Market Watch. Blackfort.

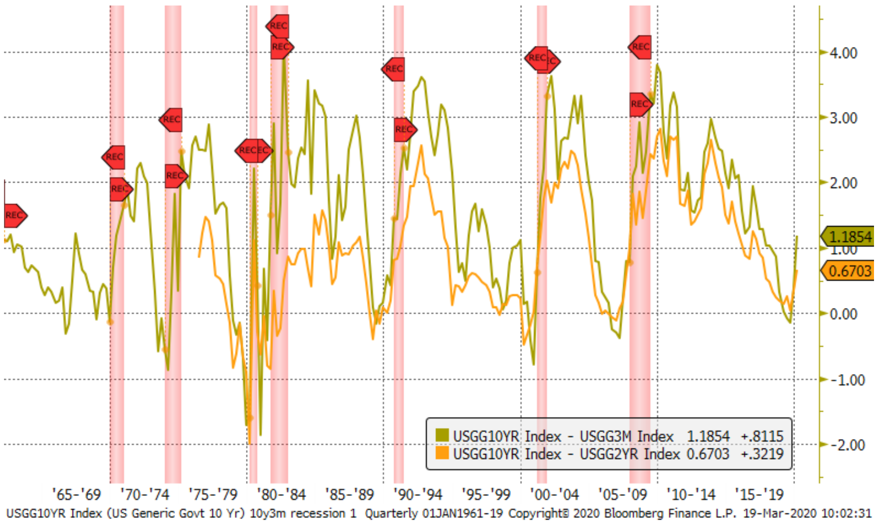
March (I)

BLACKFORT

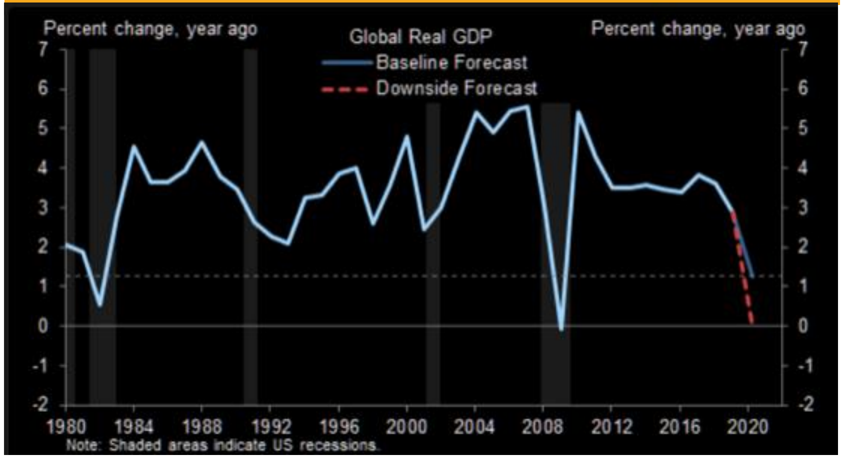
Macro Update: Fiscal Stimulus in the US / Monetary Stimulus from the ECB

- The ECB has launched an extra emergency bond-buying program worth EUR 750 bln (USD 820 bln) in the latest attempt to calm markets. This program is designed to keep the Euro governmental bond markets functioned. We are getting close to modern monetary theory (MMT), which suggests financing the state budget by issuing government bonds and putting them immediately on the balance sheet of the ECB.
- Monetary stimulus is not the medicine for a shutdown. But the states need to have access to new liquidity, therefore it is important that, for instance, the yield on Italian government bonds stay at relatively low levels. Ironically, the ECB recently claimed to not close spreads, and now they announce the new bond buying program with no limits, thereby closing spreads.
- Meanwhile the US is getting closer to approval of a fiscal stimulus program combined with a pay cheque for all citizens. This measures ensure that corporates and individuals have cash to pay bills or simply to buy food for the daily life.
- Depending form where it is financed, we might see a pure form of helicopter money.

Does the bond market price in a V-shaped recovery?



