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## Better data and Fed comfort investors that the worst is past

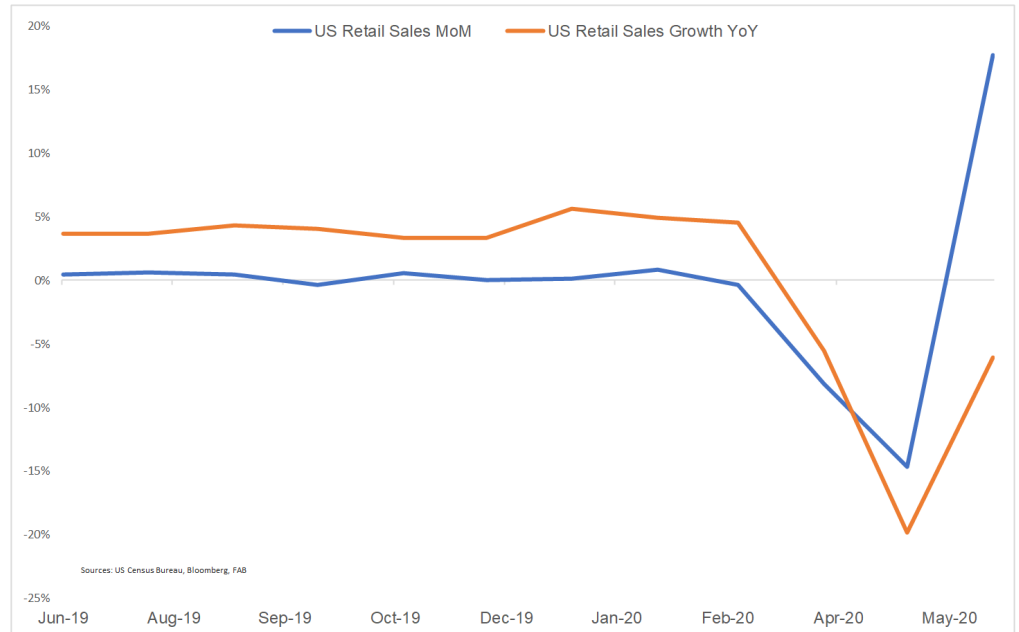
♦ US retail sales had their biggest monthly growth on record in May as people spent stimulus checks and the economy began to reopen.

♦ On a year-on-year basis, however, sales are still trailing where they were in May last year.

♦ The quick response of the Federal Reserve to a brewing sell-off on Monday is also comforting investors.

♦ Oxford University trial shows that dexamethasone reduced mortality of Covid-19 patients.

♦ FAB AAC remains overweight high quality investment grade bonds.



Yes, there is a second wave of Covid-19 infections brewing. Florida and Texas have seen a spike in hospitalizations and in the number of new cases, and Beijing has closed schools and shut international travel as it identified more than 130 new cases in a new cluster. Yet, increasingly, markets seem to not care so much.

The reaction is not entirely irrational. While a second round of infections is widely expected, this time countries know better how to deal with it. There are, for one, a couple of approved treatments that significantly reduce the mortality of people infected with the virus. Remdesivir, an anti-viral drug, had already been approved for use in the US and Japan after it was shown to reduce the time a patient took to recover. This morning, the UK approved the use of anti-inflammatory drug dexamethasone after an Oxford University trial showed that the widely available drug reduced mortality by as much as 35% for Covid-19 patients on ventilators.

This means that doctors and nurses now have proper protocols in place to treat the new coronavirus, and makes a surge in infections a lot more manageable. The number of hospital beds across the world has also increased significantly. The sum of all this is a much lower likelihood that governments will shut down their economies in the same way they did when the virus first spread globally. Besides, ruling officials have also learned painfully how much it costs to shut the economy.

In that case, it is now more a matter of when the global economy will fully recover. This is where it gets complicated. In a testimony to the Senate Banking Committee, Federal Reserve Chairman Jerome Powell reiterated that he thought that unemployment would remain very high by the end of the year. He also conceded, however, that there are signs that the recovery has already started and that the worst of the economic slump is probably in the rearview mirror.

### US retail sales soared month-on-month, but are still way below last year's levels

Retail sales were the latest data to reinforce that point yesterday as they grew 17.7% in May compared to April, the biggest monthly jump since the US Census Bureau began to tally the figure. That helped fuel a strong rally in the US stock market yesterday again. However, when compared to the number from May 2019, retail sales were still down 6.5%.

This is the story of almost every economic figure across the world right now. They are all showing signs of improvement in relation to last month, but are still far behind where they were a year ago. And as stimulus checks stop coming in, that recovery could falter. For now, the markets are seeing the silver lining, but there is only so much of that to go around.

# Investment Strategy Update

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