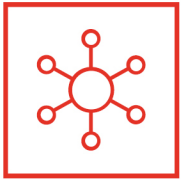




Financial
Immunities

Market Insights

April 2020



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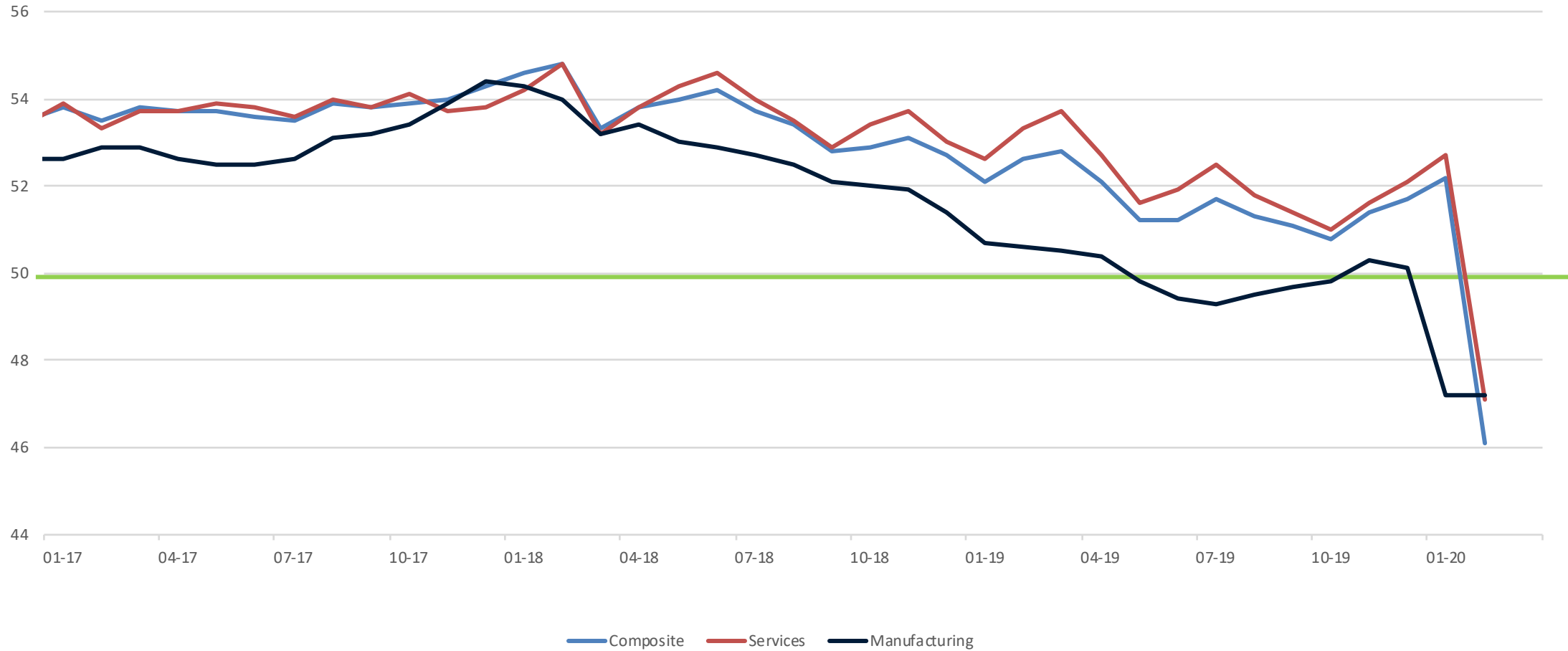
Global Economy

- Two black swans have hit the global economy: the spread of the Coronavirus and the collapse in oil prices, stemming from Saudi-Russian rivalry and Russia's desire to hurt the US shale industry
- Signs of containment in the spread of the Coronavirus in Southeast Asia as the virus outbreak continues in the rest of the world, especially in Europe and the US. Measures in most countries, taken to slow the spread of the virus are still increasing, whereas China is starting to pull out of the downturn
- Global recession - the steps taken to curb the spread of the Coronavirus pandemic, especially the social distancing, has effectively created a global demand and supply shock. Unemployment rates all over the world are expected to rocket high quickly to levels not seen since the great depression as more and more businesses, especially the small ones, are forced to close for the time being
- According to the IMF, "It is now clear that we have entered a recession as bad or worse than in 2009. We do project recovery in 2021. In fact, there may be a sizeable rebound, but only if we succeed with containing the virus everywhere and prevent liquidity problems from becoming a solvency issue"
- Uncertainty and grave fear gripped financial markets around the world and risk assets collapsed as the run to safety continued, led by the dollar, which appreciated against most currencies, especially versus emerging market currencies. Central banks and governments pour hundreds of billions of dollars trying to curb the panic and take control of market failures
- Its time for aggressive fiscal policy - After a decade of relentless use of monetary tools that left central banks virtually without ammunition, it is time for a bold fiscal policy that will ensure the recovery capability, after curbing the spread of the virus



