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Risk assets signal caution amid dearth of new catalysts

◆ Markets were mixed today amid news of a second outbreak in South Korea and as stocks loose momentum.

◆ Equity funds saw their largest redemptions since the March crash in the week ended 6 May.

◆ The People's Bank of China signaled in a report that it could increase liquidity further.

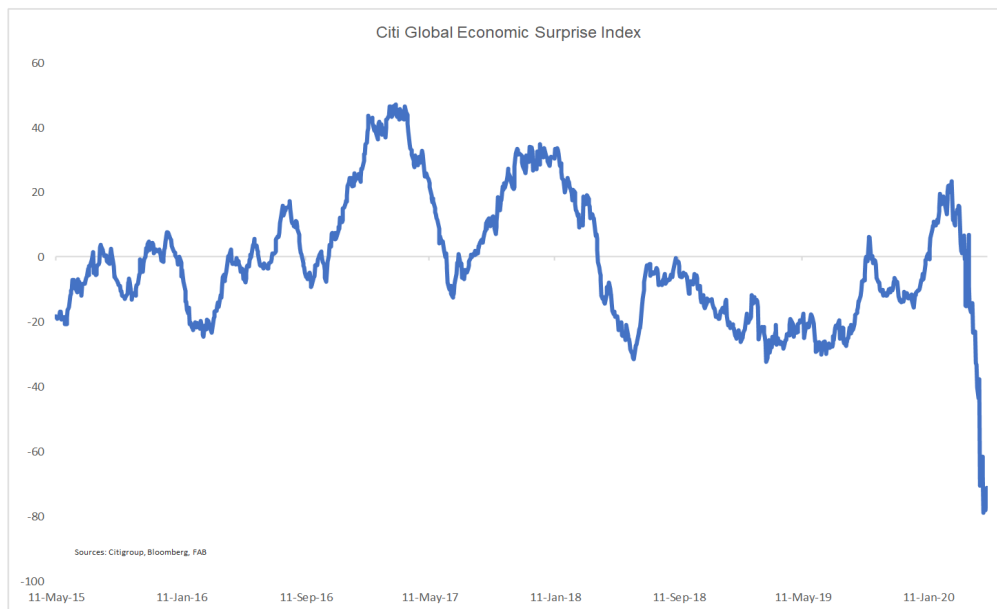
◆ Saudi Arabia announces fiscal austerity measures while S&P Global Ratings says it sees Oman's fiscal deficit nearly doubling.

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

Risk assets were vying for direction with stock markets mixed today. It seemed like investors were taking a step back to see how much further stocks and riskier bonds could go given the lack of positive economic news across the world.

To be sure, there continues to be the promise of stimulus. The People's Bank of China said in a statement this weekend that growth and unemployment require greater emphasis. The policymaker also removed language from the quarterly statement that pointed at deleveraging. In fact, the country revealed that its banks had made 1.7 trillion yuan (US\$239.7 billion) of new loans in April, far more than the 1.3 trillion yuan analysts had forecast.

There is also excitement about the reopening. The UK stock market saw an early bounce as Prime Minister Boris Johnson announced a series of measures to ease restrictions in the country starting this Wednesday.



His move comes as further easing is announced in other parts of Europe and the US. Investors have also taken heart from consumer data from China which shows much of the activity coming back to normal in the world's second largest economy. To be sure, consumers are behaving a bit differently. They seem to be avoiding public transit (which may be good news for oil prices) and when they are seeking entertainment, they are facing restricted capacity at venues.

Even the record global stimulus push seems to have a limit and the upside for risky assets from here may be capped. Investors are showing they are aware of that, as US\$16.2 billion left equity funds in the week ended 6 May, the biggest outflow since the March crash. Plus, investors are also weighing the high probability of rising Covid-19 infections as restrictions are eased. South Korea became the latest example with cases there spiking last week after people started to frequent night clubs again.

Global economic indicators have undershot analyst forecasts at a record pace

Probably reflecting similar dynamics, oil prices were retreating today too. That further underscored the fiscal situation of the Middle Eastern nations.

Saudi Arabia announced it was tripling its value added tax and reducing allowances to its citizens as lower oil production and lower prices weigh on its budget. Meanwhile, S&P Global Ratings said it expected Oman's budget deficit to rise to 17.5% this year, compared to its previous forecast of 9.7%. The review raises the specter of a future downgrade and suggests the Sultanate may have to come back to the market. If Bahrain is any gauge, there will be no shortage of demand. Still, timing might be key as risk assets look ripe for some consolidation.

Investment Strategy Update

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