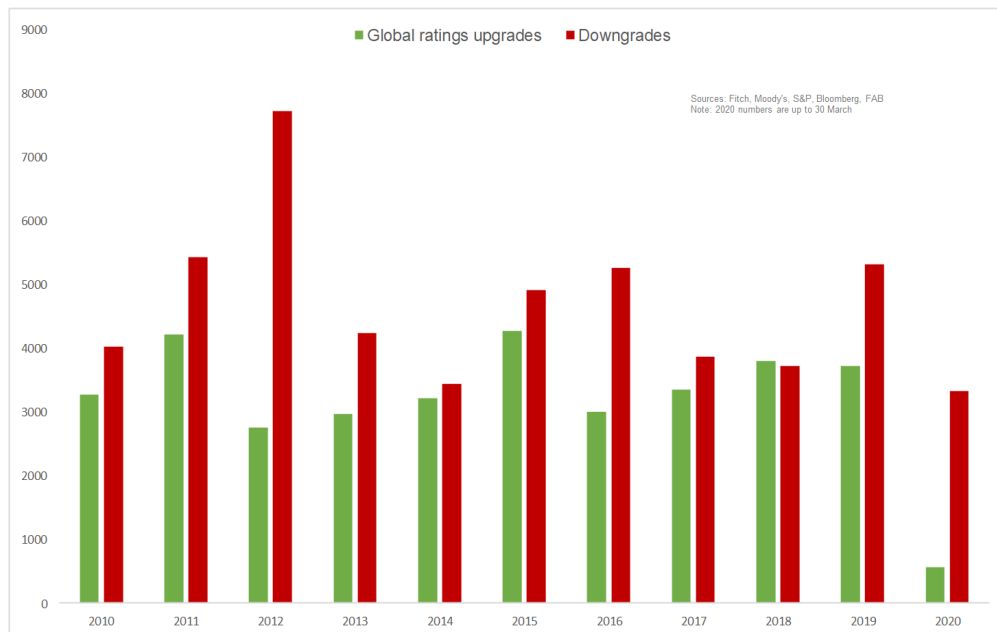
◆ Bonds rally along with stocks, while gold drops marginally suggesting risk-on sentiment as the quarter comes to an end.

◆ VIX and credit spreads, however, remains elevated, indicating it may be early to call a bottom to the market.

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

As a painful quarter comes to an end, investors seem to be grasping at every indication that things are getting better. Markets in Asia and Europe rallied today after China reported a better than expected manufacturing PMI, a survey of purchasing managers that gauges activity in the sector. The index came at 52, far better than the 44.8 that economists had forecast. A number above 50 also signals growth, suggesting the worst may be behind for China, which depends on its factories for about three quarters of GDP.

At the same time the World Health Organization said today that the coronavirus outbreak in Europe is showing signs of stabilizing. Yesterday, Italy, for instance, reported the lowest number of new cases in two weeks.



The US market had already gained yesterday amid news that a pharmaceutical company had gotten clearance to start distributing a five-minute Covid-19 test starting tomorrow and that at least one medication was nearly approved to combat the virus' symptoms.

Signs of a technical sell-off also faded, with some of the companies which had suffered the most severe selling pressure a couple of weeks ago outperforming. The Nasdaq index, of mostly technology stocks, gained 3.6% compared to 3.4% for the S&P 500 yesterday as investors seemed to take back some of the stock they had been forced to sell earlier.

