Market Watch. Blackfort.

April (I)

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Macro Update: IMF foresees a global recession

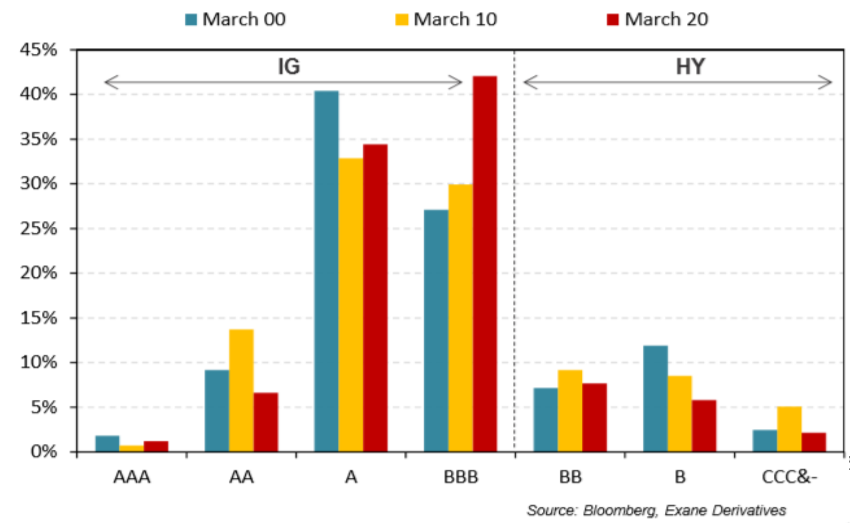
- Forecasts are never precise as they consider the future. At the moment the dispersion of data got even wider. According to Paul Donovan, Chief Economist at UBS wealth management, there are two challenges. "At the moment, economic data is either not timely, or timely and wildly unreliable. Survey based data needs people to fill in surveys." As he puts it you need to be a special person to fill surveys during a corona crisis.
- Therefore the latest IMF data basically shows that we have a global recession. But that is no news and markets did not react to that. By the country bonds and equity markets have risen after the publication of the data.
- This should not come as a surprise given the latest Fed announcement to further provide liquidity for the economy. Even during the great depression in the 30-s the stimulus has not reached such high levels in comparison to the economic output.
- In the US Q2 GDP is expected to reach levels of around minus 30 to 35 percent. These are annualized quarter to quarter figures. For the whole year the IMF expects roughly minus 6% for the US.

IMF World Economic Outlook foresees global GDP at -3% in 2020

	2018	2019	2020	2021
World Output	3.6	2.9	–3.0	5.8
Advanced Economies	2.2	1.7	–6.1	4.5
United States	2.9	2.3	–5.9	4.7
Euro Area	1.9	1.2	–7.5	4.7
Germany	1.5	0.6	–7.0	5.2
France	1.7	1.3	–7.2	4.5
Italy	0.8	0.3	–9.1	4.8
Spain	2.4	2.0	–8.0	4.3
Japan	0.3	0.7	–5.2	3.0
United Kingdom	1.3	1.4	–6.5	4.0
Canada	2.0	1.6	–6.2	4.2
Other Advanced Economies[2]	2.6	1.7	–4.6	4.5
Emerging Market and Developing Economies	4.5	3.7	–1.0	6.6

Source: IMF

Structure of US credit market: 42% are BBB-bonds



- Thus, in H2 we would see a strong rebound of the global economy.
- Europe has finally agreed on a fiscal aid program based on three pillars: A support wage subsidies of EUR 100 bln (0.7% of EU GDP), a EUR 200 bln liquid support via ECB and help through the European Stability Mechanism (ESM) activation of EUR 240 bln with very few conditions.
- That means that normal mechanism of help with loans via the ESM in combination with a macroeconomic adjustment program is not required. That is probably the price for not issuing corona Euro bonds.
- Experts believe that this program will not be sufficient, and that the argument of issuing corona bonds is just postponed.
- Last week the Fed surprised all - they have announced that they will provide credit to corporates, to buy resp. to treat downgraded BBB bonds like IG bonds and to buy high yield bonds via ETFs. This additional stimulus package is larger than anything in the past.
- For investors there is one key message: Don't fight against the Fed/CB.

