MONACO ASSET MANAGEMENT

Investment Outlook

Q2 2020

ASSET CLASS RETURNS

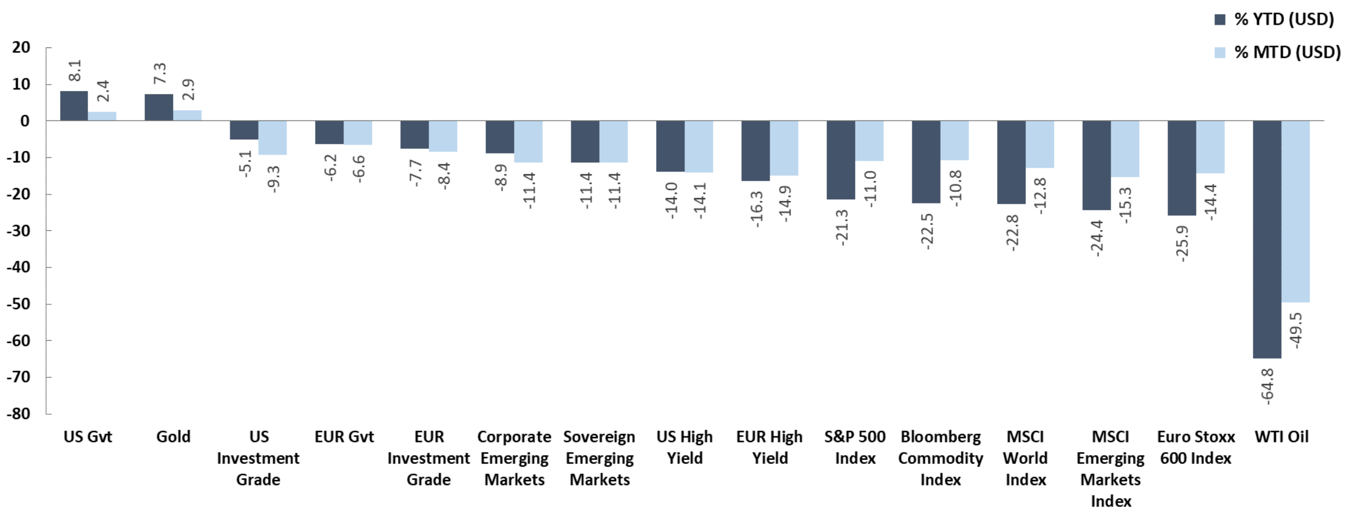
We are in the midst of a global crisis and asset class's returns in Q1 reflected this. The traditional barometers of economic growth, copper and oil prices, have collapsed by 20% and 60% respectively in Q1. Concerns over both over-supply and falling demand have led this sell-off.

Global equities are down -24% in Q1. No region has been spared. The rally off the lows at the end of March 2020 has all the hallmarks of a bear market rally. We do not expect a V-shaped recovery in equity prices.

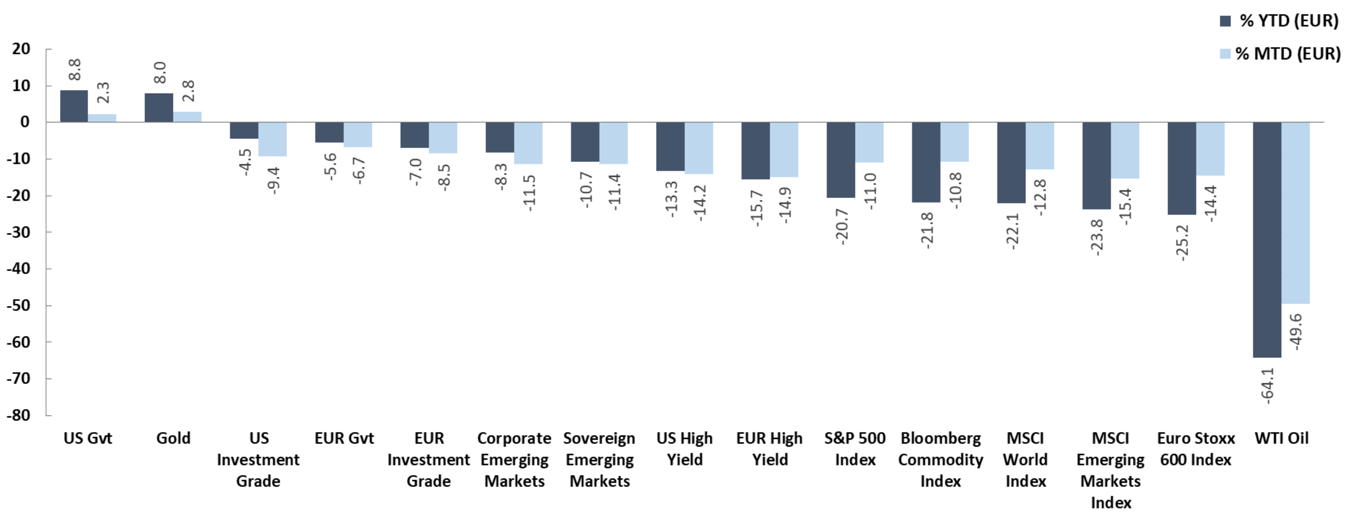
The speed of widening in corporate bond spreads has been historically high. Prospects of a recession and low market liquidity has driven some significant dislocations in credit markets. US treasuries managed to post positive return (+7.4%) in Q1 after the Fed dropped its interest rate to zero. Corporate investment grade indices were down by 8.0% and high yield indices dropped by as much as 17.0%.