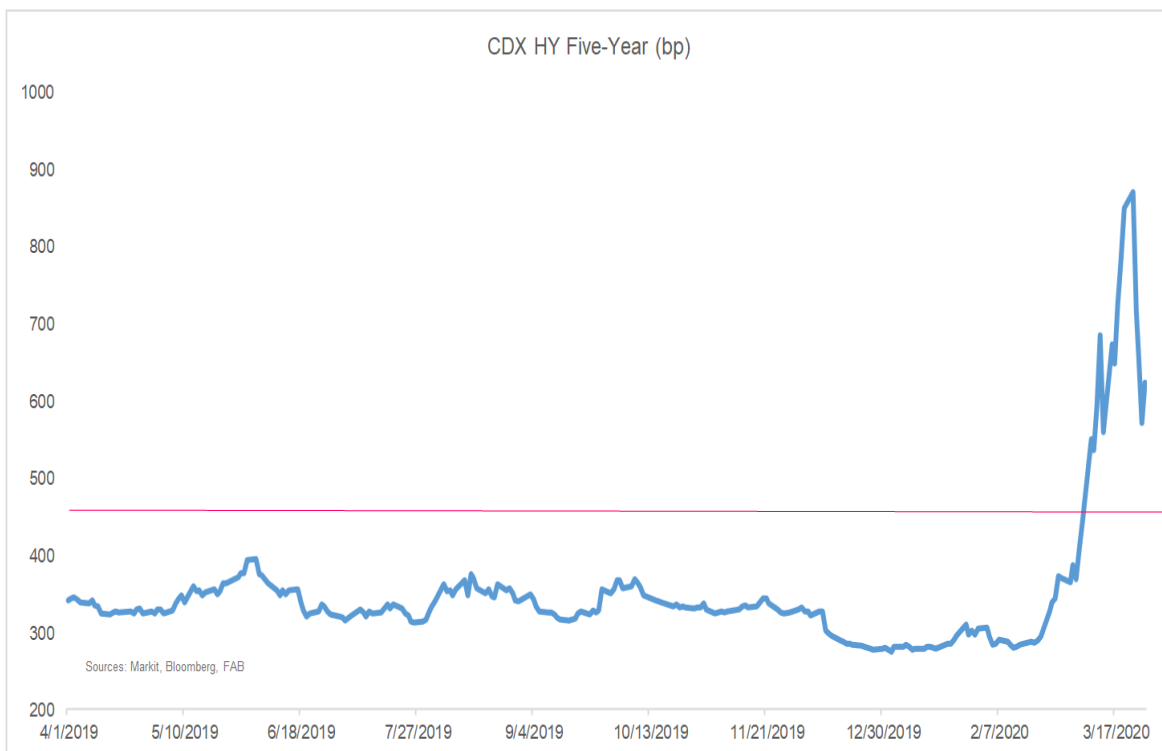
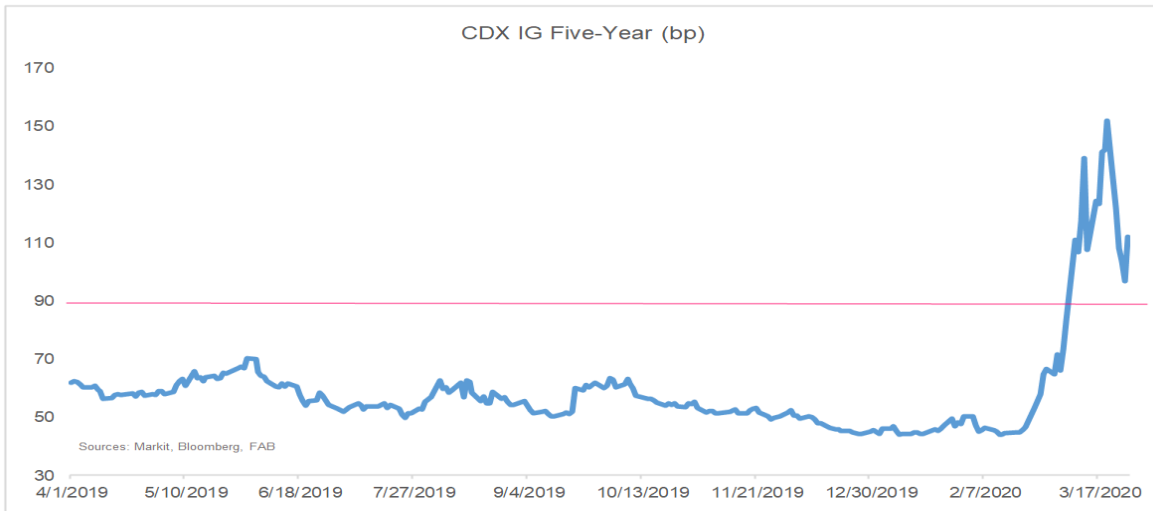
However, it may be too early to call a bottom. While the sell-off has arguably priced in much of the bad news ahead, analysts still need to fully factor in the slower global growth in earnings forecasts. Ratings downgrades are accelerating too. Fitch Ratings, Moody's Investors Service,