A global mild recession is ahead of us



Source: GS

- Meanwhile European countries have announced that they will support companies, especially smaller businesses, with liquidity injections in order to prevent them going bankrupt. After the shutdown is over the goal is to have most businesses rising and running. Therefore, it is imminent to keep them alive over this special period.
- There are several estimates about impact on GDP. Most likely will we see a mild global recession, assuming that in Q3 we get back to normal.
- That means Q2 will be substantially negative, but key is that all fiscal and monetary measurements will help to bridge the shutdown period and to quickly restart functioning.
- Therefore analysis suggesting 10% annualized negative GDP rate is not to be taken too seriously. As this would mean 4th quarter in a row with a minus 2.5% growth rate. It is very unlikely based on what we have learnt from China.
- Today was the first day in Wuhan with no new infected reported. Most of the country is back to work and therefore we expect a small but positive impact on global GDP from China in H1 2020.

Market Overview: Currencies, Commodities, Equity & Bond Indices

Bonds	Mar-20	YTD 2020
Bloomberg Barclays Global-Aggregate TR	-16.20%	-17.62%
Bloomberg Barclays Euro Aggregate Corporate TR	-7.29%	-6.59%
Bloomberg Barclays Pan-European High Yield TR	-16.78%	-18.18%
Bloomberg Barclays US Corporate High Yield TR	-14.20%	-15.39%
Bloomberg Barclays Asia USD High Yield TR	-11.20%	-10.61%
Bloomberg Barclays Global High Yield TR	-16.78%	-18.18%
JPM Emerging Market Global Bond	-16.60%	-15.34%

Equities	Mar-20	YTD 2020
NASDAQ 100 Stock Index	-15.16%	-17.66%
S&P 500 Index	-18.73%	-25.45%
MSCI World Index	-21.32%	-28.35%
MSCI Emerging Markets Index	-21.58%	-29.17%
EURO STOXX 50 Price EUR	-28.57%	-36.41%
SMI	-13.40%	-19.95%
DAX	-29.54%	-37.09%
FTSE 100	-23.52%	-32.75%
Hong Kong Hang Seng Index	-16.80%	-22.64%
Shanghai Shenzhen CSI 300 A-Shares	-8.91%	-12.39%
Nikkei 225	-21.71%	-29.97%

Commodities	Mar-20	YTD 2020
Gold	-6.97%	-2.54%
Copper	-16.94%	-22.76%
WTI	-56.43%	-66.64%
BRENT	-52.06%	-62.30%
Bloomberg Comodity Index	-16.67%	-25.14%

Currencies	Mar-20	YTD 2020
EURCHF	-1.26%	-2.79%
CHFUSD	-1.91%	-1.08%
CHFGBP	8.25%	13.42%
EURUSD	-3.17%	-3.84%
EURGBP	6.86%	10.24%
GBPUSD	-9.42%	-12.83%
EURRUB	17.80%	24.99%
USDRUB	21.42%	17.43%

Gold has not offered protection as the need for liquidity was stronger

- Before the global shutdown was announced, gold was overbought. Therefore one must have expected a pull back. But now gold trades below its 200-day average and might test levels around 1400 USD per ounce. For the last weeks gold did not serve as a safe haven, by the contrary it sold off with equities and corporate bonds. This should not have come as a surprise, as during the 2008 selloff gold temporarily lost value. Only after the crisis in 2009 gold started to rise.
- In stress situations correlations of assets are getting very high, i.e. there is no place to hide. In 2008 only governments rallied. This time we have seen a drop in US treasury yields from around 1.20% to 0.3%, only to be followed by a selloff. Now, the 10-year treasury yield is back at 1.17%

Investment Outlook: A V-Shape market recovery?

Liquidity

- The Swiss franc appreciated further against the Euro. Since the ECB announcement of the new bond buying program, we see a profound weakening of the euro. Without the intervention of the SNB we would have seen even a higher exchange rate.
- The USD measured by the DXY index has reached the highest level since 9/11. The announced Fed measurements, as well as the expected US fiscal stimulus, support the dollar. It also serves as a safe haven currency, just like the swiss franc and the yen.

