Investment Strategy Update

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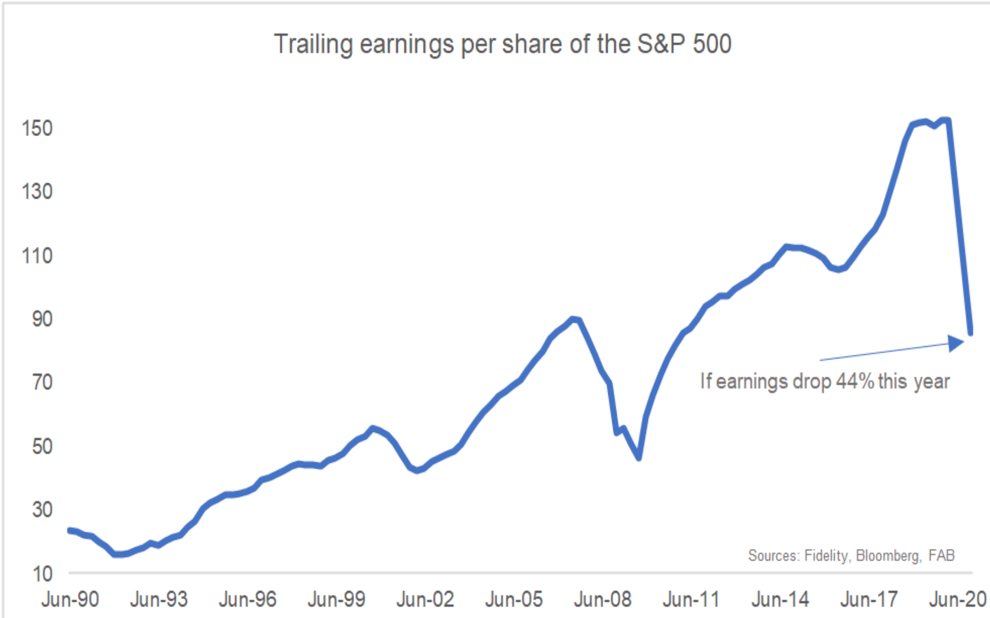
Investors find hope in China as earnings season begins



♦ Chinese exports fell less than expected as late closures in the western world kept orders coming for most of March.

♦ Chinese lenders have lent US$732 billion in March, the highest monthly amount since 2017, indicating monetary stimulus is working.

♦ Earnings season in the US and Europe kicks off with one survey showing an up to 44% slash in profits this year.

♦ Investors are also starting to question President Donald Trump's reelection as coronavirus deaths rise in battleground states.

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

Stock markets were rallying on Tuesday as investors saw signs that the heavy stimulus being thrown into the global economy to counter the impact of the coronavirus lockdowns could work. The indications came from China, were March numbers for exports and new loans provided a glimmer of hope.

Beijing revealed on Tuesday that Chinese exports declined 6.6% in March compared to a year earlier, far better than the median forecast of a 13.9% decline. The data came just days after the People's Bank of China showed that banks had extended loans equivalent to 5.1 trillion yuan (US$732 billion) in March, the highest monthly figure since 2017. Travel data from Wuhan was also outpacing previous annual averages, suggesting pent-up demand that could come back pretty quickly once the lockdown is lifted.

Unfortunately, in the west the news was not as good. French officials said they were extending the lockdown and the country's Finance Minister, Bruno Le Maire said he expects the country's economy to contract 8% this year.

In the US, the virus was showing signs of declining in some hotspots such as New York, but the pandemic was accelerating in battleground states, which are key for President Donald Trump's reelection bid.

Michigan, which Mr. Trump won in 2016 by only 10,704 votes, ranks third in the number of coronavirus deaths, with 1,479 fatalities. Pennsylvania, which President Trump also won narrowly, is number four in fatalities, led in the number of people filing for unemployment claims last week. Even though Senator Joe Biden, a moderate, is likely to run against President Trump, markets probably have not priced in the possibility of a Democratic president starting next year.

If analysts in a recent survey are right, the S&P 500 could be due for a pullback

Markets are also yet to fully price in the drop in earnings that the global recession is likely to cause. A recent fund manager survey with more than 150 stock analysts suggested the median expectation is for an up to 44% drop in profits this year. That is yet to be reflected in consensus numbers, as the median forecast is for earnings per share in the S&P 500 to fall 4%, according to Bloomberg.

If earnings do indeed drop by 44%, fair value for the S&P 500 assuming it trades at 19 times expected profits would be 1,623, or 41% below Monday's closing level. Until investors know how much pain is ahead, it is hard to say whether stocks are offering a good entry point or not. Hence, patience is the keyword now.

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