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Market Overview: Currencies, Commodities, Equity & Bond Indices

Bonds	Apr-20	YTD 2020
Bloomberg Barclays Global-Aggregate TR	5.74%	-11.01%
Bloomberg Barclays Euro Aggregate Corporate TR	2.41%	-3.93%
Bloomberg Barclays Pan-European High Yield TR	5.97%	-9.98%
Bloomberg Barclays US Corporate High Yield TR	6.36%	-8.11%
Bloomberg Barclays Asia USD High Yield TR	5.12%	-7.73%
Bloomberg Barclays Global High Yield TR	5.97%	-9.98%
JPM Emerging Market Global Bond	2.83%	-10.34%

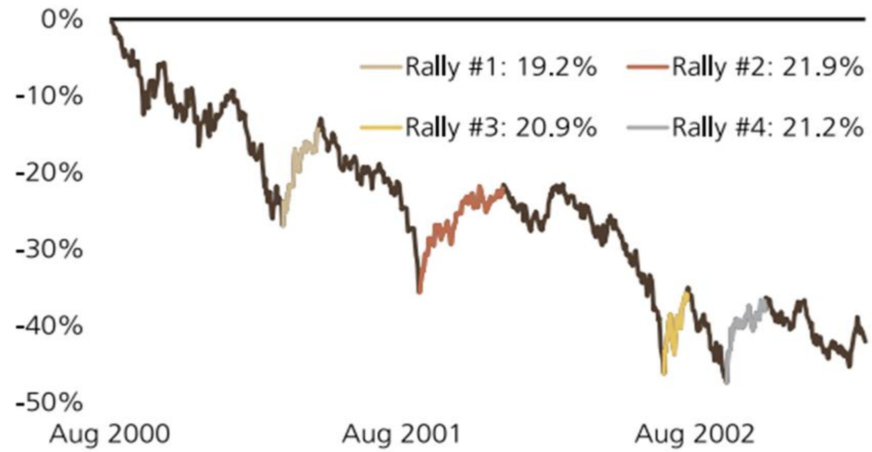
Equities	Apr-20	YTD 2020
NASDAQ 100 Stock Index	14.80%	-1.33%
S&P 500 Index	12.76%	-13.34%
MSCI World Index	10.14%	-16.29%
MSCI Emerging Markets Index	7.43%	-19.95%
EURO STOXX 50 Price EUR	6.29%	-23.65%
SMI	3.59%	-9.27%
DAX	9.09%	-21.44%
FTSE 100	3.17%	-24.66%
Hong Kong Hang Seng Index	4.09%	-14.60%
Shanghai Shenzhen CSI 300 A-Shares	3.47%	-7.18%
Nikkei 225	6.78%	-17.69%

Commodities	Apr-20	YTD 2020
Gold	8.24%	13.54%
Copper	5.59%	-17.91%
WTI	-2.17%	-67.46%
BRENT	11.92%	-58.05%
Bloomberg Comodity Index	3.18%	-22.86%

Currencies	Apr-20	YTD 2020
EURCHF	-0.62%	-3.03%
CHFUSD	-0.17%	-0.02%
CHFGBP	-1.12%	6.10%
EURUSD	-0.84%	-3.03%
EURGBP	-1.74%	2.89%
GBPUSD	0.94%	-5.79%
EURRUB	-5.89%	16.79%
USDRUB	-5.17%	8.71%

A long term bear market just as we have seen after the tech bubble?

S&P 500 total return from bull market peak



Source: UBS, Bloomberg, as of 8 April 2020

- Are we in a secular bear market rally or in a V-Shape market recovery? UBS reckons that we might see several more legs of this bear market.
- Facing that period as asset allocators, we must raise some points. The decline took almost 3 years - now we are having a two weeks period where we went from a bull market to a bear market. In 2001 the rally got stopped by the tragic 9/11 terror attack. At the beginning of 2001, the PMIs showed signs of improvements while now they are in a free fall.
- We had stimulus, i.e. mainly rate cuts from central banks while now, besides unlimited QE, we have Fed, which acts as lender of last resort creditor to companies and they even buy high yield bonds through ETFs.
- The cash allocation of fund manager has reached the highest level since 9/11, which in normal time is a trustworthy buying signal.
- Therefore, the likelihood of a long term-bear market is low but cannot completely be ruled out.