On the other end of the spectrum, despite some headwinds after a liquidity driven sell-off with investors obligated to cover their margin calls, gold assumed its safe-heaven status by being one of the very few assets posting positive returns in Q1 with a positive performance of 7.5%.

USD – Denominated Returns



EUR – Denominated Returns



INVESTMENT STANCE OVERVIEW

Conclusion: The Covid-19 pandemic is the black swan event that has driven the global economy into a recession that will be deep and potentially deeper than 2008. We do not expect a V-shaped economic recovery but a U-shaped one spanning a few quarters. Policymakers are displaying a positive sense of urgency to address the issues at stake. The monetary and fiscal policy response announced so far is historic in scale. It will go a long way in mitigating the effects of the recession. We are in the midst of a paradigm shift, as the world economy will be confronted with a triple shock: supply, monetary and fiscal shocks. We believe this will be inflationary. Investors have not been used to taking inflation in consideration for years. Some adaptation is required. As a result, we believe that Global bond yields have bottomed and risk moving higher. This will have a profound effect on credit markets and equity markets. The equity leaders of the past 10 years will likely be replaced by new ones. In the short-term, we expect equity and credit markets to re-test the recent lows as investors appreciate the longer duration of this crisis. We do expect higher levels of volatility to remain for some time to come. We will continue using volatility spikes to benefit from attractive risk-reward trades such as the sale of put options. We expect the USD to weaken based on US fiscal and monetary expansion and current account deficit swelling. In other asset classes, we continue to like Commodities which will benefit from the return of inflation. Particularly, we like Silver. In effect, Q2 should mark the return of active over passive investment strategies.

There are some key changes to our view from Q1 2020:

- We downgraded our view on European and UK equities from bullish to bearish, from neutral to bearish on US and Japan equities, and from bullish to neutral on EM Equities.
- We downgraded our view on US Sovereign bonds from neutral to bearish.
- Within precious metals, we switch our preference to silver from gold based on a historically high gold-to-silver ratio. We believe the former commodity will benefit from a mean reversion scenario.

	Investment Stance						Quarterly
	Very Bearish	Bearish	Neutral	Bullish	Very Bullish		Change*
SOVEREIGN BONDS						**BEARISH DM**	-
US							↘
Europe (Core)							-
Europe (Periphery)							-
Emerging Markets							-
CORPORATE BONDS						**BEARISH DM**	-
US High Yield							-
US Investment Grade							-
EUR High Yield							-
EUR Investment Grade							-
Emerging Markets							-
CURRENCY						**BEARISH USD**	-
USD							-
EUR							-
EM							-
JPY							-
GBP							-
EQUITIES						**CAUTIOUS**	-
US							↘
Europe							↘↘
UK							↘↘
Japan							↘
Emerging Markets							↘
COMMODITIES						**BULLISH**	-
Energy							-
Precious Metals							-
Agriculture & Livestock							-
ALTERNATIVES						**BULLISH**	-
Hedge Funds							-
Real Estate							-
Private Equity							-

* Change compared with previous months. One arrow means the stance has moved one place to the left or the right, two arrows means a move of two places, etc.

MAM

MODEL PORTOFLIO

The following model portfolios are based on current positioning at the start of Q2 2020. Considering the volatile nature of financial markets and our outlook, their composition is likely to change throughout the quarter.

