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If China is the blueprint, the recovery ahead could be strong

◆ China's industrial output growth is back at the levels seen in December, as the country has reported some of the lowest numbers of Covid-19 cases to population among major economies.

◆ While the country has eased monetary and fiscal conditions, it has come short of some of the programs of major Western countries.

◆ Data suggests recovery in the West could be strong too, once the number of new cases is brought under control.

◆ The FAB AAC remains marginally underweight in global stocks and overweight in EM and IG bonds.

Anyone who needs a gauge of what could happen to the world economy once the concerns about rising Covid-19 cases are brushed aside needs only to look at China.

Since May, the country has reported a low number of new coronavirus cases (so low, indeed, that it has prompted questions from some). As the spread rate dropped and the country reopened its businesses, the economy shot straight back up.

Over the weekend, China's National Bureau of Statistics reported that the country's industrial output had grown 6.9% year-on-year in October, the second consecutive month it expanded at that rate. The last time China's industry grew faster than 6.5% on a yearly basis for two months in a row was in early 2018, before the trade war with the US began.

That, by the way, may be a major risk still facing the country, as the outgoing Trump administration is tightening restrictions against investment and trade with China.



The coronavirus, meanwhile, seems to be more of an external threat in China. The US and Europe could import less from China and slow the recovery as they lock down to stop the spread of Covid-19.

For now, though, that recovery has been outstanding and offers a glimpse of what stock investors seem to be seeing ahead. Retail sales in October were up 4.3% year-on-year, and the jobless rate fell to 5.3% from a historical high of 6.2% at the end of February. High-frequency data such as restaurant bookings, public transit usage and location data, suggest that activity is pretty much back to normal in China.

That is in stark contrast with Europe and the US, where high-frequency data indicates that tighter restrictions are slowing activity. Unfortunately, the policies adopted in most developed countries until now suggest that a full reopening such as China's will only happen after there is a widely distributed vaccine.

China's economy has taken off since the country checked the Covid-19 new-case count

While there may be questions about how a country of 1.4 billion people, with high population density and a severe winter in some parts has managed to keep the number of Covid-19 cases so low, the bottom line is that reopening the economy can really bring it back to 'normal' quickly.

And this is what investors are focusing on now, spurring a risk asset rally and a move away from haven assets. That pattern just got a boost today, too, from pharmaceutical company Moderna, which said that the last stage of trials for its vaccine candidate had an efficacy rate of 94.5%. This suggests by early next year there could be vaccines available. It may take time to distribute them widely, but soon the world could follow China.

Investment Strategy Update

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