Weekly Market Summary

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The New Buzz Words to Know … OPEC++, Dr. Fauci and $10 Trillion BS (?)!!
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Latest Update on Coronavirus: Confirmed cases last at 1.619 million (versus 1.068 million last Friday), 97,000 deaths (versus 54,045). The COVID-19 is now affecting 210 countries and territories around the world (versus 204 last week). Spain has just reported the fewest number of deaths since March 24th and the pace of new cases has slowed in Germany. Italy is seeing a downward trend in infections, but may still extend the lockdown to early May. UK Prime Minister Boris Johnson has been taken out of intensive care and is currently starting his recovery. France's Emmanuel Macron flew unexpectedly to Marseille yesterday and spent more than 3 hours meeting with Didier Raoult, the researcher whose work has propelled a medicine called hydroxychloroquine from fringe to famous, after it won over US President Donald Trump (who suggested he would be willing to take the medicine himself). Also yesterday, European Union finance ministers agreed on a $590 billion package of measures to combat the economic fallout, whilst leaders around the world continued to urge their people to abide by restrictions this weekend

A buzzword is a word or expression from a particular subject area that becomes fashionable for a period of time by being used a lot, especially via the internet, television and in the newspapers (for those left reading newspapers!); It is also referred to as a chic, fashionable, voguish, trendy or "*a la mode*" jargon! According to management professor Robert Kreitner, "*Buzzwords are the literary equivalent of Gresham's law*", i.e. they usually drive out good ideas. However, at times, a useful buzzword can become co-opted into general speech and lose its usefulness (Trump's use of "Covfefe", a misspelling of the word "coverage", surely comes to mind 😊).

This week, markets have responded relatively positively to yet another set of devastating figures on the economic & well-being front. With health reports continuing to point towards increased deaths and an unprecedented medical crisis in many parts of the world, miserable consumer confidence data being released everywhere (UK GfK consumer confidence down to -34 in March, a 12-year low & the US University of Michigan Sentiment last a 71.0, an 8-1/2 year low!) and new US unemployment claims increasing by a stunning 16 million over just 3 weeks (which would imply an unemployment rate approaching 15% in coming months, up from just 3.5% in February and well above the 10% peak rate reached after the 2008/09 global financial crisis), investors and hedge fund managers would have been excused for getting a little more nervous and using market bounces to offload remaining stock holdings - parking proceeds in "safe" government securities.

Instead, risk sentiment consolidated further in past days and US stock indices soared to post their biggest weekly gains since 1974, extending a remarkable rally despite widespread evidence of increasing economic strain (take for example trillions of global debt secured against commercial real estate, at a time lockdowns have shut stores worldwide and led retailers such as H&M to stop paying the rent!). The S&P 500 has gained 12% for the week (markets are closed today for the Easter break), capping off its biggest week of gains in decades; The Dow Jones Industrial Average (DJIA) has risen 13%, whilst the Nasdaq Composite advanced 11% for the same period. Similarly in Europe, Germany's benchmark DAX index is soon poised to exit a bear market that began last month, after rising 20% from the March lows on indications that infection rates in parts of Europe may be nearing a peak.

So what was the trigger for this latest market resilience and should investors now be willing to take on more risks? To answer that, the following 3 reasons or buzzwords come straight to mind, when addressing the latest recovery:

- **OPEC++** (focus on the double "+" sign!): Saudi Arabia and Russia agreed yesterday to record oil production cuts in an effort to revive the market from a tragic coronavirus-induced slump that could soon threaten the stability of oil-dependent nations, as well as the survival of the US shale industry. Attention now turns to the G-20 energy ministers meeting later today; Contribution from major producers, including the US and Canada (the extra "+"), is surely needed to lift prices after the OPEC+ historic agreement failed to push crude higher on Thursday (May WTI & June Brent oil closed Thursday at

