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Rally takes a breather even as news flow improves

◆ **Stock futures point at a weaker open in the US after negative day for European and Asian stocks.**

◆ **Investors worry about low oil prices as WTI trades below US\$20/barrel for the first time since 2002.**

◆ **Banks set aside billions of dollars to prepare for a potential spike in defaults.**

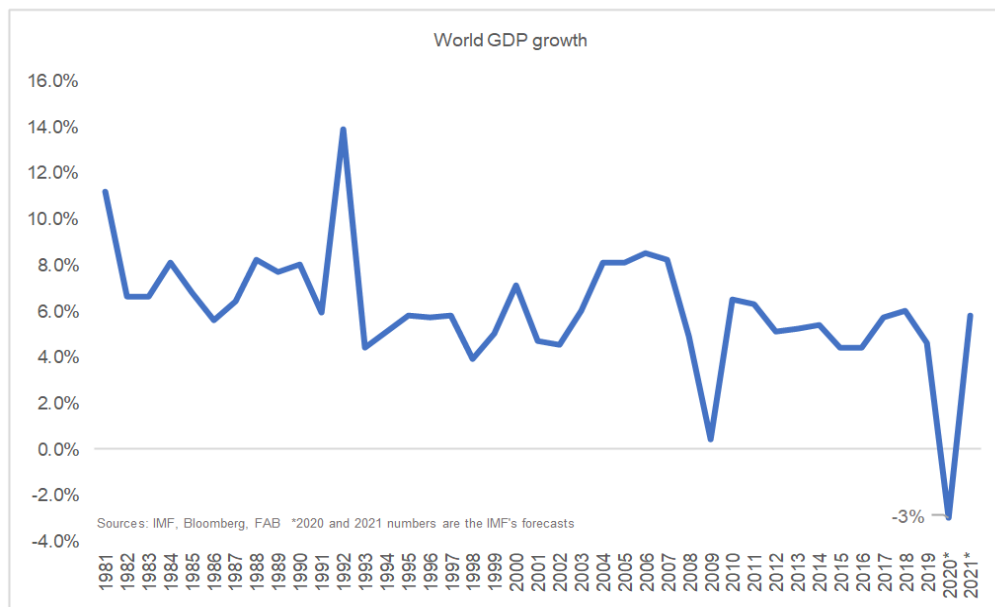
◆ **Number of new cases in Europe drops significantly, however, and Denmark starts to reopen schools.**

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

Investors were reassessing risk on Wednesday after the International Monetary Fund (IMF) gave a dismal outlook for the world economy and as oil prices took a turn lower. The IMF said yesterday that it expects the world economy to contract by 3% this year, much worse than the 0.4% expansion seen in 2009. The Fund tempered the prediction with a forecast of 5.8% growth in 2021, an acceleration from the 4.9% recorded last year.

Markets reacted negatively to the reality check from the IMF and to a record drop in US retail sales which confirmed the predicament of American consumers. Oil prices were badly hit, with the price of a barrel of West Texas Intermediate trading below US\$20 for the first time since 2002.

The commodity suffered a double-whammy as the International Energy Agency also said that they expected energy demand to see its biggest drop in history, falling by 9 million barrels/day and wiping out a decade of increases.



The IEA said that world storage capacity would be fully utilized by mid-year if consumption remains as low as it is and supply is not curtailed further. The report, together with the world growth reality check, prompted a 10.2% drop in oil prices in the past two days, erasing part of the gains recorded last week as investors cheered a potential OPEC output cut.

Not all the news was gloomy, though, as Denmark announced it was reopening some schools and both Spain and Italy revealed the lowest numbers of new Covid-19 cases in several weeks. Meanwhile, New York and five other surrounding states as well as California and two more western states said they are working on joint plans to lift their own lockdowns.

Markets have seemingly picked up on the potential for the economic side of the debate to start winning and for activity to restart. Technology stocks have been the biggest gainers, with the Nasdaq up 24.1% since its 23 March low.

The IMF predicted that the world economy will shrink 3% this year due to the virus

The index is, however, still more than 13% down from its recent highs in February. The performance is better than the Dow Jones Industrials', though, which remains 19% below its February record even after having rallied 28.8% since 23 March.

To be sure, stocks will only have a clear path ahead once the earnings season is over and investors can have a clear picture of what to expect. Many analysts have started to look at prospects for the 2021 earnings and to value holdings based on those projections. So far, the picture is bleak for this year, with four large US banks having reported their highest provisions for loan losses since the 2008 crisis. In other words, American lenders expect a lot of defaults ahead.

Investment Strategy Update

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