Investment Strategy Update

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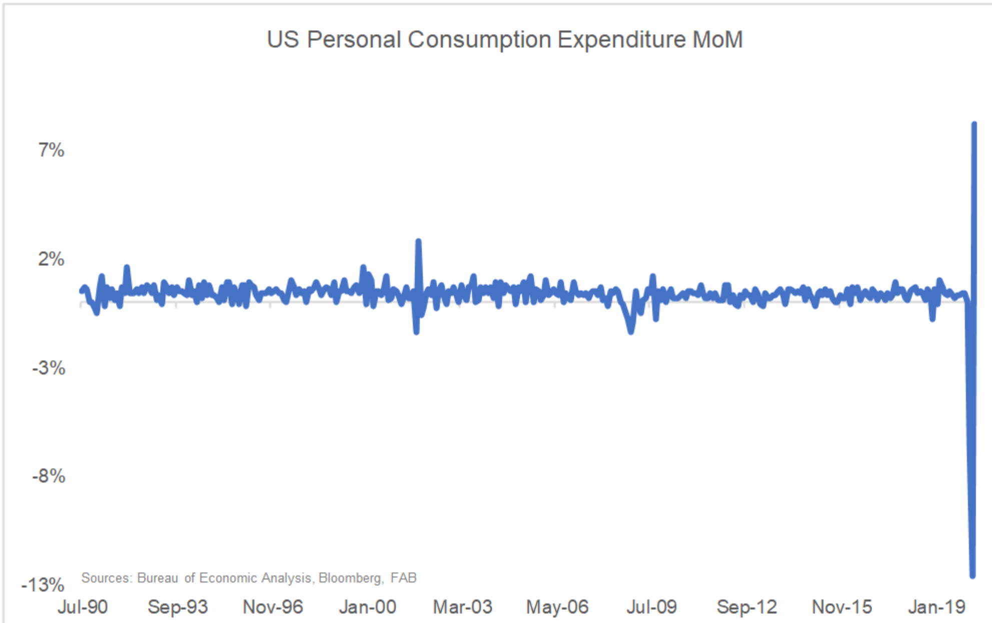
Markets trade on hopes of quick vaccines and more stimulus

- **Two companies suggest that early trials of their vaccines have yielded positive results.**
- **Even with fast track approvals and assuming all trials yield positive results, a vaccine may not be available at least until October.**
- **Meanwhile, investors are watching Washington to see if political haggling will stand in the way of more needed fiscal stimulus.**
- **Most extra welfare payments which boosted spending and savings in the US are set to expire in two weeks.**
- **FAB AAC remains overweight high-quality investment grade bonds.**



The S&P 500 is again approaching the 3,200 level which it has struggled to breach since the start of June and above which it traded only briefly after the March sell-off. Early positive results of vaccines are helping the index this time, as well as the usual tech names. If the index does trade above that level, and having just seen a so-called ‘golden cross’ (when the 50-day moving average crossed the 200-day on the way up), the index could be in shape for more gains.

Underpinning the momentum, however, is mostly hope. The latest economic data has shown huge improvements and has confirmed that the trough of the recession was in April. But the speed of the recovery is already giving signs of being much slower than some expected. Investors are particularly concerned about what happens to fiscal stimulus, after a nearly US$3 trillion package helped pull the US (and the world) back from the brink.

There is no doubt that the Federal Reserve (and its fellow central banks across the globe) will continue to do whatever they can to keep markets running smoothly. The trouble is that “fiscal support will remain vital,” as Fed Governor Lael Brainard put it yesterday in a virtual event. And this time, that may not be as easy as it was in March and April, when both parties in Congress felt the urge to move quickly.

Case in point was the US$3.5 trillion package that the Democratic-controlled House of Representatives passed a couple of weeks ago and was completely ignored by the Republican-dominated Senate. In that event, majority senators felt that the House package would favour Democratic states. An attempt at a response from the Senate was met with similar coolness in the lower house because it was seen as politically motivated to increase the popularity of the President Donald Trump administration.

Personal consumption spiked in May after a record drop in April thanks to fiscal stimulus

With elections set to happen in less than four months, that is hardly surprising. Neither party wants to be blamed for being too morose in approving new checks for Americans, but neither do they want to increase the chances of the other winning.

The matter is more pressing now as Congress is expected to enter its summer recess on 10 August. After that, and until 7 September, lawmakers will only be available for emergency meetings. If lawmakers cannot come to an agreement by that soft deadline, the market could wobble. History has at least one good example in the rejection of the first bailout program in 2008, which prompted the S&P 500 to drop 8% in a day. One would think Capitol Hill would have learned.

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