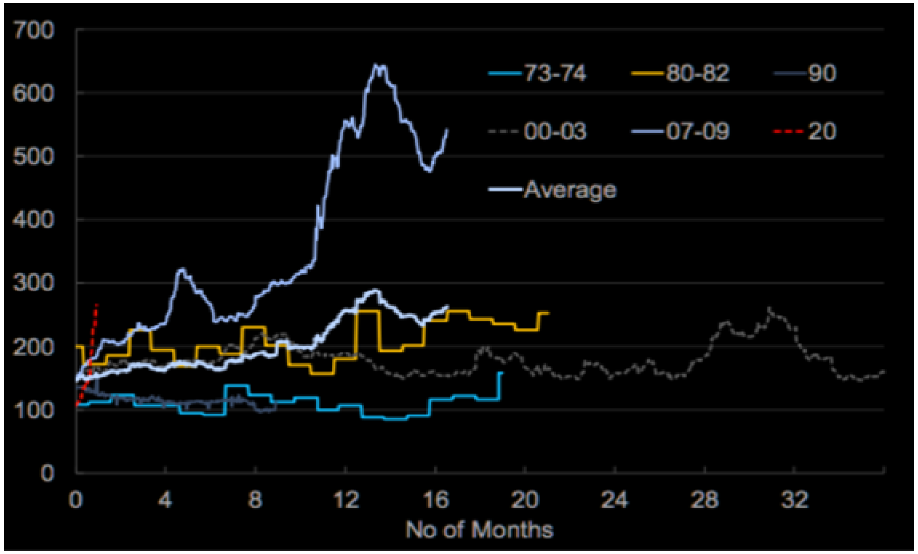
Equities

- The S&P 500 has broken its 200-day average and trades now slightly below the support level at 2'400 points. Most strategists expect that we will test levels at around 2'200. Intraday we have already gone down to almost 2'200.
- A PE contraction to around 12x would be equivalent to a level of around 2'200.
- But this thoughts are flawed. The actual earnings outlook has still to be revised down. Therefore, following this path, we can imagine that a PE ratio of 12 might mean levels below 2'000 for S&P 500. Nevertheless, this all depends on how effective the fiscal stimulus will be.

Fixed Income

- Investment grade bond spreads have sharply widened. The same picture can be observed in the corporate high yield market. But the real problem is the missing liquidity. Since 2009 investment banks were forced to close their prop desk due to Basel III and other regulations. And banks are now not willing to take any inventory of bonds on their books.
- Remarkably, the US treasury market has not functioned for a short time period. Therefore, the recent interventions of the ECB and the Fed are primary to ensure that the government bond market keeps working. It is extremely important that governments can finance their fiscal stimulus through the issue of new government debts.

Investment grade bond spreads in bear markets



Alternative Investments

- Gold: The gold market is in a consolidation phase. We expect that this will continue for a while, but mid-term gold will probably rise again as after the liquid crisis investors need to park money in safe assets.
- REITs: During the actual risk-off period REITS continue to hold up relatively well. European REITS have outperformed European equities but they are significantly down as well.
- Oil: OPEC is going to maximize its output while at the same time we see a collapse in demand. Russia is probably the winner as they have the lowest production costs, while US and Saudi Arabia, being the key driver of the production increase, will suffer.

Contacts

BLACKFORT

Blackfort Capital AG · Talstrasse 61 · 8001 Zürich · Switzerland
Tel. +41 44 585 78 78 · Fax. +41 44 585 78 70 · info@blackfort.ch · www.blackfort.ch

Disclaimer

These Bond Recommendations (hereafter «BR») are provided for information purposes only and for the use by the recipient. This document was produced by Blackfort Capital AG (hereafter «BF») with the greatest of care and to the best of its knowledge and belief. Although information and data contained in this document originate from sources that are deemed to be reliable, no guarantee is offered regarding the accuracy or completeness. Therefore, BF does not accept any liability for losses that might occur through the use of this information. The BR does not purport to contain all of the information that may be required to evaluate all of the factors that would be relevant to a recipient considering entering into any transaction and any recipient hereof should conduct its own investigation and analysis. In addition, the BR includes certain projections and forward-looking statements. Such projections and forward-looking statements are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control. Accordingly, there can be no assurance that such projections and forward-looking statements will be realised. The actual results may vary from the anticipated results and such variations may be material. No representations or warranties are made as to the accuracy or reasonableness of such assumptions or the projections or forward-looking statements based thereon. This document is expressly not intended for persons who, due to their nationality or place of residence, are not permitted access to such information under local law. It may not be reproduced either in part or in full without the written permission of BF.