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## This sell-off is unlikely to have a lot of momentum

◆ Significant cash position remaining suggests that investors may see dips in risk assets as opportunities to buy.

◆ The Federal Reserve has shown that it will step in whenever the normal functioning of markets is threatened.

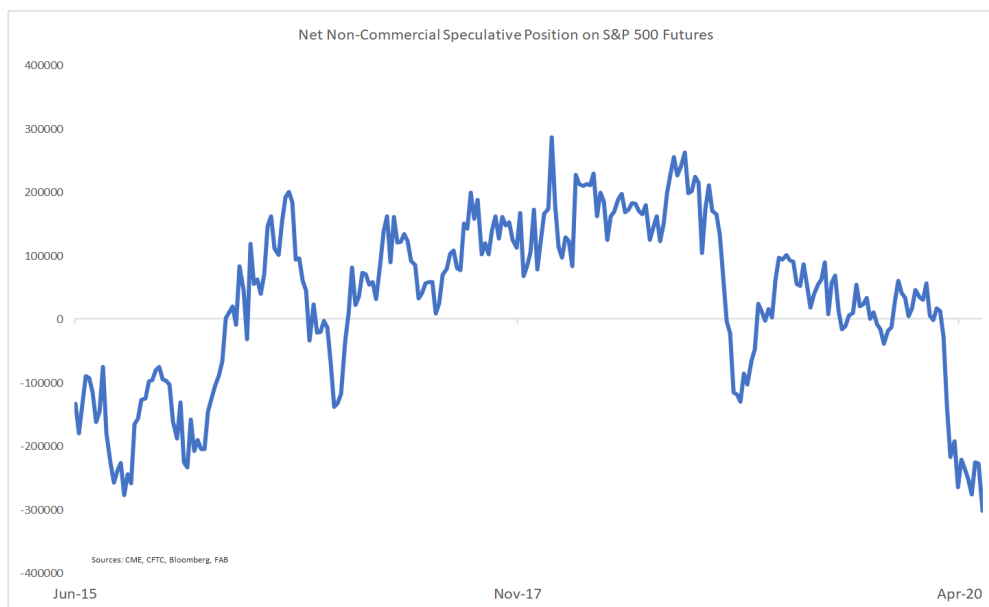
◆ Near-record speculative short position in US stocks could actually work as a floor for any sell-off.

◆ However, economic data remains grim and is unlikely to improve much in the near future, suggesting eventually stocks will have to adjust to reality.

◆ FAB AAC remains overweight high quality investment grade bonds.

The market activity yesterday was violent, and reminiscent of the start of the sell-off in March or even of the latest sell-off, on 11 June, which pushed the S&P 500 down 5.89%. The move, however, is unlikely to last much longer than the early June one, which was followed by three consecutive days of gains in the stock market.

The reason for that is simple: cash and crowds. There still is too much cash on the sidelines and any sell-off is likely to trigger bottom-fishing as institutional investors take the opportunity to put cash to work. Between the beginning of March and the end of April, money market funds received US\$1.1 trillion of inflows as investors sold risk assets and parked them in these funds, according to the Investment Company Institute. That move has started to reverse and in the four weeks leading 17 June, US\$100 billion moved out of these funds and probably was put back into risk assets. Still, another US\$1 trillion remains on the sidelines.



That money could come back into stocks and other assets if there is a sell-off, especially now that it is clear that the world's central banks are doing whatever it takes to keep financial conditions loose. Hence, all that cash, from the central banks and the funds, is likely to act as a backstop against any big sell-off now.

Besides that, hedge-funds and other investors have established a near-record short position on the S&P 500. While at face value this seems like a sign that things could get bad, it could actually curtail any major sell-off. The reason is simple, once the market starts dropping, these investors start to take profit from their short position. To do so, they have to buy the S&P 500 index or reverse their shorts (by going long). That has the effect of pushing stock prices up.

That said, the market does need some soul-searching. With the world economy in a deep recession and a second wave of infections raging, a retreat was overdue.

### There was a near-record speculative short position on stocks as of 16 June

Several US states are now contending with a rise in the number of coronavirus cases. Florida and Texas hit records in the number of cases, with the latter also saying that it may soon run out of intensive care beds. While governors are still saying they will not shut down their states as before, people are getting scared to go out again and that could in itself impact the local economies.

Meanwhile, the IMF released a revised forecast for global growth yesterday. The Fund said that it expects the world to contract 4.9% this year and to grow 5.4% next year. It previously had expected a 3% contraction and a 5.8% growth. Such an outlook hardly justifies that an S&P 500 index trading at 24.4 times expected earnings. Eventually, reality sets in.

## Investment Strategy Update

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