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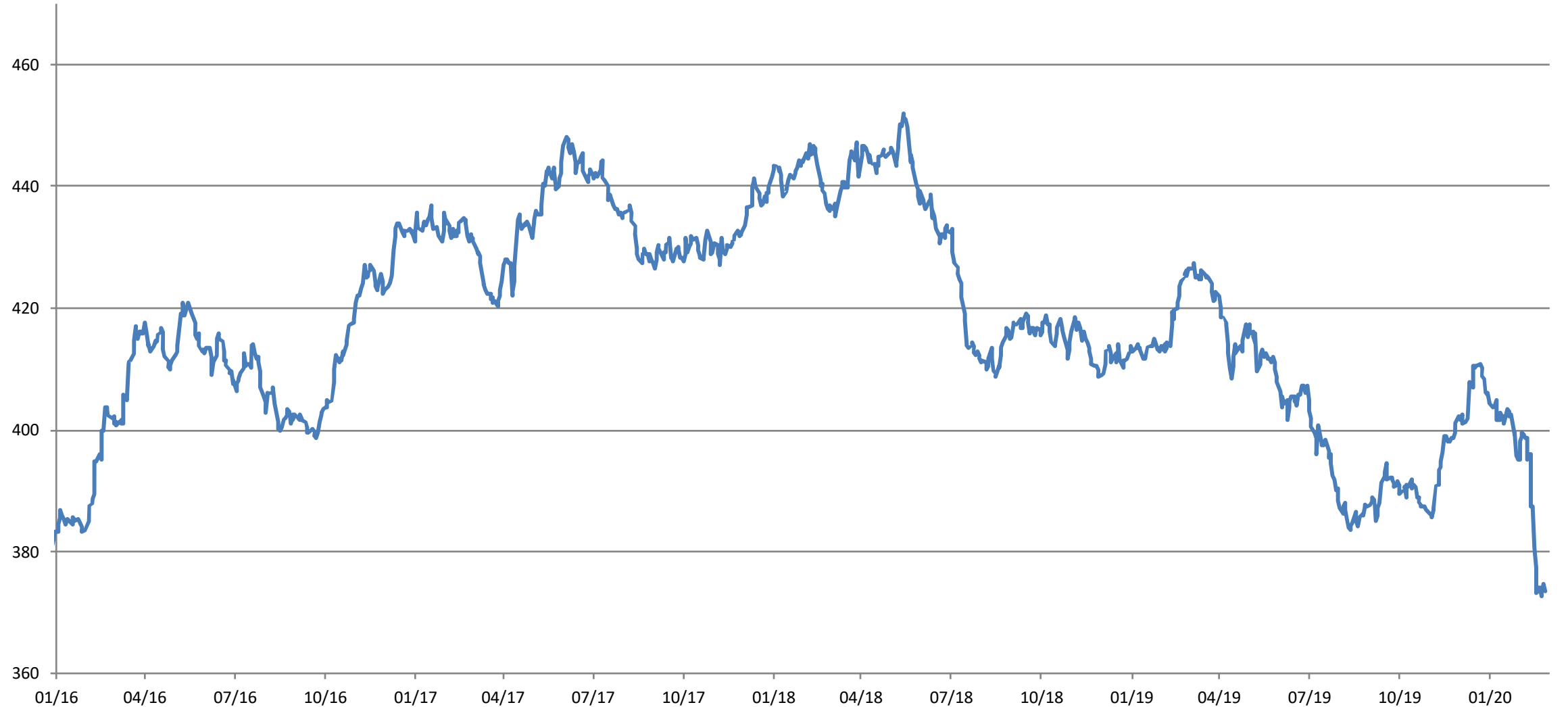
Global PMI





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Commodities Index (CRB)

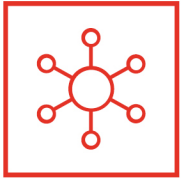




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United States

- A hesitant and initially denial response marked the entry of the world's largest superpower into the health crisis. Even now after pledging to fight the virus, the US is lagging behind as its local and federal leadership speaks in different voices
- The rapid unfolding of the Coronavirus pandemic is expected to cause a great disruption to the economy, which is expected to slip into recession as early as Q1, and deepen further in Q2. The peak of the recession will occur in the second quarter, when workplace closures, and quarantines will hit the economy with full force
- Leading indicators such as the composite PMI tumbled 9.1 points to 40.5 (readings below 50 indicate contraction), marking the steepest drop in data back to October 2009. The drop mirrors the sharp decline in activity at US factories and services providers at a pace indicative of GDP falling at an annualized rate already approaching 5%
- Labor data showed unprecedented surges in jobless claims to 3.28M due to businesses shutting down because of Coronavirus containment efforts. The situation is expected to get even worse in April as numbers will show millions of workers leave the labor market
- The Federal Reserve, in an attempt to contain mounting economic and financial market fallout from the Coronavirus, reduced interest rate to 0%-0.25% and launched a plan to buy unlimited amounts of Treasury bonds and MBS to keep borrowing costs at record low levels
- A \$ 2 trillion aid package, the largest in US history, was launched to help the economy overcome the Coronavirus crisis. The idea behind the massive aid package is to try to buy time and allow the economy and businesses to keep their heads above water until the virus is contained and overcame



