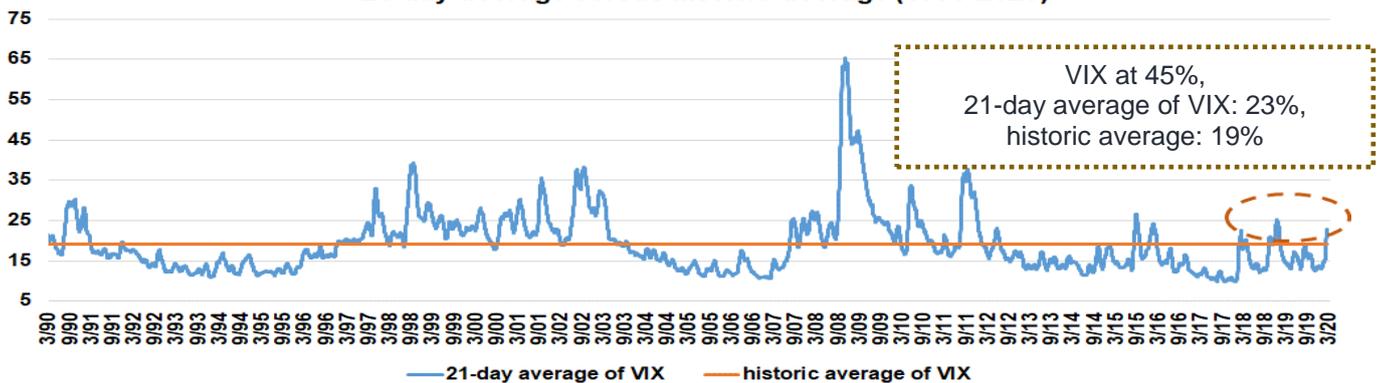


During the last two weeks, volatility has risen extensively and investors have been “stress – tested” in real time. Overly risk - on markets environment during 2019 has led to overbought conditions in January 2020, which reversed into risk – off mode in February. Today (March 6, 2020) marks eleven years since the upwards equity market begun (March 6, 2009). At the close of the current week for global markets, there will be some evidence on whether monetary and fiscal stimulus policies, which have shielded markets in the previous years, can still function in this supportive way.

Regarding coronavirus, the World Health Organisation said that the world can still avoid the “worst of it, but the level of alert is the highest”. The IMF said that there are \$50 bn. available for assisting the developing countries. Fiscal stimulus is considered by developed countries. It should be noted that US and China have already deployed extensive fiscal stimulus in past years. Aggressive monetary easing response was conducted by the Federal Reserve on Tuesday (3/3). The Fed emergently cut the benchmark rate by 0.5% to the range of 1.00% – 1.25%. US 10-year government bond yield dropped to historic low (6/3/2020: 0.693%). Taking into account that the US 10-year yield is already lower compared to the periods, when the Fed conducted quantitative easing and that the German 10-year yield is close (6/3: -0.739%) to the historic low (3/9/19: -0.742%), it can be said that most of the supportive “firepower”, which central banks have, has already been reflected in markets.

A volatility measure, the VIX index (implied from S&P 500 options market), is around 45% (6/3) and its last 21-day average is 23%, exceeding the historic average (19%). This probably indicates “fear of the unknowns”.

**Volatility index (VIX: implied from S&P 500 options market):
21-day average versus historic average (1990-2020)**



Source: Bloomberg

While a market recovery in the period ahead may happen, **the increased level of volatility may imply that investors with defensive/low tolerance to risk is prudent to already start lowering the risk in their portfolios.** This can initially be conducted by raising cash equivalents allocation. It is noted that defensively balanced investors may have been partially supported year to date, by the fact that the global aggregate bond index has positive return since the start of 2020 (6/3: 3.3% in USD).

The week ahead:

The **ECB** may cut the deposit rate to -0.60% from -0.50% at the meeting of March 12. On the same day, Eurozone industrial production for January will be announced. **US** inflation figures for February are expected (11/3).

