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## Central banks are pleading for more fiscal stimulus

◆ **Federal Reserve Chairman Jerome Powell said yesterday that the US government needs to spend more.**

◆ **Christine Lagarde, who heads the European Central Bank, is expected to do the same today.**

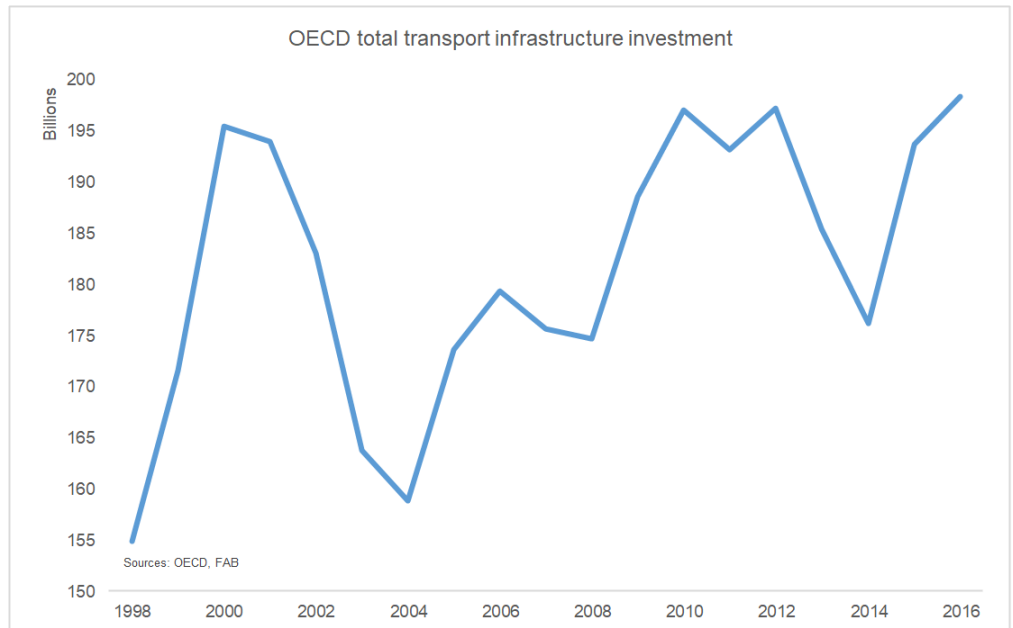
◆ **GDP readings across Europe and the US come worse than expected despite including only a couple of weeks of lockdown.**

◆ **Chinese export orders index plunges as consumer spending across the world takes a dive too.**

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

Normally, the current valuations of certain risky assets against the dire economic backdrop being painted would have central bankers worried. Not this time. In fact, Federal Reserve Chairman Jerome Powell brushed aside speculation to that effect by saying: "This is not the time to act on those concerns." He added that, instead, what the world needs is even more stimulus, especially in the form of government spending: "This is the time to use the great fiscal power of the US."

The Head of the European Central Bank, Christine Lagarde, was expected to convey a similar message in her address after the policymaker left its benchmark rates unchanged in a meeting that concluded today. The ECB did, however, indicate that it saw no monetary tightening anywhere near, in line with what the Fed said. In the Fed's case, the message was that it saw significant risks for the US economy in the medium-term, which could be read as no movement for a few years.



Markets reacted by pricing no rate hikes deep into the future. Fed fund futures due in January 2022 still predicted that the US dollar benchmark rate would be below 0.08%, implying another rate cut between now and then, instead of any hikes. Similarly, inflation-protected securities were showing the market does not expect much in terms of price rises in the coming five years in Europe or the US.

In the case of the US that makes a lot of sense, given the dual mandate of the Fed to keep both unemployment and inflation low. About 3.8 million people in the US filed for welfare benefits the week ended 25 April, adding to the 26.5 million which had done so in the previous five weeks. Next week, the US unemployment numbers are likely to show the highest jobless rate on record. It is fair to expect the Fed would not reverse easing policies at least until the number drops back below 4%, which may take a long time, judging by the central bank's own predictions.

### Developed economies had hardly increased infrastructure spending in the past 10 years

Meanwhile, the French economy shrank 5.8% in the first quarter, while Spain and the US contracted 5.2% and 4.8%, the countries revealed today and yesterday. All the readings came in worse than expected, even though they reflected only a couple of weeks of lockdown. The second quarter numbers are likely to be far worse. One indicator of how bad they may be came from China, where an indicator of new export orders fell to 33.5, the lowest on record and deep below the 50 level which indicates expansion.

As Chairman Powell indicated in his speech, turning around an economy so deeply hit is not a quick affair. It will take a lot of spending and stimulus before the world goes back to growing normally.

# Investment Strategy Update

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