Core Economic Indicator

USA

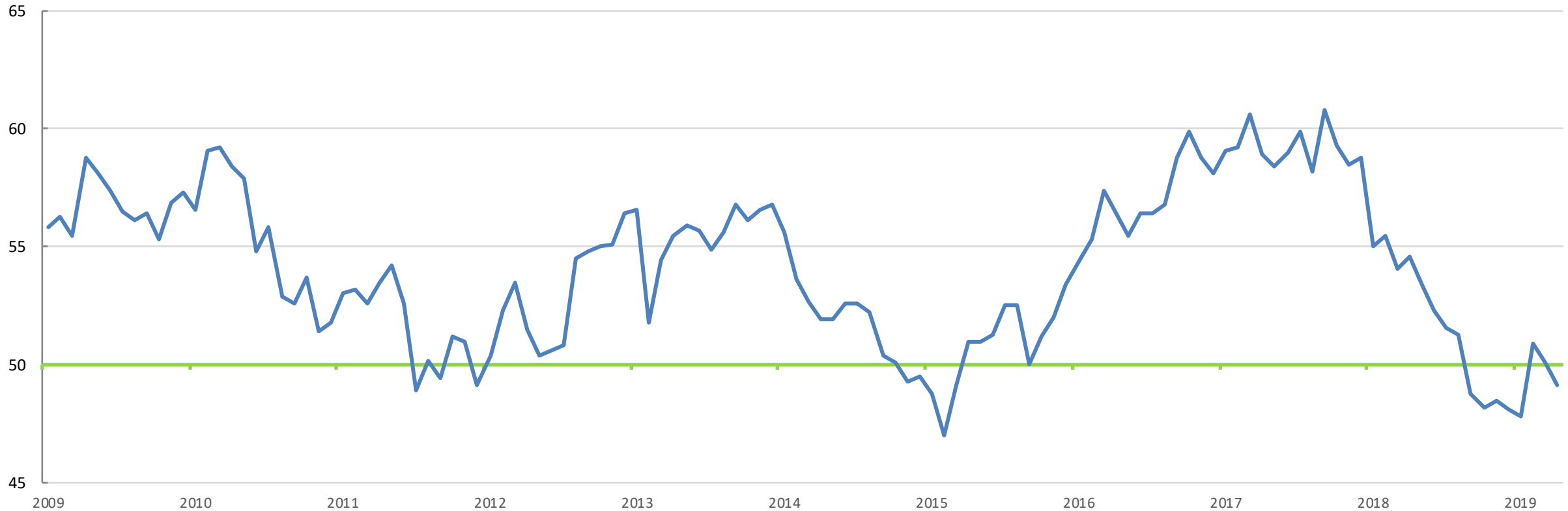
Economic Indicator	Latest Figure	Reference Period
Growth Rate	2.1%	Q4-2019
Unemployment Rate	3.5%	February -2020
Inflation Rate (Core PCE, YoY)	1.8%	February -2020
Central Bank Interest Rate	0%-0.25%	March-2020
10 Years Yield	0.64%	March-2020
Ratio of Surplus in Current Account to GDP	2.29%-	Q4-2019
Ratio of Public Debt to GDP	106.78%	October-2019