USD Based Portfolio

Asset Class	Last Price	Perf. 5D	Perf. MTD	Perf. YTD	MAM Outlook	Asset Allocation
Currencies						
Portfolio Bases						**97.0%**
EUR	1.11	3.4%	0.6%	-1.1%	Bullish	10.0%
USD	98.81	-3.6%	0.7%	2.5%	Bearish	87.0%
Others						**3.0%**
JPY	107.78	3.2%	0.1%	0.8%	Bullish	3.0%
Equities						**40.0%**
Developped Markets	**43.65**	**12.2%**	**-16.7%**	**-25.0%**	Bearish	**30.5%**
Europe	306.72	9.4%	-18.3%	-26.2%	Bearish	9.2%
North America	2,541.47	10.3%	-14.0%	-21.3%	Bearish	18.3%
Great Britain	5,417.19	8.5%	-17.7%	-28.2%	Bearish	1.5%
Asia Pacific	19,084.97	13.0%	-9.7%	-19.3%	Bearish	1.5%
Emerging Markets	**842.54**	**11.1%**	**-16.2%**	**-24.4%**	Bullish	**6.0%**
Asia Pacific	497.87	9.5%	-14.1%	-18.9%	Bullish	4.0%
EMEA	172.40	8.6%	-22.9%	-35.6%	Bullish	1.4%
South America	1,576.28	5.4%	-34.6%	-46.0%	Bullish	0.6%
Thematic						**3.5%**
Asset Allocation	27.66	7.6%	-12.2%	-17.4%	Bullish	3.5%
Fixed Income						**15.0%**
Europe						**0.0%**
Sovereign	219.95	0.9%	-0.9%	0.2%	Bearish	0.0%
Investment Grade	244.39	1.3%	-3.3%	-1.0%	Bearish	0.0%
High Yield	348.28	5.1%	-14.2%	-15.7%	Bearish	0.0%
North America						**3.0%**
Sovereign/Tips	2,636.95	2.0%	-1.7%	2.8%	Bullish	3.0%
Investment Grade	3,074.85	5.4%	-8.5%	-5.1%	Bearish	0.0%
High Yield	1,877.94	7.3%	-12.8%	-14.0%	Bearish	0.0%
Emerging Markets						**6.0%**
Local Currency	356.82	6.3%	-12.0%	-11.4%	Bullish	6.0%
Hard Currency	1,096.21	4.6%	-10.6%	-9.4%	Neutral	0.0%
Others						**6.0%**
Convertible	783.17	2.0%	-6.3%	-5.8%	Bearish	0.0%
Trade Finance	110.17	0.2%	1.1%	2.3%	Bullish	3.0%
Broad Funds	510.41	2.7%	-2.2%	-0.2%	Bullish	3.0%
Commodities		**0.4%**	**-12.3%**	**-23.0%**		**10.0%**
Agriculture	60.12	-0.6%	-3.9%	-12.3%	Bullish	1.7%
Energy	17.30	-3.7%	-35.3%	-51.4%	Bullish	1.7%
Industrials	91.55	1.7%	-11.3%	-20.1%	Bullish	1.7%
Precious Metals	189.04	5.2%	1.3%	1.3%	Bullish	5.0%
Alternatives						**20.0%**
Hedge Funds	1,199.03	2.2%	-6.3%	-7.2%	Bullish	20.0%
Real Assets	1,388.86	12.4%	-21.5%	-29.3%	Bullish	0.0%
Cash						**15.0%**

EUR Based Portfolio

Asset Class	Last Price	Perf. 5D	Perf. MTD	Perf. YTD	MAM Outlook	Asset Allocation
Currencies						
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Real Assets	1,388.86	12.4%	-21.5%	-29.3%	Bullish	0.0%
Cash						**16.0%**

MAM ACTIONS

Equities

What have we done?

We came into the year with a relatively high exposure to equities. In early February 2020, we could not reconcile the over-bought nature of equity markets and the fast spread of the COVID-19 globally. We decided to reduce accounts' equity exposure by 10% in advance of the sell-off. We then used the mid-February relief rally to sell another 15% of equity exposure. In essence, for our balanced portfolios, equity exposures were on average at or below 30% at the onset of the bear market. In addition, some of our hedging vehicles such as the Dispersion Note performed extremely well. With a price double the initial cost, we decided to reduce account exposure to this product by 50%. In essence, this means that the initial cost of the product has been reimbursed and that the remaining exposure is a free option on market dispersion going forward.

In early March, our indicators were showing extreme pessimism in the market and oversold technicals. Equity market volatility was historically high. This, despite policymakers scrambling for monetary and fiscal policy support. We decided to take advantage of high volatility to sell put options on indices and single stocks in Europe and the US. This created the opportunity to earn some premium while owning the underlying at a cheaper price should markets continue to fall.

Our strategy going forward?

We believe that equity markets will re-test or break through lows in Q2 2020. In the short-term we intend to sell equities into rallies. We then intend to continue with the same strategy of selling put options once we believe a correction is overdone and buy outright equities when we foresee a more durable market rally.

Fixed Income

What have we done?

We have been consistently negative Investment Grade and High Yield corporate bonds in EUR and USD. We came in the year extremely underweight corporate bonds. In February 2020, we sold most of the remaining exposure to investment grade and convertible bonds as we anticipated credit issues from the pandemic crisis. In essence, this means that portfolios had historically low exposure to credit at the onset of the selloff.

Our strategy going forward?

We continue to be bearish credit in the short-term. We think Q2 will be difficult for credit given our view of a longer and deeper recession. We are also turning bearish US Government bonds based on excess supply and inflationary pressures building up. In due course, with credit spreads at close to historic highs, we may begin looking at singular event driven ideas. We like EM credit and restructuring situations such as in Argentina.

Commodities

What have we done?

Precious metals have seen a significant increase in volatility over the past few weeks. While fundamentals call for strong precious metal prices, the increase in margin requirements has forced some unwilling selling. We managed to sell 50% of the gold and silver positions near the March highs. We the bought back the silver positions during the sell-off mid-March.

Our strategy going forward?

We will continue trading around precious metals positions while also looking for new investment opportunities in Commodities; an asset class on which we remain bullish medium-term.