Adjusting equity allocation lower (underweight) for the mid- term horizon (6 months) can be considered as prudent. The supportive effect of continued multi-year central banks easing can be regarded as mostly already reflected in markets, while economic figures may become weaker in the months ahead. **US** equity weighting can be maintained (neutral), due to the favourable characteristics (including defensiveness) of the US market. Rest of developed world (ex-US) can gradually be lowered to underweight, while emerging markets allocation can be maintained (neutral).

Once **US** employment figures for February will be announced this afternoon (6/3), there will be a set of current economic figures for markets to “digest”. Taking into account the overall financial markets environment and uncertainty about economic figures in the future, investors with moderate to higher tolerance for risk may gradually start adjusting beta (market risk) exposures lower.

Quote of the Week:

The Chairman of the Federal Reserve said: “ We will do our part to keep US economy strong”.

Global Markets in Charts

Gold price is at 7 - year high (6/3: \$1,690/ounce).

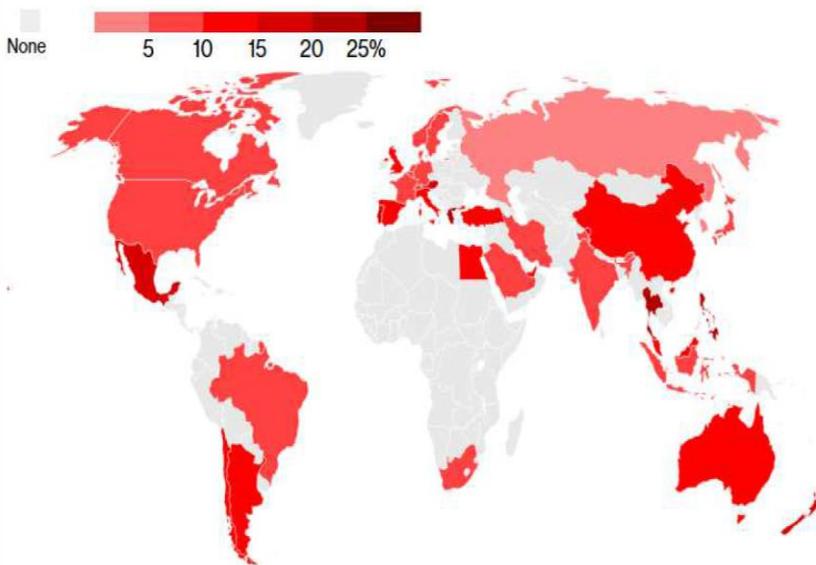


The continued drop of US and German government bond yields has benefited the price of gold. The perception that gold is a “safe – heaven” asset has also supported gold price, in an environment of elevated uncertainty.

Resistance for the price of gold is at the area of \$1,715/ounce (Fibonacci retracement 76.4%: \$1,921 - \$1,046) and at \$1,796/ounce (5/10/2012 high). It should be noted that gold is not a low volatility asset, as its standard deviation is around 12%. In periods of corrective price move for Gold, support is at \$1,610-30/ounce (21- day average, 4/3/20 low) and at \$1,560/ounce (28/2/20 low).

Global economic growth will probably be lower than initially expected. The magnitude of the impact of coronavirus remains uncertain, what part of the impact will be permanent and what temporary also remains uncertain.

Proportion of gross domestic product generated by travel and tourism



Source: WTTC

Sources: World Travel & Tourism Council (WTTC), Bloomberg

International tourism industry revenues, which were around \$1.7 trillion in 2018, are expected to be hit by the coronavirus spread. Countries overly reliant to a highly cyclical industry, such as tourism, will be impacted.

Fiscal easing measures will likely be deployed at some point, but the key will be coordination. This is particularly important for Eurozone, where consensus must be reached before decisions are taken.

