

### Investment Strategy Update

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## Markets look past recession amid hopes of potential treatment

• Pharma company Gilead Sciences says it may have results of tests with its antiviral drug this week.

◆ First quarter GDP in the US contracted by 4.8% compared to the three months ended 31 December, despite the calculation including only a few weeks of lockdowns.

♦ Personal consumption fell 7.6% in the US, more than twice as bad as consensus forecasts.

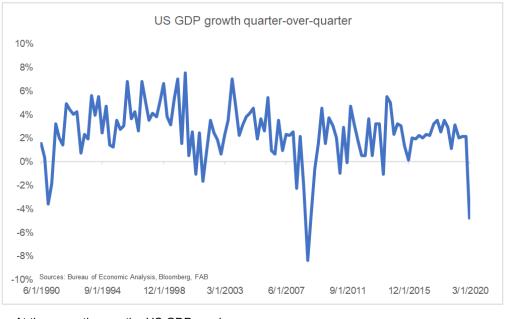
 Companies continue to pull earnings guidance leaving investors adrift.

# • FAB AAC remains underweight in equities and overweight in gold.

The economic data could hardly be worse. The US gross domestic product shrank by 4.8% in the first quarter compared to the last three months of 2019, the worst figure since 2008. Personal consumption, which responds for three quarters of the US economy, fell 7.6%, far worse than the 3.6% drop seen in the consensus forecast.

The worst part, however, is that these dire numbers were the result of only two weeks of lockdown, given that most US cities were fully open by 15 March. If the impact is as severe for the rest of the period, the second quarter GDP could be down by at least twice as much, considering that most of the country is not expected to open before mid-May. If that is the case, the second quarter GDP contraction may be worse than the 10% recorded in the first three months of 1958, the worst showing since World War II.

Yet, markets rallied as investors looked past the slump and cheered good news.



At the same time as the US GDP numbers were crossing the screens, Gilead Sciences, a US pharmaceutical company, halted trading in its shares. It then announced that it was aware of positive data emerging from a study being conducted by the National Institute of Allergy and Infectious Disease on the efficacy its drug Remdesivir in the treatment of Covid-19.

A potential treatment would remove the risk that the world goes into lockdown again if there is a second round of infections after the current social distancing measures are lifted. Being sure that life will go back to normal and stay like that is key for investors now.

With that prospect out of the way, investors are likely to focus even more on the record stimulus being thrown in the world economy. The amounts are staggering, just the European Union, Japan and the US have committed a combined US\$10 trillion of stimulus.

#### Two weeks of lockdown moved US growth from 2.1% in Q4 2019 to -4.8% in Q1 2020

All that money will eventually boost the economy and has already started to buoy asset prices. However, it will take a while for the people on the street to feel it and right now investors seem to be buying based solely on the prospect of easy money. Earnings have fallen 17.1% on average in the first quarter, with a third of the S&P 500 companies having reported. Many companies have also dropped guidance for the rest of the year.

Even if investors completely write off 2020, at current levels the S&P 500 looks stretched, trading at 17 times forecast earnings for 2021. Such a high level has only been seen in bubbles. There is reason to be optimistic, but even celebrations need to be tempered.



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