Rating agencies have made six times more downgrades than upgrades in 2020

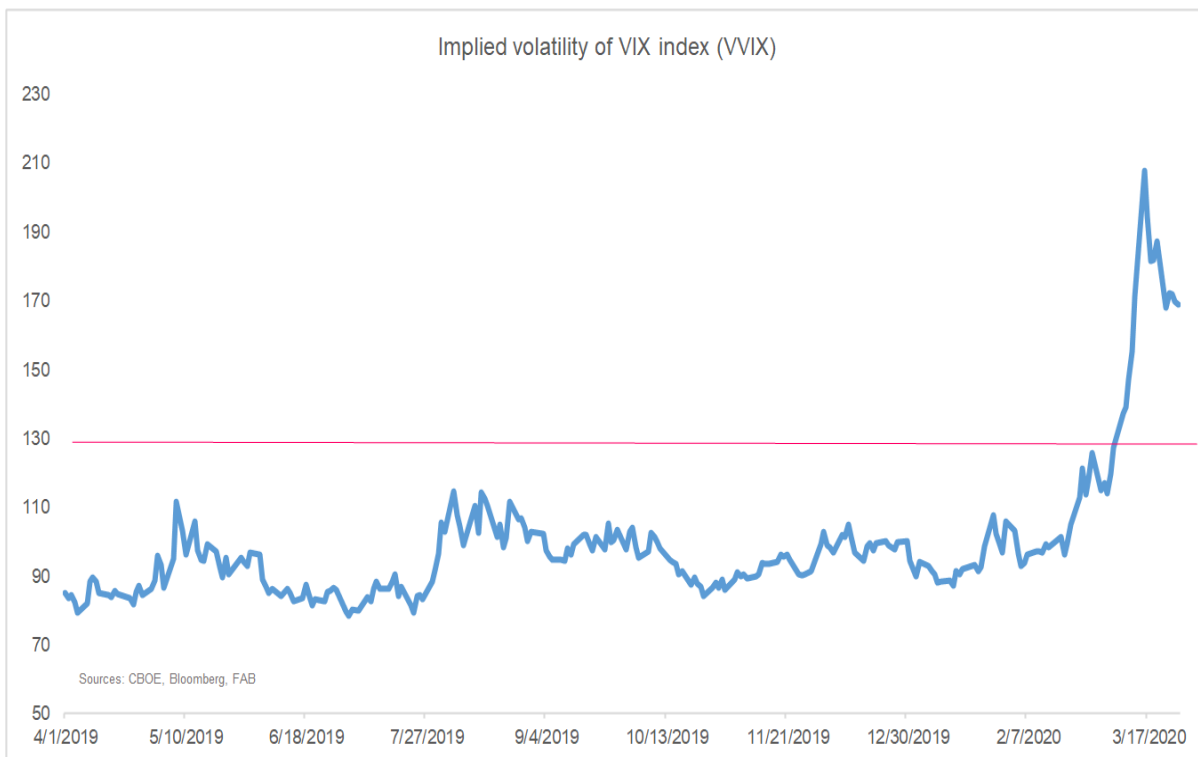
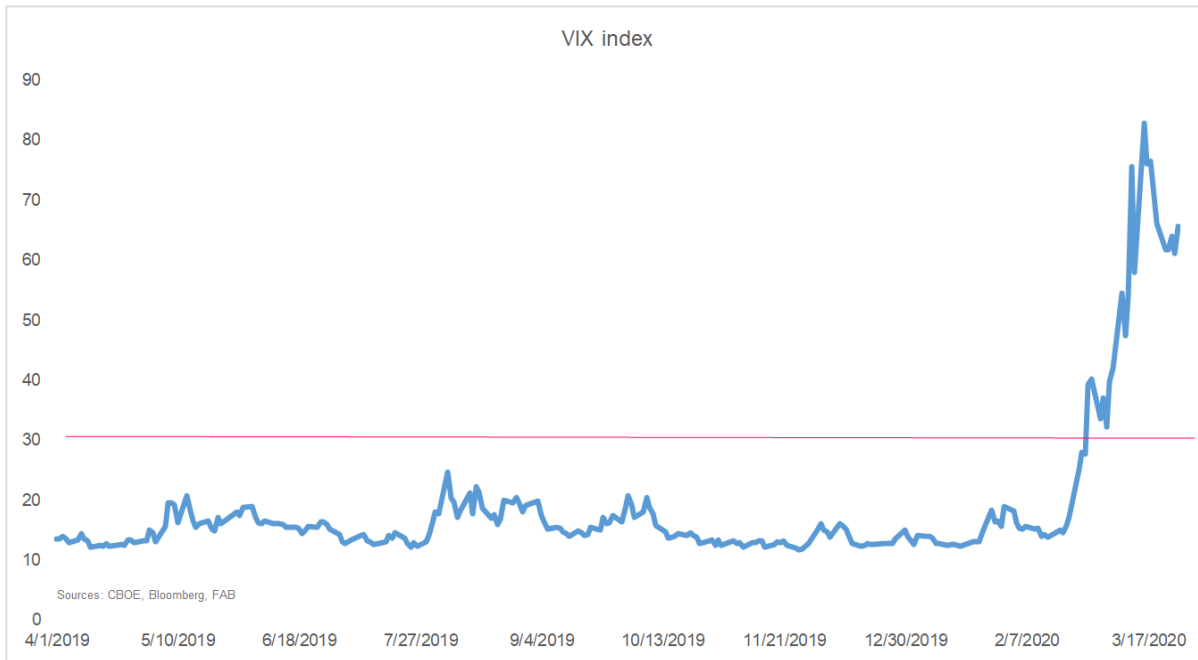
and S&P Global Ratings have effected 3,329 downgrades of corporate issuers so far this year and only 566 upgrades. The ratio is the worst since the 2008 financial crisis and suggests that there may be plenty of pain ahead for many of these companies, which will now face higher costs of borrowing.

Furthermore, some of the buying activity could be the result of quarter-end rebalancing as pension funds add stocks that have become cheap by their standards. Hence, it may be safer to wait to see the VIX trading below 30 for a few days before investors can be confident that the recent rally was not just a bear market bounce, something that can be quite strong but short-lived too.

Indicators to watch - Credit



Indicators to watch - Stocks



Investment Strategy Update

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