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Focus shifts to earnings as economic data worsens

◆ **First quarter earnings reports will start to be published this week in the US and Europe, with banks leading the first round of numbers.**

◆ **Investors will be able to reassess dividend and earnings growth outlook after these reports.**

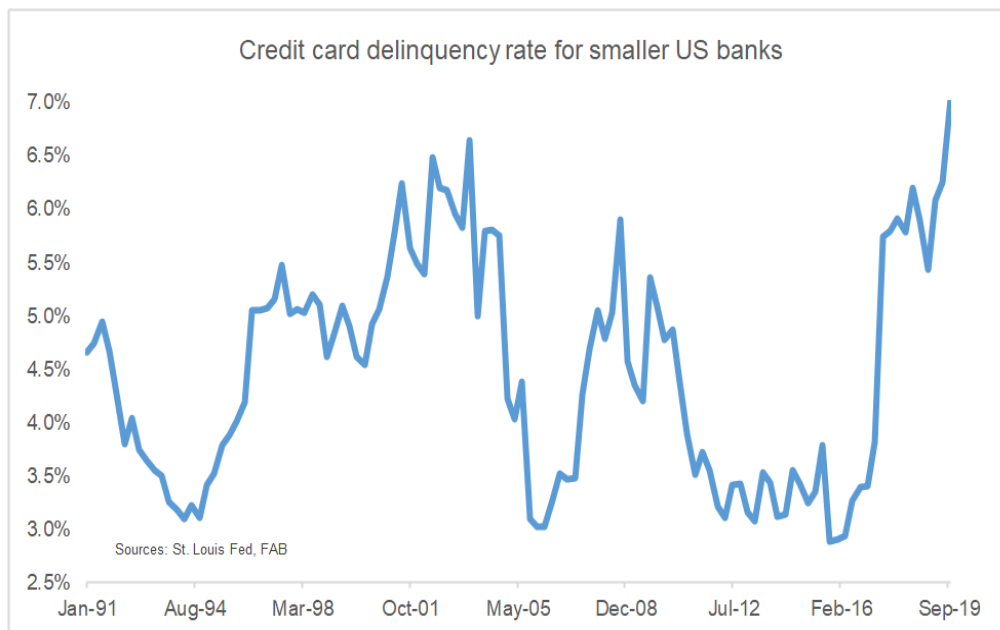
◆ **China expected to report its first quarter GDP on Thursday with worst growth in the country's contemporary history expected.**

◆ **US Congress may move ahead with more stimulus this week as it stares at record unemployment.**

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

Stock markets started the week on the back foot as investors brace for the impact of first quarter earnings reports in the US and Europe. Nearly 500 companies are set to report their first quarter results this week in the United States alone. While most are smaller corporations, several members of the S&P 500 will also reveal how bad they have been hit by the coronavirus shutdowns.

The key ones to watch are banks, with some of the largest in America set to report this week. Investors will pay close attention to impairments, delinquencies, provisions and loan payment delays as gauges of how badly consumers have been impacted by business closures, furloughs and layoffs. While the biggest lenders will give a snapshot of main street, it is worth looking carefully at the smaller banks, which had already seen credit card delinquencies rise to the highest in 20 years in the fourth quarter of 2019.



At least one major airline is also set to report its numbers this week which will also provide a sense of the impact of grounding most flights across the world. The numbers are also likely to be accompanied by dividend and earnings forecast cuts, which could prompt a repricing of the stock markets.

Stock investors have been trading the narrow path between the expected impact of record stimulus across the world and the severe recession shaping up as a result of the shutdown imposed to nearly a third of the world population. While the S&P 500 had one of its best weeks in history before the long weekend in the US, this week could test the resolve of those trying to call a bottom to the market.

At least the bond market hardly seems convinced that an economic turnaround is near, with haven securities rallying on Thursday and virtually unchanged today, as most European markets are closed.

Credit card delinquency at small US banks was already at the highest in 20 years in Q4

More fiscal and monetary stimulus could counteract some of the expected negative news from earnings reports. The US Congress is debating a second stimulus package of up to US\$1 trillion just two weeks after President Donald Trump signed a US\$2.2 trillion program to help support the economy as unemployment rises to a contemporary record.

Potential positive news on that front may be hampered by the first quarter GDP numbers from China, expected on Thursday. Economists surveyed by Bloomberg expect the world's second largest economy to report it shrank by 11.2% compared to the fourth quarter, a number that would be the country's worst since World War II.

Investment Strategy Update

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