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## Stocks rejoice on news of dwindling virus in some places

◆ France reports fewest deaths in five days and Spain sees third consecutive day of falling number of dead.

◆ New York virus-related fatalities fall for the first time.

◆ UAE announces measures to help banks cope with global recession and to keep lending.

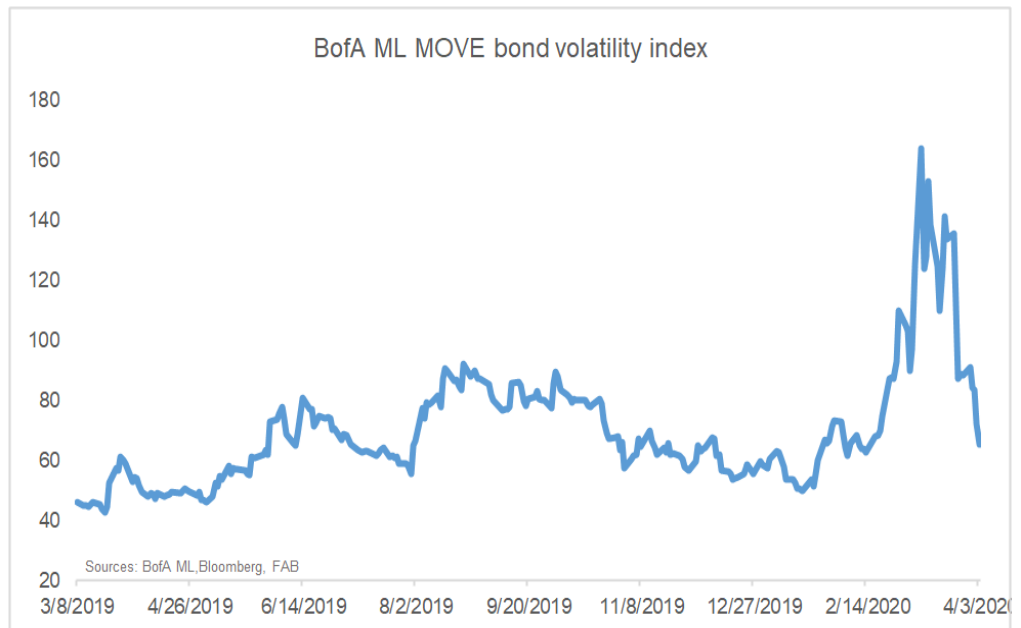
◆ Oil prices fluctuate as OPEC+ meeting is delayed to Thursday amid calls for the US to also start cutting.

◆ Bond volatility returns to February levels as Fed policies start to have their desired effect.

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

European markets and US equity futures were moving higher today as investors began to see the prospect of an end to the current shutdown in Europe and the US. A loosening of movement restriction could limit the recession in which the western world is plunging. Markets seem to have started discounting that probability.

Indeed, there are signs that much of the forced selling that drove some of the extreme moves in March is nearing its end. Trading volume has been dropping in the US stock markets and yet price swings have been less extreme. The VIX, the S&P 500 implied volatility index, has also retreated to around 45.00 from a high of 82.69 on 16 March. Finally, the ICE Bank of America Merrill Lynch MOVE bond volatility index has come down to 65, a level it had not seen since the second week of February, from the recent high of 165 on 9 March.



At least the MOVE index retreat has been driven by the Federal Reserve's intervention in markets. The index began to retreat as the central bank expanded its asset purchase program to include investment grade corporate bonds. That reduced volatility and higher demand for certain debt have also reduced yield premiums overall, with the spread on the benchmark five-year CDX US High-Yield index now at about 774 basis points, down from a high of 871 basis points reached on 23 March.

The good news in the market, however, may not reflect the economic data. Investors are likely to have negative surprises in the US consumer confidence numbers this week. The GfK's UK consumer confidence index already dropped to -34 in March. Perhaps worse was the Markit construction surveys, with the UK falling to 39.3 and Germany to 42, way below the 50 which signals a contraction in the sector.

### Bond market volatility has retreated to where it was before the virus outbreak

Still, central bank initiatives are already helping to mitigate the impact of the economic recession. These institutions continued to expand their stimulus measures, with the Bank of Japan increasing its buying of longer term bonds.

The UAE Central Bank also joined that chorus as it relaxed non-performing loan recognition rules and capital as well as reserve requirements for local lenders. The moves are likely to increase equity and liquidity buffers for local banks, freeing up their capacity to lend and to help the country navigate the global storm. The move expanded on a similar relaxation of capital requirements by the Federal Reserve last week. In times like these, it makes sense to loosen the grip on banks.

## Investment Strategy Update

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