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Market outlook

June 2020

MAIN MILESTONES THIS MONTH

01 The developed economies are gradually reopening but the downward revision of economic growth in 2020 continues for now.

02 There is an increasing likelihood of recovery and economic growth returning in the third quarter.

03 The strength and speed of the announced economic measures (monetary and fiscal) could protect markets from the worst-case scenario.

04 This is a cyclical recession, with a sharp drop in supply and demand, but it will be shorter and different in nature from the 2008/09 crisis.

05 The European Union is negotiating a recovery fund with positive political repercussions in terms of cohesion and the European project.

Summary by asset

- Fixed income: The strong monetary and fiscal stimulus measures should translate into the positive performance of US investment grade corporate bonds in the medium term.
- Equity: Almost all the stock markets closed May with gains, trading on the gradual reopening of the economies and the feeling that there can be no turning back now, or that the worst has passed in economic terms, at least for the moment.
- Commodities: At the moment there are no cracks in the agreement regarding the cut in production and the price of crude oil has recovered to the extent of at least covering production costs.
- Currencies: The dollar acts as a safe-haven currency in periods of high volatility and deflationary pressures.

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FIXED INCOME

- The IRRs on developed government bonds could remain quite low for now due to the intervention of the central banks.
- In view of increased spreads in investment grade corporate bonds, we would recommend increasing portfolio durations.
- The default rates of high yield corporate bonds could be high for at least the next 12 months, so we would maintain a low exposure in conservative profiles (10% -20%).

We recommend maintaining exposure to US investment grade corporate bonds, preferably for short and medium terms.

Spread (OAS) US IG corporate bonds

Source: Bloomberg

EQUITY

Nasdaq 100 Index

Source: Bloomberg

- Stock markets remain expensive, especially when valued against 2020 EPS. Even though the fall this year is extraordinary and EPS is likely to recover in 2021, we prefer to take the P/E 21e of 18.5x as our reference, which although still high is more reasonable.
- Stock markets need more visibility to continue climbing positions decisively and prompt a rotation led by the sectors/styles that have experienced the sharpest drops (cyclical, financial and value).

Now more than ever before, it is important to adopt a long-term view and analysis of the stock market as the best vehicle for accumulating capital gains through diversified investment and beating inflation.

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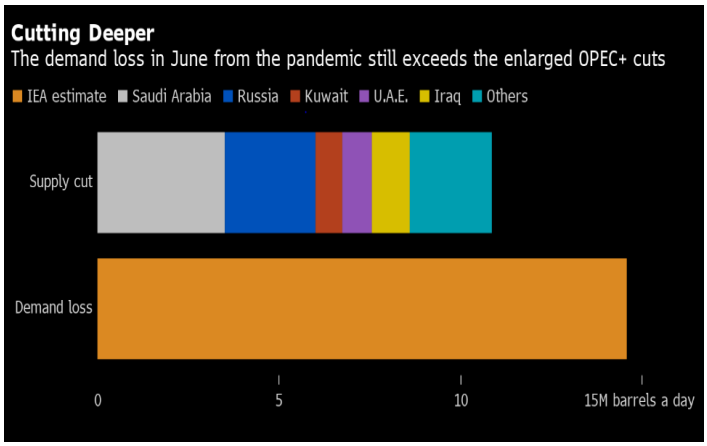
COMMODITIES

- The agreement to restrict supply in practically all oil-producing countries, including the United States, is now in effect.
- However, the fall in demand due to the coronavirus pandemic is so sharp (from 100 Mbd to 65/70 Mbd) that it will take time to rebalance the market.

At the moment there are no cracks in the agreement regarding the cut in production and the price of crude oil has recovered to the extent of at least covering production costs.

Production reduction

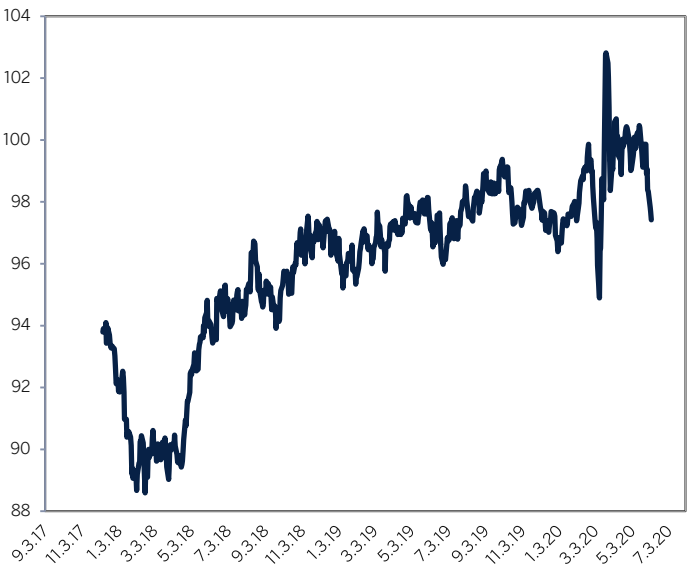
Source: Bloomberg



CURRENCIES

DXY Quote (Dollar Index)

Source: Bloomberg



- In a context of decline in the level of uncertainty and risk aversion, the dollar has slowed its climb.
- The last week has seen significant appreciations of the currencies tied to commodities.

The dollar acts as a safe-haven currency in periods of high volatility and deflationary pressures.

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Alerts and warnings

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