MAM ACTIONS *(cont.)*

Currencies

What have we done?

We took advantage of the strong rally in the USD to further reduce exposure in EUR balanced accounts to c.5% (from 10% previously). We also took advantage of low FX volatility in February to buy some USD put options where appropriate.

Our strategy going forward?

Our medium-term view of a weaker USD warrants little change in portfolios currently. We will look for singular FX plays potentially in Emerging Markets.

Hedge Funds

What have we done?

We monitored closely the performance of the hedge funds in portfolios. We decided to sell exposure to any hedge fund which did not manage to outperform in Q1 2020 such as AQR Market Neutral and Millburn Systematic.

MAM is managing two internal Hedge Funds: Io Macro Fund and Macro Hedge Fund. Both are displaying positive performance YTD and have rallied +25% and +10% respectively in March 2020. We continue to believe that adding exposure to these two funds where possible is an added value proposition. In the Macro Hedge Fund, we have been extremely active in trading across equity, credit, currency, and commodity markets. Macro investments and pure hedging investments have managed to contribute positively in Q1 2020.

Our strategy going forward?

We will continue to look for opportunities to invest in funds or hedge funds that have a track record of delivering alpha. We will focus primarily on Emerging Market credit and Commodities; two areas we believe offer attractive opportunities.

EVENTS

COVID-19 Update

In the early stages of 2020, an unknown coronavirus string spread across China infecting thousands of people and forcing the government to take unprecedented lockdown measures to limit the spread of the virus. A few weeks later, the virus had spread across Asia and is now powering through the rest of the world. With still a lot of unknown regarding COVID-19, government institutions and health agencies are in a race against the clock to limit the health and economic impact of the virus after it sent the global economy to a halt.

Inherently, we cannot say how long the crisis will last nor can we say how much of an impact it will have on the economy and our daily lives. However, there is one thing we can be confident about: the world will not be the same again. That was true after World War II, the global financial crisis of 2008-2009, and many other great crises. Now, we do not want to sound overly dramatic here but rather highlight the fact that it may take a while to get back to "normal".

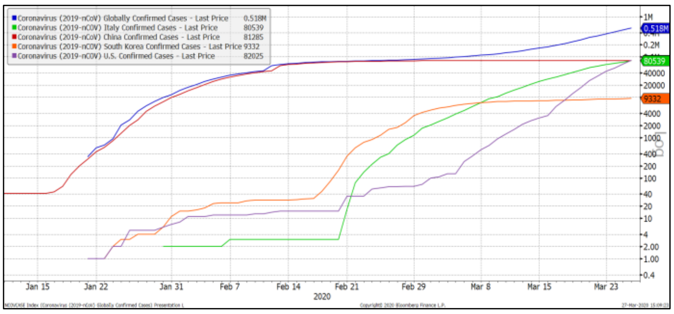
The best analogy for this crisis is to think of wars with the first one being economic, financial, and material while the second one has to do with society's health. As in the early stages of a real war, outcomes are uncertain and economies, markets, and people in general find it difficult to deal with such uncertainty and high stakes. While we cannot add much value to our clients with regards to the public health aspect of the crisis, we will focus on the economic and financial implications and how we plan to deal with them.

One of the things concerning us remains the lack of transparency and trust in the data. Newly reported infection cases continue to rise dramatically in the West, but could that be because testing has increased? Then, come the question of how much capacity is not only available but also how fast can it be and is it being expanded in the healthcare system? The lack of good answers prevails and continues to support a high level of uncertainty leaving room for people to further panic and market stability to further deteriorate.

From an economic and financial market standpoint, we do not expect "V-Shaped" recovery but a longer duration U-Shaped one. The late adoption of drastic sanitary measures in some occidental states should lead to longer lasting repercussions and prolong the time to economic recovery. We continue to closely monitor the spread of the virus globally and model its spread and growth to identify logarithmic curves inflection points **(Chart 1)**. While we believe the number of cases is poised to decrease over the coming weeks or months, we cannot yet scratch the idea of a second wave of infections.

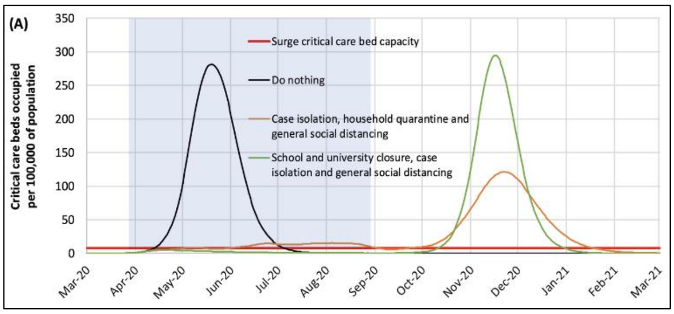
In fact, an interesting article from the Imperial College describes the impact of non-pharmaceutical interventions (NPIs) to reduce the virus mortality and healthcare demand **(Chart 2)**. In the absence of significant medical advances to counteract the spread of the virus after the first set of containment measures, we could see additional stresses on healthcare institutions and the risk for additional suppression measures through a second wave of infections.

