# Investment Strategy Update

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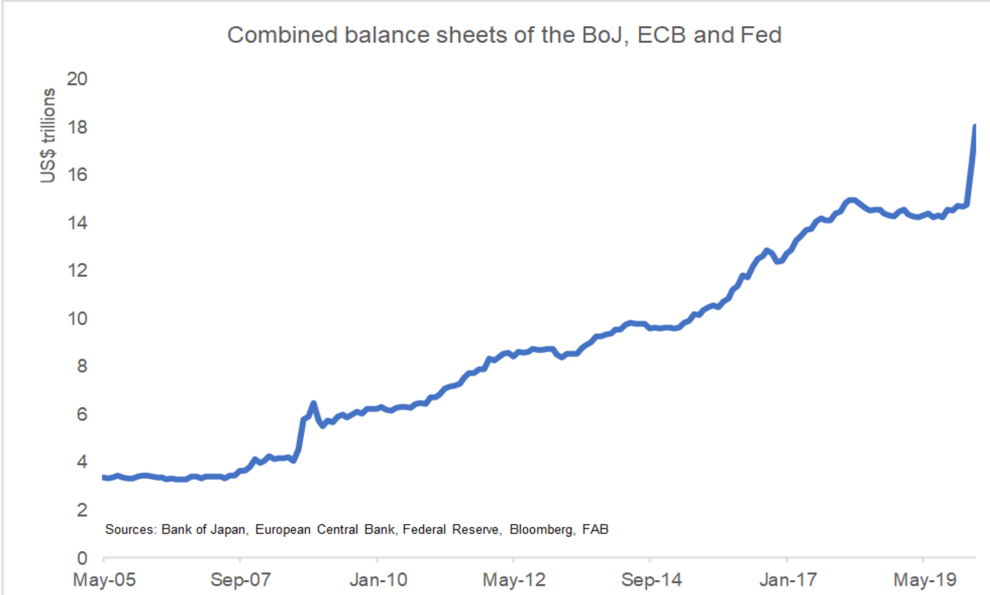
27 April, 2020

# It is whatever it takes, wherever you are

- ♦ **Bank of Japan scraps limits on how much government debt it can buy.**
- ♦ **Federal Reserve set to meet this week amid rising speculation that it could move rates into negative territory for the first time.**
- ♦ **ECB is also set to meet and could scrap country limits to buy more Italian and Spanish debt.**
- ♦ **Oil resumes downtrend as more evidence of full storage tanks across the world continues to come in.**
- ♦ **FAB AAC remains underweight in equities and overweight in gold.**




Nearly eight years ago, then European Central Bank Governor Mario Draghi told reporters that the policymaker would do “whatever it takes” to help Europe dig itself out of the 2011 debt crisis. The spirit of that phrase has never been more alive and central bank governors in the west continue to paraphrase Mr. Draghi to indicate how far they are willing to go to counter the economic slump stemming from the global lockdown.

Today, it was the turn of Haruhiko Kuroda, the Bank of Japan Governor, who said his institution needs “maximum easing stance” to prevent an economic slump. The words came as the BoJ scrapped limits on how much government debt it can buy, helping to push stocks higher across the world.

Mr. Kuroda has also set the tone for an ECB policy meeting later this week. Analysts are speculating that Governor Christine Lagarde could take her 19 March promise of doing “everything necessary” to new levels, removing limitations on how much Italian debt, for one, the ECB can buy. That is key as Ms. Lagarde said herself that the European economy risks contracting up to 15% this year, led by Italy. To counter that, Rome needs to spend a lot more and increase its debt even further from the nearly 135% of GDP it already stands at — if the ECB does not chip in, Italy could be in for a rough ride.

Finally, on Wednesday investors will be watching the Federal Reserve’s meeting to see if the central bank will take its benchmark interest rate into negative territory for the first time.

While that remains a possibility, most analysts agree that the Fed is more likely to announce more programs to support lending to small and medium enterprises as well as consumers. The Fed has already entered uncharted territory by accepting credit card, student and auto loans as collateral from banks and it went even deeper last week as it began to buy high-yield bonds. It could go further.

## The world’s key central banks have increased their balance sheet by 23% in two months

That endless commitment from across the world could continue to support asset prices and it has already helped bring many funding markets closer to normality. Markets are cheering this and using it as a good reason to look beyond the bad economic data that continues to come in.

The risk, however, remains that a resurgence in infections leads to new lockdowns — something that happened in Singapore. Markets would probably react negatively to that, given that it would add another layer of uncertainty that has not been priced in. Finally, many risky assets have recovered significantly from their 23 March lows, suggesting upside is limited. Central banks may have unlimited willingness, but as they use more power, they also become less powerful.

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