

For inquiries related to this article, please contact:

Alain.Marckus@bankfab.com

Christofer.Langner@bankfab.com

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## Volatility drops as risk assets look for direction

◆ VIX drops below 32.00 as stocks in Europe rally after the Bank of England signals it is ready for more stimulus.

◆ Chinese exports surprise to the upside, supported by Asian buyers.

◆ Euro drops below 1.08USD/EUR as market continues to digest German court ruling questioning ECB easing.

◆ Markets brace for nonfarm payrolls numbers tomorrow after private payrolls company ADP reports 20.2 million jobs were lost in April.

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

Markets continue to cheer the seemingly unlimited liquidity being poured into the financial system and today they were on the front foot again. The driver in this case was better-than-expected export data from China as well as indications by the Bank of England that it may add even more stimulus at its next meeting.

The UK central bank left its rates untouched after a meeting today, but two members voted for a 100 billion pound increase to the asset purchase program. This, along with an “unwavering” pledge by Governor Andrew Bailey to “deliver the monetary and financial stability that are essential for long-term prosperity” had investors excited. The FTSE 100 rallied nearly 1% and other markets in Europe were also up at the time of writing.

At the same time, the Bank of England predicted that the UK economy is set to shrink 14% this year. Policymakers also predicted that unemployment in the country could double to 9%.



In the US, investors will have a clearer picture of the depth of the unemployment tomorrow when nonfarm payrolls come out, though all preliminary data leading to it suggests the number of people who lost jobs in April will be the highest since World War II. Yesterday, private payroll processing company ADP said that 20.2 million jobs were cut in the US in April, a number that resonates with the 33.5 million initial jobless claims filed in the US over the past seven weeks.

Investors, however, seem immune to the bad economic data. Instead, they are focusing on news that Japan followed the US in approving the emergency use of an antiviral drug that has shown preliminary signs of reducing the lifespan of the new coronavirus. Perhaps more important is the fact that all the liquidity the Federal Reserve, the BoE, the European Central Bank and the Bank of Japan are pumping out seems to be working. Funding stress measures have completely flattened.

### Libor-OIS, a measure of liquidity, is back to levels seen before the March crisis

The Libor-OIS spread, a measure of liquidity in lending among banks, is back to where it was before the March crisis. That has mostly been driven by a 60 basis points drop in Libor rates over the past three weeks. This means that aggressive investors can borrow cheaply and put the money toward high-yielding assets, which normally are stocks and riskier bonds.

Low funding costs also tend to reduce volatility and that was showing in the VIX, which was back below 32.00. Indeed, after the Fed started its quantitative easing program in 2009 average volatility fell. The caveat, however, is that whenever volatility increased, its spikes were much more violent than before.

# Investment Strategy Update

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