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Economic Sentiment

Manufacturing ISM

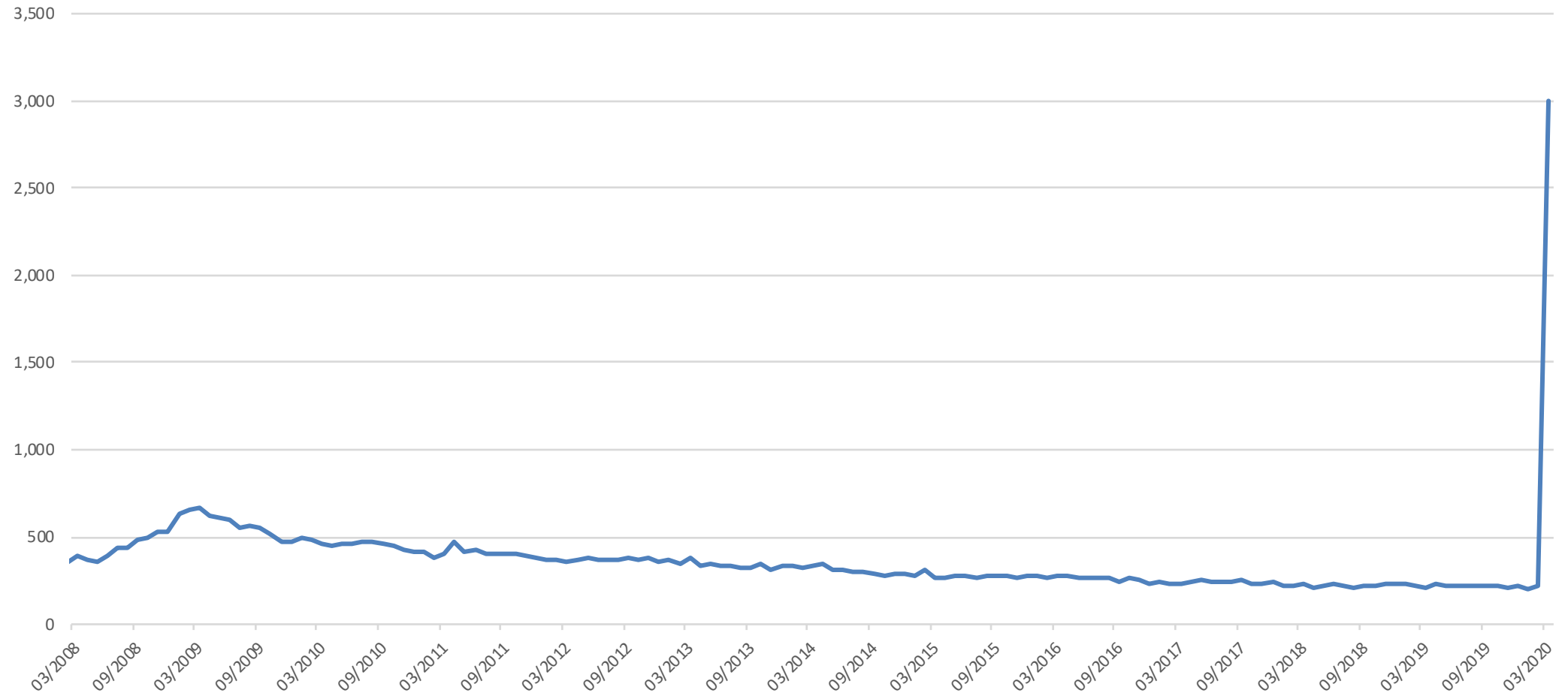




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Weekly Jobless Claims

In thousands

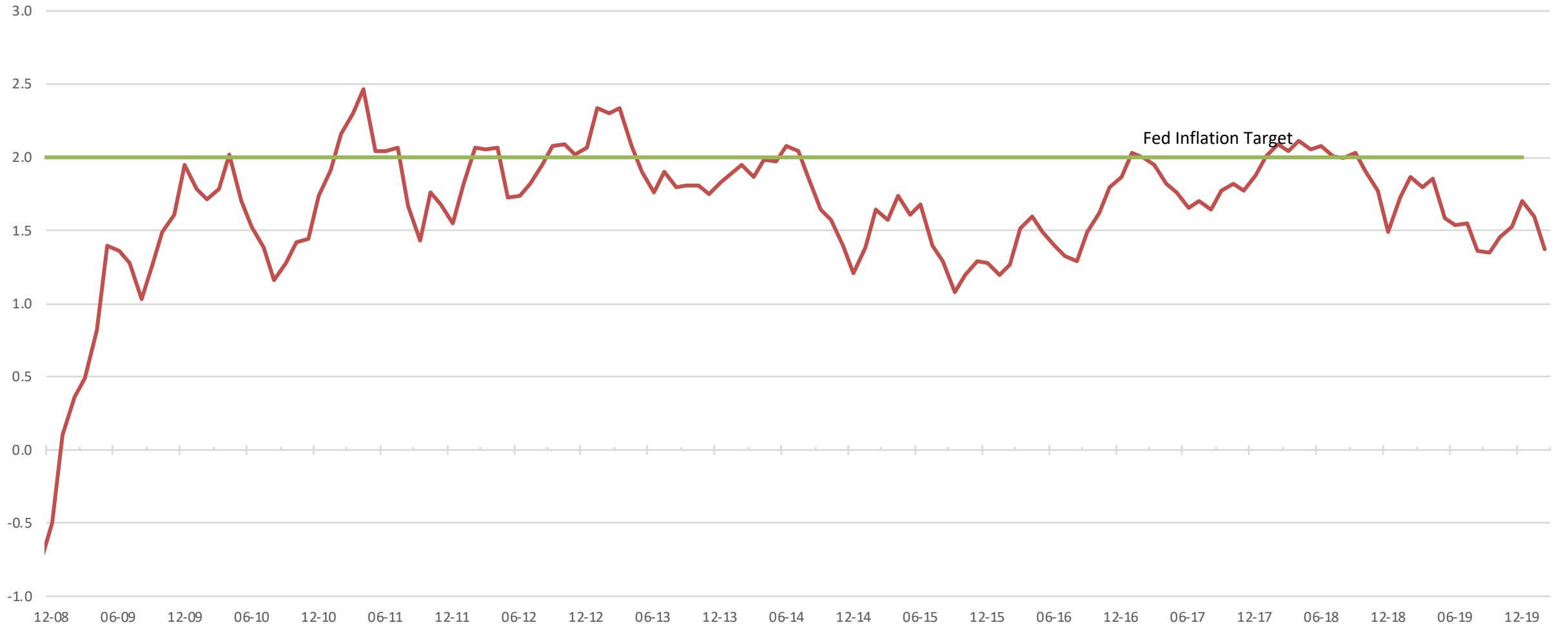


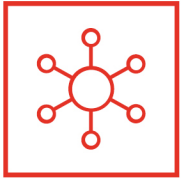