Chart 1: Number of Cases Globally, IT, CN, SK, US (Y-Log)



Source: MAM Research, Bloomberg

Chart 2: NPIs Impact to Lower Mortality & Healthcare Demand



Source: Imperial College

EVENTS *(cont.)*

Central Banks Update

Over the past couple weeks, central banks globally announced a series of rate cuts and measures to pair with the economic impact of the coronavirus pandemic. The Fed decided to slash interest rates to zero and ramped up its intervention in short-term funding markets after announcing an unlimited amount of government bond purchase program. Similarly, the ECB scrapped limits on bond purchases and introduced a new QE program. Heading into Q2, central banks will continue to work alongside governments to mitigate the economic impact of the virus while providing markets (i.e. credit markets) with enough liquidity.

Government Stimulus Efforts Against COVID-19

Fiscal easing has lagged monetary easing in most major countries. However, the pace of measures rollout has considerably increased over the past few days with massive packages announced in the US, Germany, Italy, and the UK. Fiscal stimulus to date amounts to $3.65tn or 4.5% of global GDP. Common themes emerging in packages include support to healthcare industry, low-income workers, sick workers, and SMEs. Outside the U.S., fiscal easing has been worth approximately 1% of GDP on average.

Table 1: Summary of major countries fiscal stimulus in response to the pandemic and economic slowdown

COVID-19 Fiscal Stimulus Repsonse			
Country	**Date**	**Amount ($)**	**Measure**
United States	06-Mar	8.3bn	"Phase One" of stimulus effort to fund research on vaccine, etc.
	13-Mar	50.0bn	"Phase Two" of stimulus effort to distribute aid to states, cities, and territories.
	17-Mar		Individuals and businesses allowed 90 days after Apr-15 to pay tax bills.
	25-Mar	2,000.0bn	"Phase Three" of stimulus effort with includes…
			301.0bn in direct cash payment to citizens
			500.0bn in government lending program to companies impact by crisis
			367.0bn in federally guaranteed small business loans
			250.0bn to expand unemployment insurance
			221.0bn in business tax cuts
			150.0bn in money for state government
			130.0bn for hospitals and other healthcare providers
			25.0bn for public transit to make for revenue losses
			32.0bn in cash grants to cover wages at airlines
			48.0bn for agriculture and nutrition programs
			27.0bn to fund drugs and vaccines for the coronavirus
			10.0bn for the postal serviec to help cope with problems linked to the virus
			Additional measures set to protect individual finances, delay bills, etc.
China (Mainland)			The country has yet to implement massive fiscal stimulus comparable to 2008
			As of mid-march, many local government have been giving out vouchers to boost customer spending, but the amount remains relatively small.
South Korea	03-Mar	9.8bn	Stimulus packaged with subsidies for small and medium business, chilcare, etc.
United Kingdom	11-Mar	37.0bn	Stimulus package indluding…
			Tax cut for retailers
			Cash grant to small businesses
			Mandate to provide sick pay for people who need to self-isole and subsidy to cover the cost of sick pay for small businesses
			Expanded access to government benefits for the self-employed & unemployed
	17-Mar	402.0bn	Stimulus package including…
			379.0bn in business loan guarantees
			23.0bn in business tax cuts and grant funding to business hit worst by virus
	20-Mar	141.4bn	Additional fiscal stimulus program including…
			95.1bn in grants to companies covering up to 80% of worker's salaries if companies keep them on payroll rather than laying them off
			8.5bn to increase in safety net tax credits
			1.2bn to support to renters
			36.6bn for deferring the next quarter of VAT
Germany	25-Mar	772.bn	Stimulus package includes…
			55.0bn to help small businesses and self-emplyoment to avoid bankruptcies
France	17-Mar	49.0bn	Stimulus package includes social security tax cuts, unemployment benefits, etc.
Italy	11-Mar	28.0bn	Stimulus package includes cash to companies hit by virus, workers help, etc.

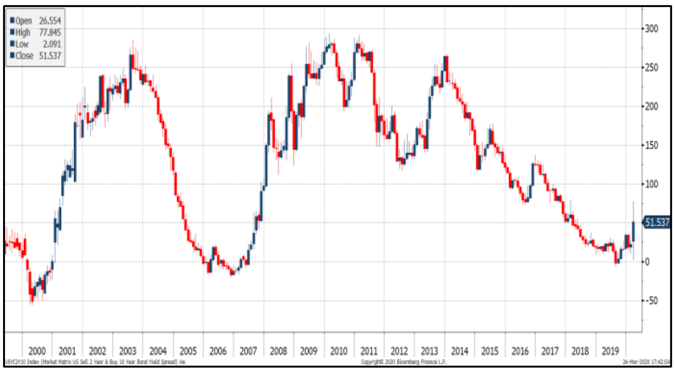
ECONOMICS & RATES

Conclusion: **Bearish**. Over the past couple weeks, the economy was brough to a halt by the coronavirus pandemic and is now going through what appears to be a prolonged recession. Governments and central banks introduced more than $3tn in stimulus packages (e.g. 4.0% of global GDP) on top of interest rate cuts. The Fed funds rate is now back to zero. We do not expect any more rate cuts in the US in 2020. In fact, we foresee that the upcoming triple shock (e.g. supply, monetary, and fiscal) will result in higher inflation rates. As a result, we believe long-term rate will move higher while short-term rates will stay anchored. We expect the yield curve to steepen both in Europe and the US. We continue to like EM debt as central banks there still have some monetary policy flexibility.

