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Investors get excited as Powell says the Fed still has ammo

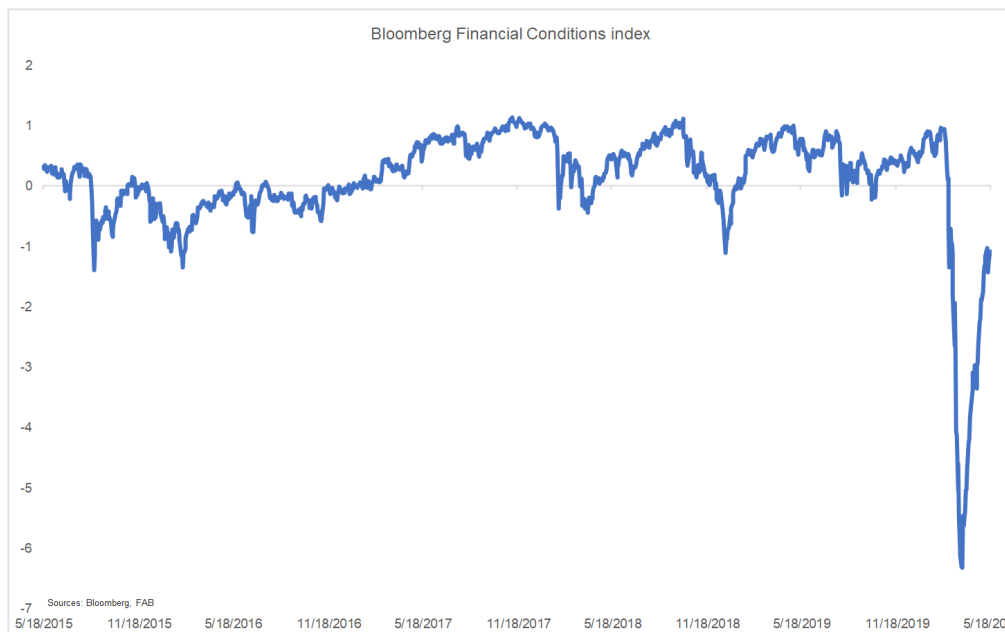
◆ Markets rally in Europe after Federal Reserve Chairman Jerome Powell suggested in an interview that the institution still has ammunition left.

◆ Relief rally set to test technical resistances again and determine whether the 'melt-up' will continue.

◆ Investors also look forward to more stimulus to be announced in China during annual policy meeting.

◆ Meanwhile, in the US, earnings of retail companies are likely to remind markets of the Covid pains.

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



The Federal Reserve still has the power to direct the markets. That is coming into evidence today as equity markets are rallying in Europe and futures in the US point at a strong open. Most of the optimism stemmed from a TV interview with Jerome Powell, the Fed Chairman, yesterday, when he said that the institution still has ammunition. That was a relief after the same Powell had said last week that he expected it could take years for the US economy to return to the vigour it exhibited at the end of last year.

Investors are also looking forward to what they expect to be more stimulus announcements in China when the National People's Congress convenes later this week. The People's Bank of China has already injected nearly record amounts of liquidity into the country's financial system, but the meeting is likely to bring more promises of fiscal stimulus which could boost emerging markets and certain commodities.

Investors are clearly looking at the silver linings and taking heart of the reopening of several economies. However, risks remain, including the potential for a new flare up of cases that sends some countries back into lockdown. China itself has closed down several cities in its Northeastern region after new cases increased again. Germany, which is expected to reopen bars and to restart its football league this week, has also seen a slight increase in the number of new cases, though the number of daily deaths from the disease fell.

The good mood may also be stunted by another reality shock from none other than Jerome Powell himself. He is due to speak in the US Senate tomorrow and he is likely to offer a much less rosy picture than the edited version that was aired by CBS. If that is not enough to have investors take a step back, earnings from the retail sector, which are wrapping up the first quarter season this week, should do the trick.

Financial conditions in the US have nearly returned back to normal thanks to the Fed

Net non-commercial positions in S&P 500 futures remain deeply negative, with 236,000 more short contracts than long reported to the Commodities and Futures Trading Commission on 12 May. Some investors who are short may have taken the opportunity to take profits after last week's selloff, but the positions suggest hedge funds continue to believe a more significant sell-off is imminent.

In any event, the potential upside for equity markets seems limited at this stage, particularly as the rift between the US and China starts heating up again. For now, it seems safer to focus on quality and to deleverage portfolios instead of suffering from fear of missing out.

Investment Strategy Update

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