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Inflation

5Y Inflation Forecast





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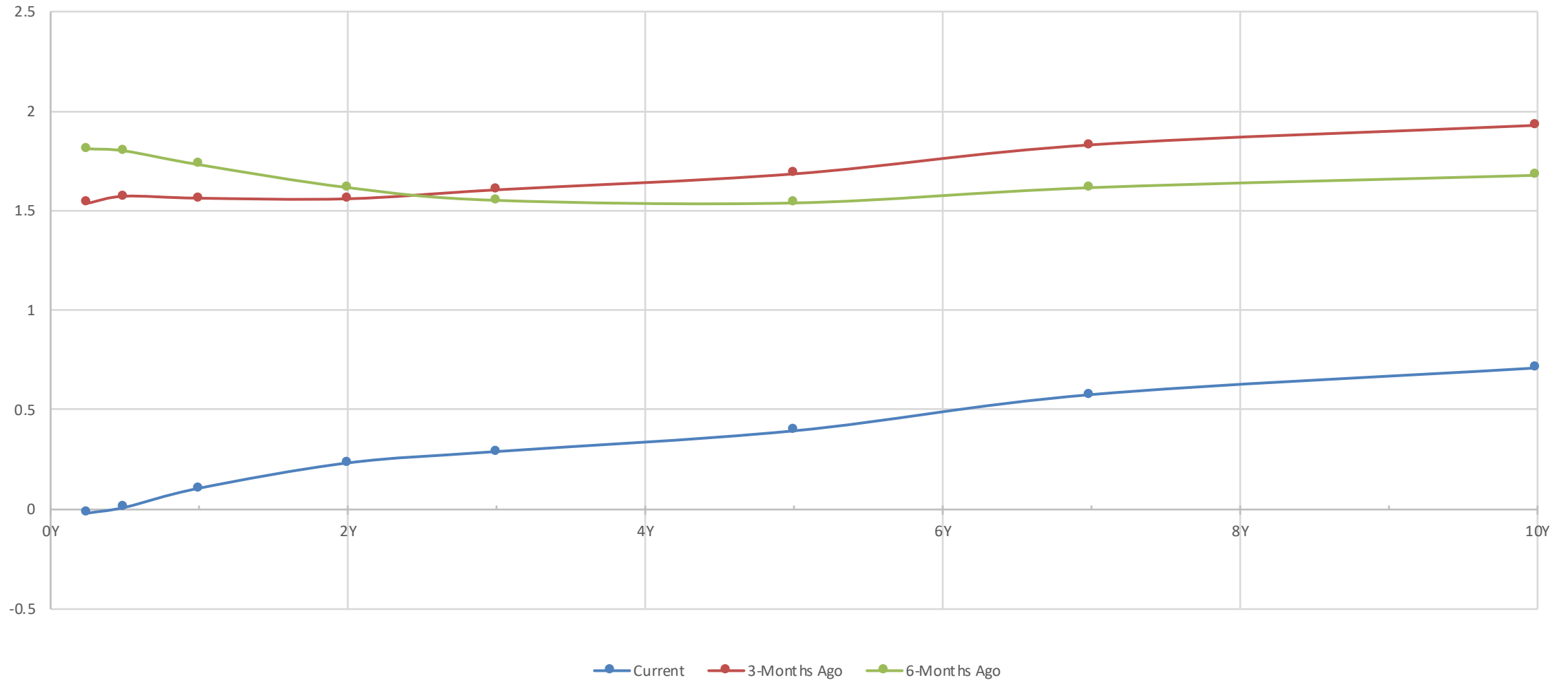
10YR Treasury Yield to Maturity





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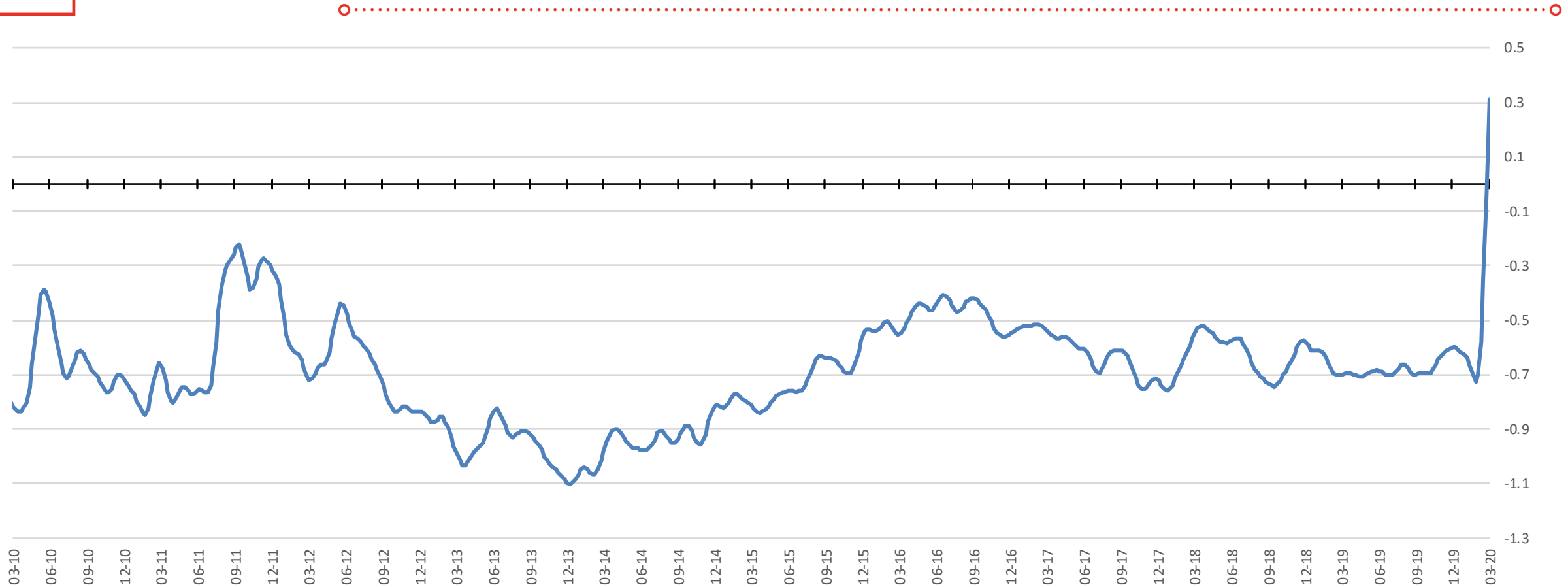
US Treasury Yield Curve