- The global economy is entering a recession which could rival the -6% GDP contraction during Great Financial Crisis of 2008/9. A V-shaped recovery is unlikely as millions of jobs will be lost. The leaders of the past will be replaced with new leaders. The first countries to deal with the spread of the virus will be the first to experience economic growth. This therefore favors China and Europe. To a certain extent it puts real question marks with regards to how long the recession can last in the US. A longer-lasting US recession lowers odds of a Trump re-election.
- We believe the trillion-dollar packages announced by central banks and governments mean no more rate cuts in the U.S. and Europe, and so does the market since it currently prices no more cuts through the rest of the year. Additionally, we think the world will witness a triple shock (e.g. supply, fiscal and monetary) which will have the ability to create strong inflationary pressures. In fact, we are already beginning to see break-even rates moving higher.
- Over the coming months, we believe long-term U.S. rates will move significantly higher while short-term ones will remain anchored to current levels. From a technical perspective, U.S. yields have finished their downward acceleration phase **(Chart 1)** and we expect them to stabilize before moving higher. As a result, we expect a rather sharp steepening of the U.S. yield curve over the coming months **(Chart 2)**. We like exposure to TIPS (Treasury Inflation Protected Notes) as we believe the market is underpricing the risks of rising inflation over the coming months.
- Considering emerging market central banks have more monetary flexibility, we expect them to cut rates to boost economic growth over the coming weeks. As a result, we anticipate some convergence of emerging markets to developed markets rates. In turn, we are convinced the opportunity currently stands in being long emerging markets sovereign bonds in local currency.
- We are particularly interested in special situations such as Argentina. The country is currently in negotiations with creditors with regards to debt restructuring. Some of the Euro bonds (UK law) are trading at or around 30c; discounting a very pessimistic outlook. We will monitor this situation throughout 2020.

Chart 1: US 10Y Yield (Monthly)

Chart 2: US 2-10 Yield Curve (Monthly)



CREDIT

Conclusion: Cautious. We have been negative on corporate credit for some time and remain so to-date. We believe it is too early to buy corporate bonds. While spreads have widened significantly these past couple weeks **(Chart 1)** and central bank policy support is coming, there is simply no liquidity in the market yet. Not only did we warn about this for a while, but we fear the length of the coronavirus disruption is understated. As such, the economic impact could be greater, and the number of bankruptcies and defaults could rise substantially. Despite the Fed's SMCCF and PMCCF announcements, the bond market will need to adjust more to reflect the current level of risk for corporate credit. The Fed's purchases are by no means a silver bullet.

- In the week ending March 18, US credit saw record outflows from Investment Grade funds with prices dropping and spreads widening swiftly **(Chart 2)** and continued weakness in High Yield funds where a similar move was observed **(Chart 3)**. While we see the announcement of corporate bond purchases as a clear statement of intent from the Fed, the front end of the investment grade credit spectrum will be the primary beneficiary (e.g. above single-A rated). However, only once the purchases begin and liquidity concerns begin to abate should we see investment grade starting to find some support.
- The funding outlook looks brighter for investment grade issuers, but the outlook on cashflows and earnings is still gloomy. Credit downgrade and defaults are inevitable and imminent. While an improvement in funding availability should reduce the intensity of market sell-off, we do not recommend adding risk through HY yet, but rather wait and measure the scale of the upcoming default cycle.
- Emerging market corporate credit continues to offer attractive yields to investors. EM currencies continue to look cheap from a valuation standpoint with for instance currencies like the MXN, BRL, and ARS trading 1-Standard deviation cheap. As we expect central banks in EM countries to cut rates to mitigate the economic impact of the pandemic, we continue to favor local currency bonds **(Chart 4)** over hard currency ones.
- Across the curve, we prefer shorter-duration (e.g. 3-4 years) bonds to longer-term ones (e.g. 5+ years) in developed markets to limit downside risk associated with a yield curve steepening in the US and Europe.

