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## Investors will be hoping that positive surprises continue

◆ Economic data has surprised to the upside consistently since May.

◆ The recovery has, however, been mostly fuelled by fiscal stimulus.

◆ US nonfarm payrolls on Friday will be key, with economists unable to come even close to a consensus.

◆ Continuing jobless claims remain stubbornly high.

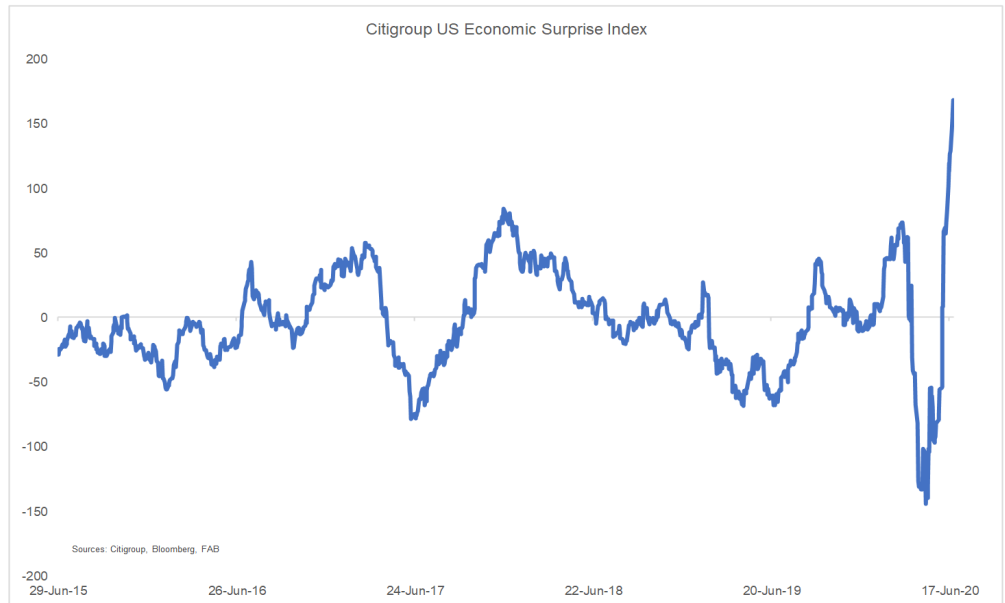
◆ Investors are also bracing for quarter-end portfolio rebalancing, which could prompt some selling of equities.

◆ FAB AAC remains overweight high quality investment grade bonds.

Economic data since May has been consistently better than forecasts and the recovery has baffled many. This has helped the stock markets rally as investors priced in a potentially deep but short recession. Pundits, however, have argued that most of the positive economic outcome can be traced back to stimulus checks and additional welfare being given to consumers across the world.

With many of these programs starting to expire and no extensions clearly available in some of the largest economies yet, investors are bracing for a reversal of the positive surprise trend. There is even a risk that one of the most widely followed economic indicators in the world, US nonfarm payrolls, comes short of consensus forecasts.

In fact, calling them consensus is a figure of speech. The most bearish economist in a Bloomberg survey is calling for only 500,000 jobs being added in the Thursday



report, while the most bullish sees 9 million positions added. The median is set at 3 million.

At least one measure suggests the number of people returning from furlough will be in the millions, but may not be as good as expected. Continuing jobless claims, a measure of how many people are still relying on welfare, dropped below 20 million on 12 June, the latest data available, but remains at a historically high 19.5 million people. Weekly jobless claims continued at a very high 1.48 million in the week ended 20 June, too, a worse number than economists expected.

If the nonfarm payrolls follow the pattern, it would be bad news for stock markets, which are currently pricing a perfectly V-shaped recovery. The timing could not be worse either as what is shaping up to become the best quarter for US stocks since 2009 comes to an end. This is because investors can already expect some profit-taking anyway.

### Stock markets have preempted what has been a V-shaped recovery — so far

Many institutional investors often keep fixed allocations to various asset classes. Hence, when one of them outperforms and its assets become a larger part of portfolios, managers have to sell some to rebalance their holdings back to the required percentages. Right now, that would mean selling stocks, and Goldman Sachs estimates that pension funds need to sell some US\$64 billion of equities to rebalance their portfolios.

Then, add in the fact that there is a lack of new catalysts to keep stock markets going. This is part of the reason why the S&P 500 has traded in a range between 3,000 and 3,200 since the start of June. New stimulus measures, however, may not be so easy to come by as the first ones were. It is about to get interesting.

# Investment Strategy Update

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