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Chicago Fed's National Financial Condition Index (NFCI)



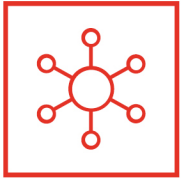
The NFCI provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets and the traditional and “shadow” banking systems. Negative values have been historically associated with looser-than-average financial conditions



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US Dollar Index (DXY)





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Citi Economic Surprise





- The Eurozone economy is marching towards one of the biggest economic crises in its history, after measures aimed at curbing the spread of the Coronavirus have paralyzed large parts of it. Economic activity is expected to shrink at least by 2% -3% (annually) in Q1 and Q2, and recover slightly thereafter
- Leading indicators such as the PMI have fallen to the lowest levels since the currency block was formed. The meltdown was evident across the region and the various sectors. Services sector was down to 28.4, led by tourism, travel, leisure and restaurants. The manufacturing sector contracted less to 44.8 and the Composite declined to 31.4 as business activity collapsed to levels not seen even at the height of the global financial crisis
- Eurozone governments are trying to cope with the effects of the closure on the economy through various measures that will allow companies and individuals to float and inject money into the economic system in order to maintain its recovery capability when risk eases
- The German government, for example, approved a € 156 billion deficit in the coming year's budget, which will be devoted to combating Corona and the economic consequences of the plague. For the first time in eight years, Europe's big economy intends to run an unbalanced budget, in addition to other measures designed to help companies and banks
- In addition, the finance ministers formulate a package of aid to the struggling countries in the bloc, which will allow them to withdraw up to 2% of their GDP worth from the Eurozone's stability mechanism, totaling 410 billion Euros
- The ECB announced the launch of a 750B Euro bond purchase program and president Christine Lagarde declared that there are “no limits” to the central bank’s commitment. The ECB pledge has restored stability to financial markets as Bonds and the Euro enjoyed big gains after investors saw the central bank's announcements as a recent version of Draghi's famous debt crisis declaration that he would do whatever it takes to save the block



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Core Economic Indicator

Eurozone

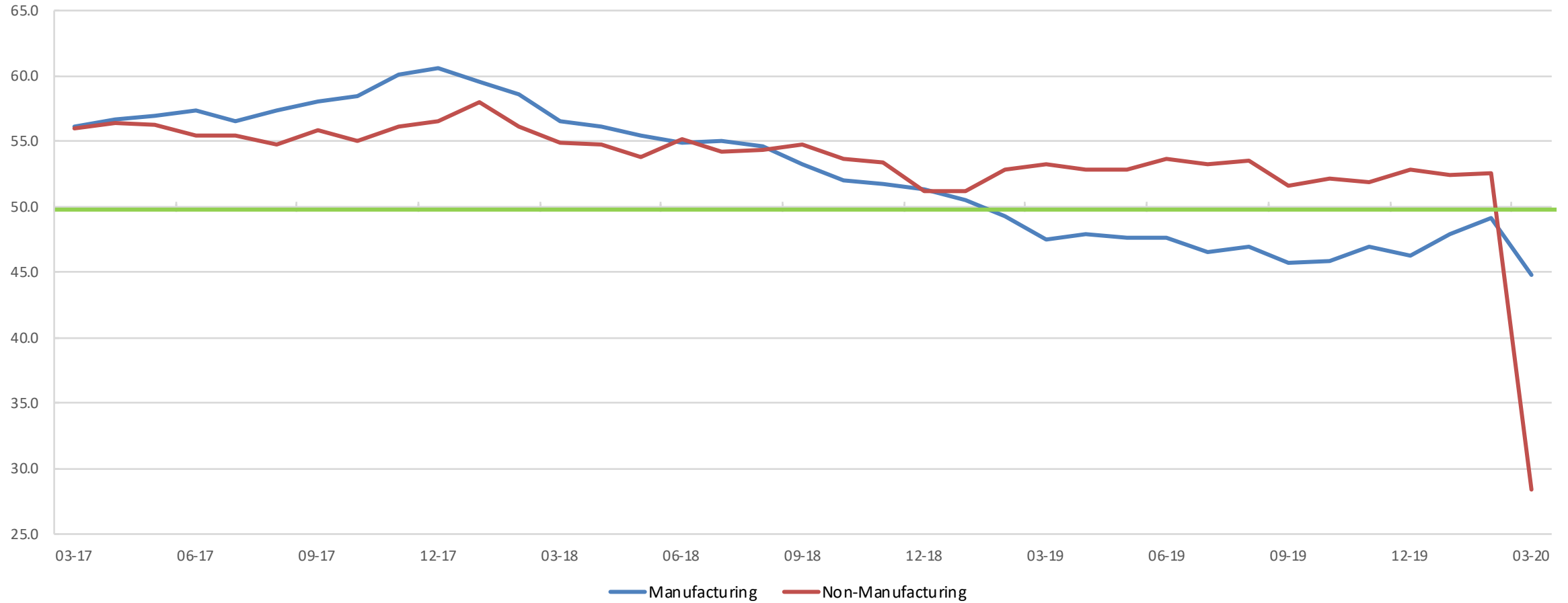
Economic Indicator	Latest Figure	Reference Period
Growth Rate	0.50%	Q4-2019
Unemployment Rate	7.4%	January-2020
Inflation Rate (Core, YoY)	1.2%	February -2020
Central Bank Interest Rate	0.00%	March-2020
10 Years Yield (Germany)	-0.59%	March-2020
Ratio of Surplus in Current Account to GDP	2.99%	Q4-2019
Ratio of Public Debt to GDP	86.10%	Q3-2019

