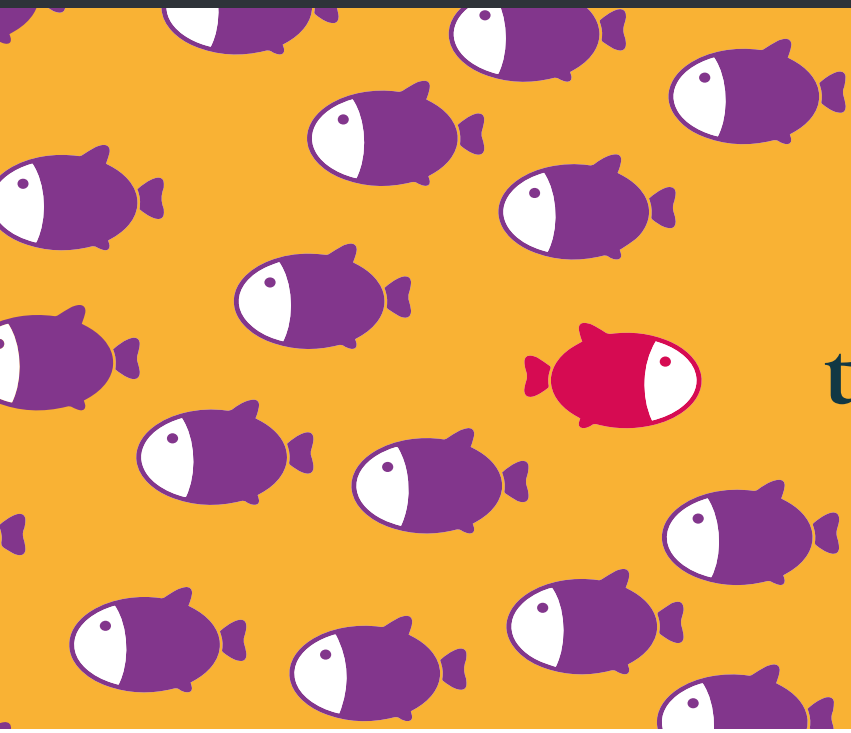

The one chart that stands out

LATEST

Economic data is still surprising analysts

How should investors make sense of this?

Closer to a vaccine

Investors have seen a very strong start to the month from risk assets following a very strong quarter. However, the narrative has not changed during the week.

Economic data is still surprising analysts' predictions on the upside. One example this week was the strong US employment data, which is keeping hopes alive that all will be well and that societies will soon return to trend growth around the world. This is set against new out breaks of the virus in the so-called US sunbelt, which includes states such as Florida, Georgia and Texas.

As you may remember, last week the US ICU Severity Index was introduced to this weekly update. As a reminder, the index looks at states where the available ICU capacity is below 30% and simply calculates what percentage of the US population is living in such states. As of this morning, this number stands at 19% compared to 14% last week so things are definitely getting a little worse on this front.

The punchline is this: investors have great economic data on the one hand versus bad virus news on the other.

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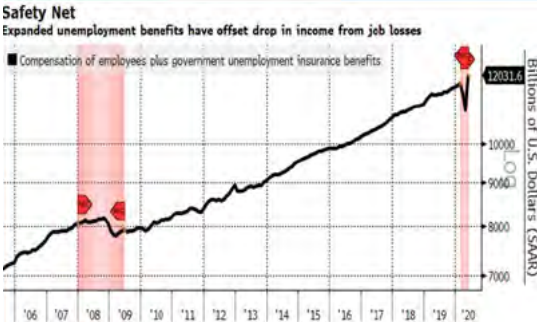
Continued from overleaf

How should investors make sense of this?

The great economic data coming out of the US has not happened by accident but has been the outcome of almost seamless bi-partisan co-operation across all branches of government. A standout chart, published earlier this week, (right) It depicts total compensation for US workers and the unemployed as a group. Interestingly, this number is actually up from before the crisis started.

This is, in large part, due to the expansion of the Unemployment Insurance programme as agreed by the US Congress – the so-called CARES act. This is why it is important that the US Congress enacts another fiscal package soon and should follow developments on this front so closely.

With respect to the virus, investors may well be more worried about the outlook if policymakers were not introducing new restrictions, as these steps seem needed for economies to rebound on a sustained basis. In addition, there are easy steps, which can be taken to help solve the problem in the short term. Ongoing research suggests that limits on large-group indoor gatherings and widespread mask use may significantly reduce virus transmission while allowing large parts of the economy to re-open. So, investors should expect US states which are experiencing outbreaks to focus on such measures.



Source: US Department of Commerce, Bloomberg, 02/07/2020.

Closer to a vaccine

Finally, it should be noted that of course renewed virus outbreaks pose downside tail risks. For cyclical assets to resume a consistent uptrend, the market will need to lower those downside risks. However, each day societies are getting closer to a vaccine and, surely, that should serve as a reminder that upside tail risk also exists. Only this week BioNTech announced positive news from its most recent trial and there are 16 other groups, which have proceeded to clinical evaluation of a Covid-19 vaccine according to the FT. Scott Gottlieb, former commissioner of the US Food and Drug Administration, this week tweeted that it is just six months until societies get to a technology to end the virus epidemic though vaccines or medicines.

For all these reasons mentioned, investors may wish to retain their allocations to equities, buttressed by bonds and alternatives to add diversity to their portfolios.