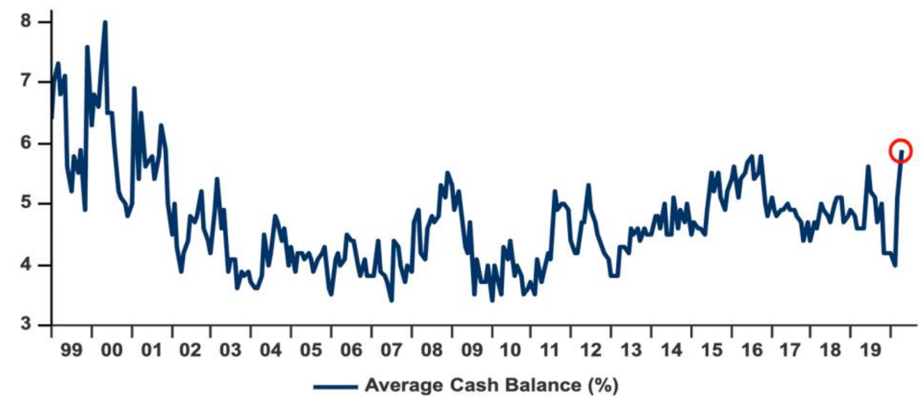
Investment Outlook: A V-Shape market recover?

Liquidity
- The Swiss franc trades in a sideways channel due to heavy interventions of the Swiss national bank.
- The EUR has depreciated against the Swiss franc although the SNB keeps intervening. A rare phenomenon has occurred due to the ECB bond buying program. The yield of the 10-year bund is at the same level as its Swiss pendant and both have a yield of around minus 0.4%
- The USD measured by the DXY index continues to weaken. The downward trend got accelerated after the latest Fed announcement.

Equities
- According to Wall Street strategists, the S&P 500 is at a level which is either around 25% too high or the estimates for earnings must be 25% higher. Neither is the case, as the latest Fed announcement made them buy high yield bonds and provide credit to companies in a situation where fundamental data is meaningless.
- Don't fight the Fed. The stimulus has reached levels which are hard to imagine. Therefore, the market has a floor at recently seen lows and will go up driven by liquidity. In 2021 we might reach new all-time highs.
- If this scenario plays out, you must overweight US equities and you can consider buying selectively emerging market equities.
- The outlook for European companies is less attractive. According to FactSet we have to wait until 2023 to see EPS reaching their pre-crisis level.

Fixed Income
- Investment grade bonds trade higher, mainly driven by spread tightening. QE works well, as recently commented by investment banks.
- Since the latest Fed announcement there is even hope for high yield bonds. Not only will the Fed buy such bonds through diversified ETFs but also such companies can get cheap credits from the central bank.
- Moral hazard is at its best. It means that a lot of companies, which might be bankrupt, will survive for longer. Investors who buy fallen angels, for instance companies which where IG before the 22nd March and now are junk, will get rewarded because the Fed treats them like IG bonds and can buy them directly.

Average Cash balance of asset manager is at highest level since 9/11



Source: BofA Global Fund Manager Survey, Bloomberg

Alternative Investments

- Gold: The gold price has broken out of its downward trend. It is short-term slightly overbought, but mid-term, given the massive global stimulus programs, might continue to see further upside.

- REITs: European REITS, mainly residential REITS have seen a V-Shape recovery. Meanwhile commercial real estate is mixed. In particular shopping malls are suffering from the lockdown.

- Oil: OPEC+ has finally agreed to cut the production in May. But given the demand shock experts believe that this cut is too small and therefore see further pressure on the oil price..

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Barrick Gold Corp	Basic Materials	CA0679011084	USD	25.00	11.74	25.00		29.21	11.84	0.80	34.96	-6.31

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