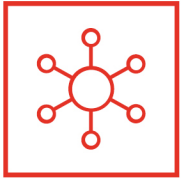


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Economic Sentiment

Manufacturing and Non-Manufacturing PMI





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Inflation

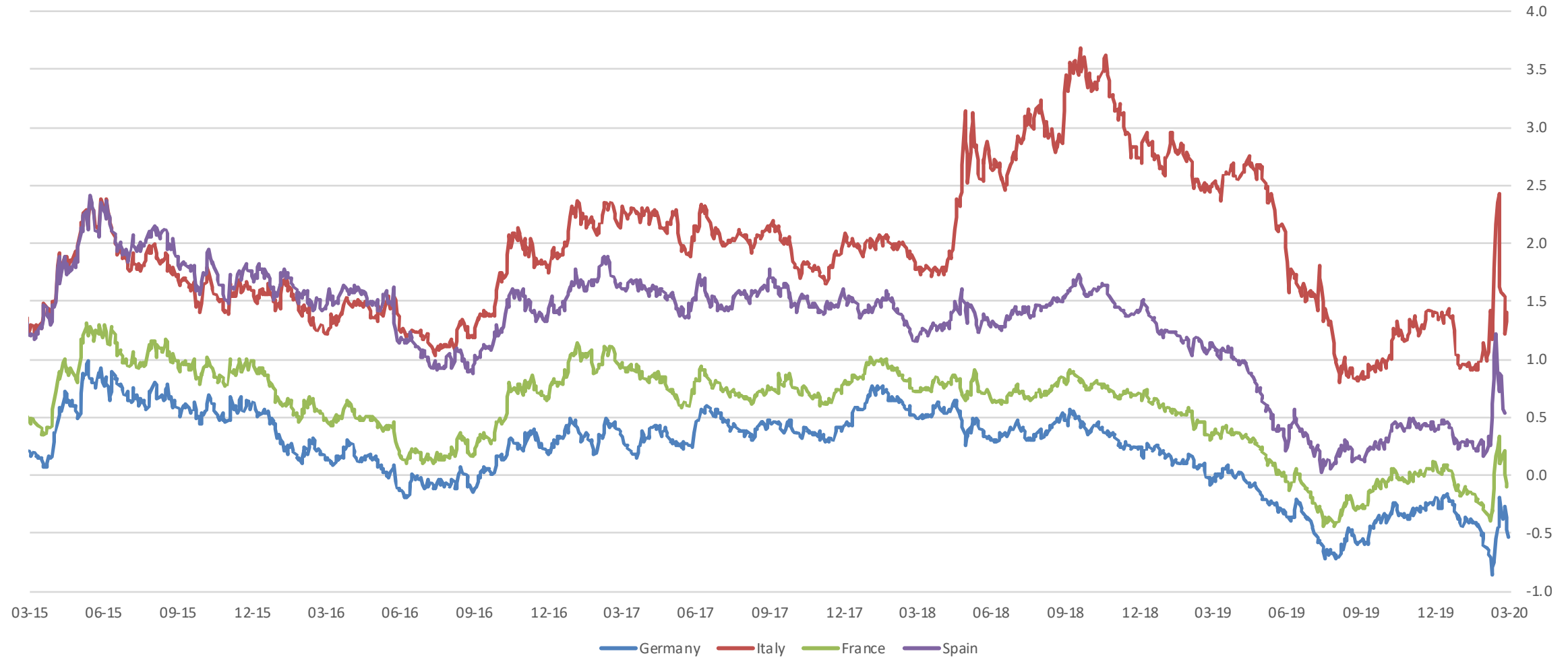
CPI and Core CPI (YoY)