$22.76 and $31.48 respectively). OPEC+, meeting by video conference, tentatively agreed to cut production by roughly 10 million barrels a day in May and June, delegates said. Saudi Arabia and Russia, the biggest producers in the Group, will each take output down to about 8.5 million a day, with all members agreeing to cut supply by 23%. The alliance also seeks reductions of as much as 5 million barrels a day from the G-20, but will reduce output even if the bigger group does not join in, according to delegates (though Russia has insisted recently that the US in particular do more than just let market forces reduce its record production!) Mohammad Barkindo, OPEC's secretary-general has urged global action to tackle the growing oil surplus, which he estimated at 14.7 million barrels a day in the second quarter. Worth noting that Mexico has made some noises overnight, saying it refuses to agree to the proposed curbs (instead offering to reduce output by only 100k a day, far less than the 400k barrels a day proposed by the Group… I guess time for Superman Trump to come to the rescue!)

- **Dr. Fauci**: Dr. Anthony S. Fauci is an American physician and immunologist who has served as the director of the National Institute of Allergy and Infectious Diseases (NIAID) since 1984, overseeing an extensive portfolio of basic and applied research to prevent, diagnose and treat established infectious diseases such as HIV/AIDS, respiratory infections, tuberculosis and malaria as well as emerging diseases such as Ebola and Zika. Dr. Fauci is also the long-time chief of the Laboratory of Immunoregulation in the US and has advised six presidents on HIV/AIDS and many other domestic and global health issues. With President Trump's confusing messages throughout recent coronavirus briefings (one day, "*it will soon all go away*", and days later "*this is a tough one because it spreads so quickly, like nothing we've seen*"), the world has shifted its attention towards the candid and trusted assessments of Dr. Anthony Fauci; So when the latter says the US is starting to witness flattening of the virus curve in NY and adds "*I believe we are going to see a downturn*" and deaths projections look "*more like the 60,000 than the previous 100,000 to 200,000*," traders straight assume that this will accelerate the White House's efforts to develop a plan that urges Americans to leave their homes and return to work next month (sounds again like a V-shape recovery! Yeahhh!).

- **The $10 Trillion Balance Sheet** (yes, BS was referring to balance sheet, at least for now 😊): Federal Reserve officials saw gathering downside risk as warranting a "*forceful*" response when they announced emergency interest-rate cuts in mid-March, according to a record of their unscheduled gathering via video conference on March 15th. That is when the US central bank slashed its benchmark rate to nearly zero and agreed to re-start massive bond-buying programs to pump cash into the banking system. Since then, the Federal Reserve's response has become even more powerful! Yesterday, it unleashed another round of emergency measures, including a pledge to provide support to risky corners of financial markets that have been some of the hardest hit. The Fed said Thursday it will invest up to $2.3 trillion in loans to aid small and mid-sized businesses and state and local governments as well as fund the purchases of some types of high-yield bonds, collateralized loan obligations and commercial mortgage-backed securities. The money comes on top of the massive stimulus that the Fed had already announced and it thrusts the institution into the sort of speculative lending activities it had shunned in the past - underscoring the risks that Chairman Jerome Powell is willing to take to shore up the economy. Many Fed watchers now expect the Federal Reserve to double or triple the size of its balance sheet from the pre-pandemic level of $ 4.0 trillion (and just $870 billion in late 2007!) before the end of 2020, should it utilize its full emergency capacity. If and when that happens, the central bank's balance sheet size would balloon to $ 8-12 trillion, roughly 50% of total US GDP and double the 25% peak reached in 2014 (Who knows? Maybe by then, an ounce of gold would be worth close to $3,000!)

The above being said, there are still considerable risks ahead and key among those is the threat that containment measures would need to be extended over the coming few weeks/months, removing all optimism associated with a projected second-half 2020 economic recovery (former Fed Chair Ben Bernanke recently said he does not see a quick, sharp rebound in the economy after a precipitous fall this quarter. "*We will probably have to restart activity fairly gradually and there may be subsequent periods of slower activity again*.") In turn, this could add more strain on global growth and put the latest risk rally to the test.

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