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More stimulus enters the system as economic data worsens

♦ ECB starts accepting sub-investment grade bonds as collateral to support downgraded countries.

♦ EU talks about US\$2.2 trillion stimulus plan to restart its economy.

♦ Saudi Arabia plans to borrow US\$58 billion more to support growth.

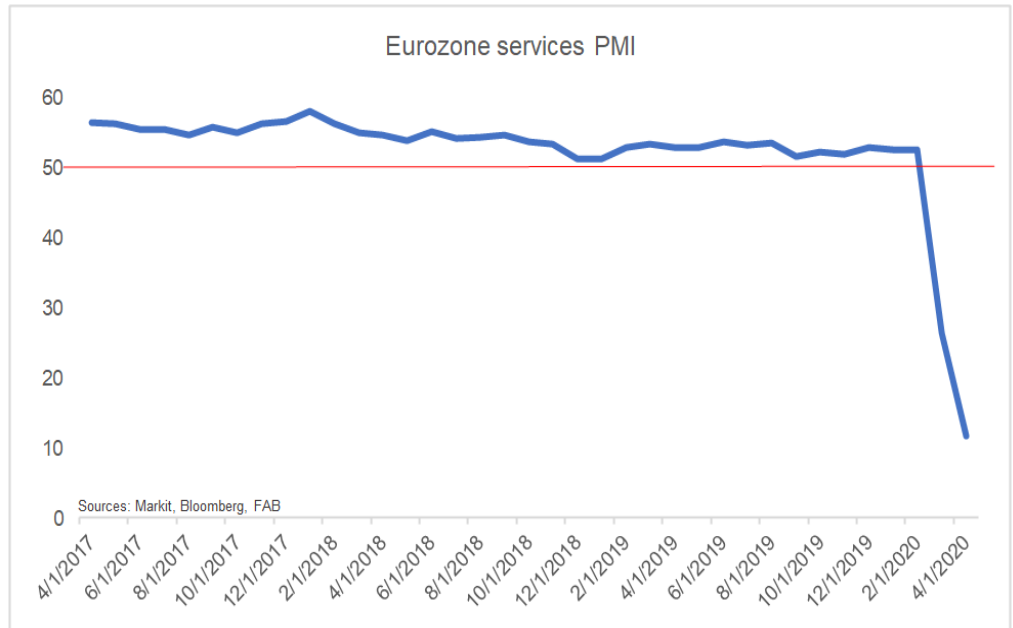
♦ US House of Representatives set to vote on an additional US\$484 billion stimulus package to help small businesses.

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

Many comparisons are being made to the war era and to the Great Depression when it comes to the severity of the current economic slump. Perhaps, the more important parallel, and one that markets seem to be increasingly focused on, should be the amount of stimulus being thrown into the markets — a lot.

The Marshall Plan, for instance, injected US\$15 billion in 1948 to help rebuild Europe after World War II. In today's money, that would be equivalent to about US\$160 billion, a fraction of the US\$2.2 trillion that the European Commission is floating as it convenes virtually today to determine a rescue plan for the region.

US President Franklin Roosevelt's New Deal, a package largely seen as the turning point after the Great Depression, added up to some US\$9.5 billion in today's money. Meanwhile, today, the US House of Representatives convenes to vote on a US\$484 billion package to support small businesses, shortly after another US\$2.2 trillion plan was approved.



This is solely on the fiscal stimulus side. Central banks today are infinitely more active and aggressive than they were nearly 100 years ago, when the US slumped into the Great Depression. Yesterday, the European Central Bank joined the Federal Reserve in accepting as collateral bonds of so-called 'fallen angels', issuers which were recently downgraded from investment-grade to the higher rungs of junk.

Markets have started to take that wall of money more seriously, even as the economic data continues to provide evidence of how dire the situation is on Main Street. In Europe, today, for instance, the purchasing manager surveys for April all came worse than expected. The services PMI for the Eurozone fell to 11.7, far worse than the very bad 22.8 that economists surveyed by Bloomberg had predicted. A number below 50 signals contraction, and one so deeply below that threshold spells deep recession.

The Eurozone services PMI was worse than economists expected and a historic low

Initial jobless claims in the US also offered a terrible picture, even though they were better than last week's. About 4.4 million Americans filed for unemployment benefits in the week ended 18 April, less than the 5.25 million of the previous week. The drop was partly thanks to small businesses, which started getting government loans, which require them to keep their employees on payroll. Still, the numbers of the past month suggest the US unemployment rate will be at a record when it is revealed next week.

Yet, markets are starting to look past all that and are focusing on the recovery once business reopens. The risk remains, however, that a second wave of infections closes economies again.

Investment Strategy Update

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