Chart 1: US High Yield Spread Index (Weekly)

Chart 2: US Investment Grade ETF (Weekly)

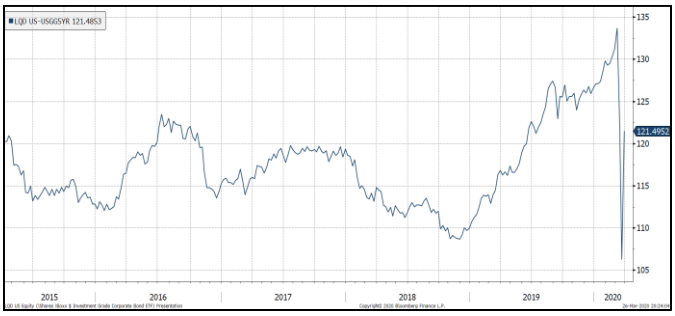


Chart 3: US High Yield ETF (Weekly)

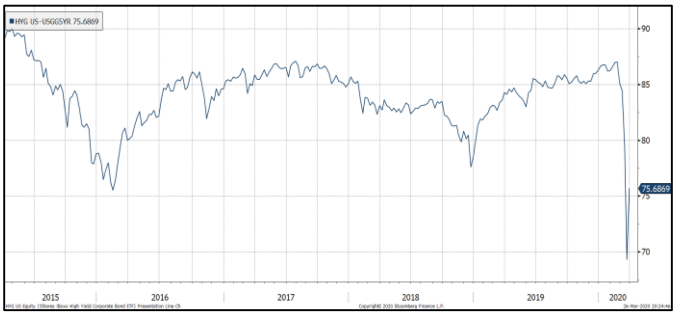
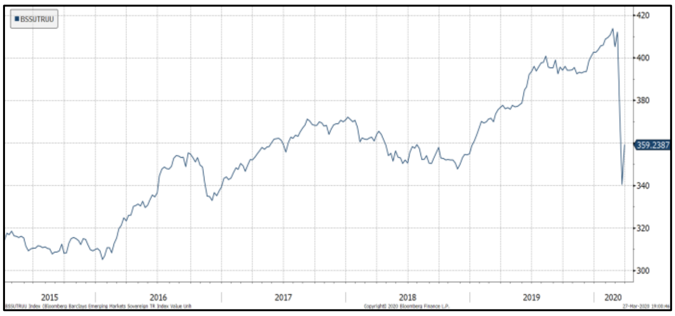


Chart 4: EM Local Currency Bond USD Unhedged (Weekly)



CURRENCIES

Conclusion: **Structurally Bearish USD**. The dollar index is up 3% YTD. We remain structurally bearish the USD like we have been all of 2019 and heading into Q1 2020. Most of the price increase can be explained by flows with investors selling foreign assets during the market panic. From a valuation perspective, the dollar continues to be one of the most expensive G10 currencies. The aggressive steps undertaken by the Fed and the government to counter the economic impact of the virus should generate inflationary pressures which would in turn lead to lower dollar prices and benefit the Euro. Technically, the big "swings" in FX markets are testimony we are approaching turning points. Elsewhere, we like the safe haven characteristics of the Japanese Yen and find attractive value in the cheap NOK which as suffered from tumbling oil prices.

- We are structurally cautious USD. For the past couple months, the dollar has been caught in a relative range. We continue to believe it to be poised to trade to the downside driven by the combination of aggressive Fed rate cuts (and QE) and the government stimulus deepening the country's fiscal deficit. Better growth prospects outside the US should favor inflows to other currencies. We expect the USD index to reach if not break its 95 level **(Chart 1)**.
- Technically, the EUR remains in a 3-year wedge formation. After a false breakout to the upside followed by one to the downside with risk on/off moves in the markets, the currency is back within its range. Recent government and fiscal stimuli should provide some support heading into Q2. We expect the currency to revert to its 1.12-1.15 range **(Chart 2)** which would coincide with our structurally bearish USD view.
- The Japanese currency confirmed its safe-haven status once again when a wave of panic flooded the market in mid-February **(Chart 3)**. We continue to favor the yen and its ability to provide a cushion in moments of market stress at a time when a recession is expected, and a second wave of outbreaks still looms. Arguably, Japan continues to be less impacted by the virus which provides additional stability.
- The recent tumble in oil prices weighted on oil sensitive currencies like the NOK **(Chart 4)**, CAD, and RUB. Those oil net exporting countries felt the consequences of the energy price war between Saudi Arabia and Russia in the aftermath of failed production cuts negotiations. The NOK valuation is now more than 2-Standard deviations cheap on a Real Effective Exchange rate basis.

Chart 1: USD Index (Weekly)

Chart 2: EUR/USD Exchange Rate (Weekly)

Chart 3: USD/JPY Exchange Rate (Weekly)

Chart 4: NOK/EUR Exchange Rate (Weekly)

EQUITIES

Conclusion: Cautious. Global equity prices swiftly fell from their all-time high amid the pandemic. Valuations are fast approaching 2011 levels. The MSCI World Index trades on a 2020 Price/Book ratio of 1.7x. That is nearly 1-Standard deviation cheap, and yet still 20% away from the 1.4x lows reached in 2011. Meanwhile, earnings have not fallen by as much. In fact, earnings are down a mere 8% relative to a 20% drop back in 2008. As a result, we think prices should initially converge towards $380 (-11%) in Q2 2020, with a bear case scenario of $340 (-22% from current levels). With most companies pulling their fiscal year 2020 guidance, we expect a challenging Q1's earnings season and believe markets will retest their lows or fall even further before starting a recovery later in 2020.