Global Markets Minesweeper
Event Risk Calendar, 9 - 13 March 2020

Monday 9/3						
Date Time	Country	Event	Period	Survey	Prior	
9/3 01:50	JN	Trade Balance BoP Basis	Jan	-¥962.0b	¥120.7b	
9/3 01:50	JN	GDP SA (QoQ)	4Q F	-1.7%	-1.6%	
9/3 01:50	JN	GDP Annualized SA (QoQ)	4Q F	-6.6%	-6.3%	
9/3 07:00	JN	Eco Watchers Survey Current SA	Feb	35.7	41.9	
9/3 07:00	JN	Eco Watchers Survey Outlook SA	Feb	37.5	41.8	
9/3 09:00	GE	Trade Balance (euro)	Jan	14.8	15.2b	
9/3 09:00	GE	Industrial Production WDA (YoY)	Jan	-3.9%	-6.8%	
9/3 11:30	EC	Sentix Investor Confidence	Mar	-12.4	5.2	
Tuesday 10/3						
Date Time	Country	Event	Period	Survey	Prior	
10/3 03:30	CH	PPI (YoY)	Feb	-0.3%	0.1%	
10/3 03:30	CH	CPI (YoY)	Feb	5.2%	5.4%	
10/3 08:00	JN	Machine Tool Orders (YoY)	Feb P		-35.6%	
10/3 12:00	US	NFIB Small Business Optimism	Feb	102.7	104.3	
10/3 12:00	EC	GDP SA (QoQ)	4Q F	0.1%	0.1%	
10/3 12:00	EC	GDP SA (YoY)	4Q F	0.9%	0.9%	
Corp. Results		GE: Deutsche Post				
Wednesday 11/3						
Date Time	Country	Event	Period	Survey	Prior	
11/3 11:30	UK	Industrial Production (MoM)	Jan	0.2%	0.1%	
11/3 11:30	UK	Manufacturing Production (MoM)	Jan	0.3%	0.3%	
11/3 11:30	UK	Trade Balance GBP/Mn	Jan	-£211 m	£7715m	
11/3 14:30	US	CPI (YoY)	Feb	2.2%	2.5%	
11/3 14:30	US	CPI Ex Food and Energy (YoY)	Feb	2.3%	2.3%	
Corp. Results		GE: Adidas, UK: Prudential				
Thursday 12/3						
Date Time	Country	Event	Period	Survey	Prior	
12/3 01:50	JN	PPI (YoY)	Feb	1.1%	1.7%	
12/3 12:00	EC	Industrial Production SA (MoM)	Jan	1.4%	-2.1%	

March 6, 2020

12/3 12:00	EC	Industrial Production WDA (YoY)	Jan	-3.3%	-4.1%	
12/3 14:30	US	PPI Final Demand (YoY)	Feb	1.8%	2.1%	
12/3 14:30	US	PPI Ex Food and Energy (YoY)	Feb	1.7%	1.7%	
12/3 14:30	US	Initial Jobless Claims	7-Mar		216k	
12/3 14:45	EC	ECB Main Refinancing Rate	12-Mar	0.0%	0.0%	🔵*
12/3 14:45	EC	ECB Marginal Lending Facility	12-Mar	0.25%	0.25%	🔵*
12/3 14:45	EC	ECB Deposit Facility Rate	12-Mar	-0.50%	-0.50%	🔵*
Eco Event	EC	ECB President Christine Lagarde holds press conference				🔵*
Corp. Results		US: Adobe, Oracle, Broadcom				
		Friday 13/3				
Date Time	Country	Event	Period	Survey	Prior	🔵*
13/3 09:00	GE	CPI (YoY)	Feb F	1.70%	1.70%	
13/3 14:30	US	Import Price Index (MoM)	Feb	-1.0%	0.0%	
13/3 16:00	US	U. of Mich. Sentiment	Mar P	96.4	101	

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