- Markets seem to have priced-in the economic recession very quickly. This is the fastest combined sell-off in both equities and bonds in history. In times of stress, company guidance is key. However, we do not expect much "guidance" to come out of this earning season's meetings with most firms already pulling their fiscal year 2020 guidance and adopting more of a "wait and see" approach to current events to evaluate the actual impact on their businesses. As a result, we believe markets to enter a double bottom recovery **(Chart 2)** through either a retest of the latest lows or a further fall lower during or after Q1 results. Our current base case is for a prolonged W-shaped recovery in equity markets with the first down leg and part of the intermediary relief rally experienced in Q1. We expect volatility to prevail for as long as the number of cases fails to inflect **(Chart 4)**. We are therefore waiting for one last major drop at which point we would recommend investors to optimize their investments by selling puts when volatility rises.
- The leaders of the past will be replaced. While US equities have led global markets for the past 10 years, the next leaders will be equity markets of countries which have dealt with the containment of the virus sooner; namely China and Europe. Overall, we believe emerging market equities should outperform with low interest rates globally and our structurally cautious stance on the dollar going forward. This will be a core theme in 2020.
- In terms of stock selection, the potential rise in inflation over the coming months is a game-changer. Investors have used to discounting inflation in their stock selection process. New leaders will emerge. We believe too big to fail quality names, cyclical companies, dividend firms, 5G Industrials, and airlines **(Chart 3)** which have been the most beaten-down sectors alongside energy would be a good place to look. Finally, considering our positive view on commodities, the materials sector could be good hunting grounds for "value" opportunities

Chart 1: MSCI World Index (Weekly)

Chart 2: Theoretical S&P "W-Shaped" Recovery (Weekly)

Chart 3: Airline Industry Index (Weekly)

Chart 4: Volatility Index (Monthly)

COMMODITIES

Conclusion: Bullish. Commodities remain one of our preferred asset classes going into Q2. Valuations continue to trade at record lows. Unprecedented fiscal and monetary stimuli, a return of economic activity in China, and a weaker U.S. Dollar outlook are supportive to the commodity complex. We remain long gold with a price target of $1,800/oz. (+11%), but favor silver with a target of $24.8 (+70.0%) due to the record high gold-to-silver ratio. With prices now at decade lows, we continue to believe in some tactical long trades on energy such as natural gas and potentially crude oil. We also expect copper prices to recover some of the recent losses after a detailed series of fiscal stimulus is introduce by the Chinese government in the coming months.

- The Bloomberg Commodity Index fell -20.0% in Q1 2020 **(Chart 1)** driven by an economic activity put on hold with the COVID-19 pandemic, a price war on global oil prices, and a liquidity driven sell-off in precious metals. A brightening economic outlook in China, important confinement measures taken globally, record high fiscal and monetary stimuli, and a potential weakening of the dollar are supportive of a bullish commodity thesis. Copper **(Chart 2)** should be one of the industrial metals commodities to benefit the most from aggressive government spending and will be one of the indicators of economic recovery. Technically, the Bloomberg commodity Index is showing signs of bottom and sell-off exhaustion.

- The amount of stimulus provided to counter-act the effect of the COVID-19 pandemic on the global economy is significant in scale. We believe it will result in higher inflation expectations and weaker USD. In turn, this should be very supportive for precious metals. Gold and silver prices have been selling-off aggressively due to margin calls. Once the liquidity-driven sell-off is over, we believe precious metals offer significant potential upside. We favor silver due to the record high ratio of gold-to-silver **(Chart 3)**.

- Oil prices are trading at decade lows **(Chart 4)** after Saudi Arabia launched the offensive in an all-out price war after Russia, its OPEC+ partner, refused to join in making deeper crud production cuts to support prices. The industry is now facing the prospect of running out of storage in a matter of weeks as the most sever demand slump in history coincides with rising supplies. Global leaders are calling on the kingdom to rise to the occasion with discussions expected over the coming weeks. Crude oil could offer interesting buying opportunities over the coming weeks.

Chart 1: Bloomberg Commodity Index (Monthly)

Chart 2: Copper Prices (Weekly)

Chart 3: Gold-to-Silver Ratio (Monthly)

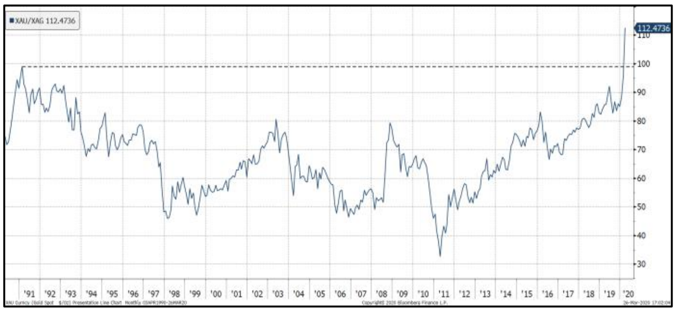


Chart 4: Crude Oil Prices (Monthly)

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