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10YR Government Bond Yield





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Exchange Rate

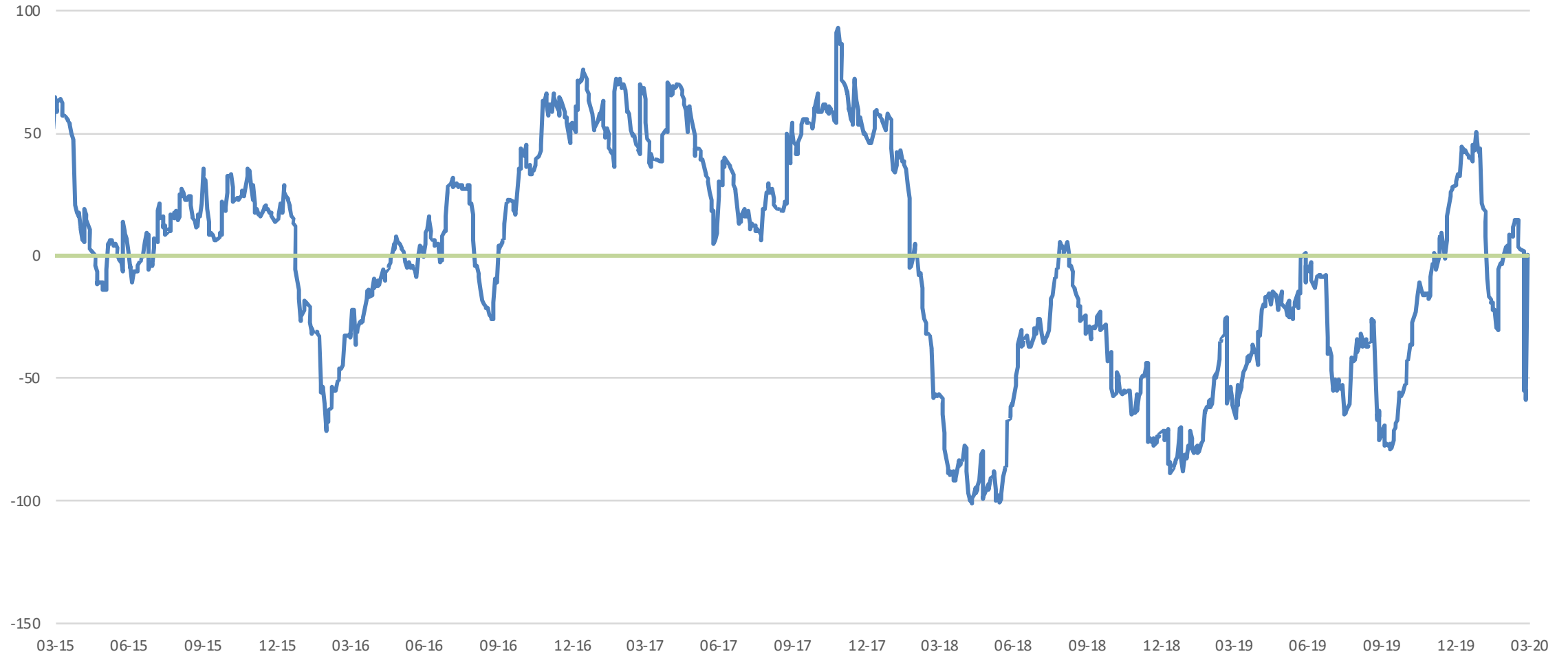
EUR Index (Left) EURUSD (Right)





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Citi Economic Surprise





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Israel

- Undergoing a process of shutting down, the Israeli economy is going through one of the biggest crises it has known. Serious damage to private consumption, export, investment are pushing the local economy to recession
- The BOI expects that if activity restrictions remain at their current level and the closure is gradually removed at the end of April, the economy will shrink by 2.5% during 2020, before recovering sharply during 2021. The Bank estimates unemployment to rise to 7% and the GDP debt ratio will jump from 60% to 70%
- The labor market has suffered a severe blow since the outbreak of the crisis. About 840K new jobless claims were added and their total number is now estimated at over 1M, a number reflecting an unemployment rate of over 24%. Since about 90% of jobseekers were sent on unpaid leave, it is assumed that at least 80% of them will gradually return to the labor market, so the unemployment rate is expected to fall again, although to much higher levels than those in pre crisis
- March was a capitulation month in local financial markets. Market failures in the bond and Forex markets, which suffered from loss of liquidity, led to a sharp rise in bond yields and a staggering depreciation of the Shekel. In response, the Bank of Israel had to intervene and announce a 50B Shekel government bond purchase program and allocated up to 15B USD to swap transactions, operations that managed to calm markets
- The difficult and complex situation led the government to formulate an 80B Shekel incentive program aimed at preserving the ability of the economy to recover through direct aid to businesses by cutting payments, grants, loans and guarantees



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Core Economic Indicator

Israel

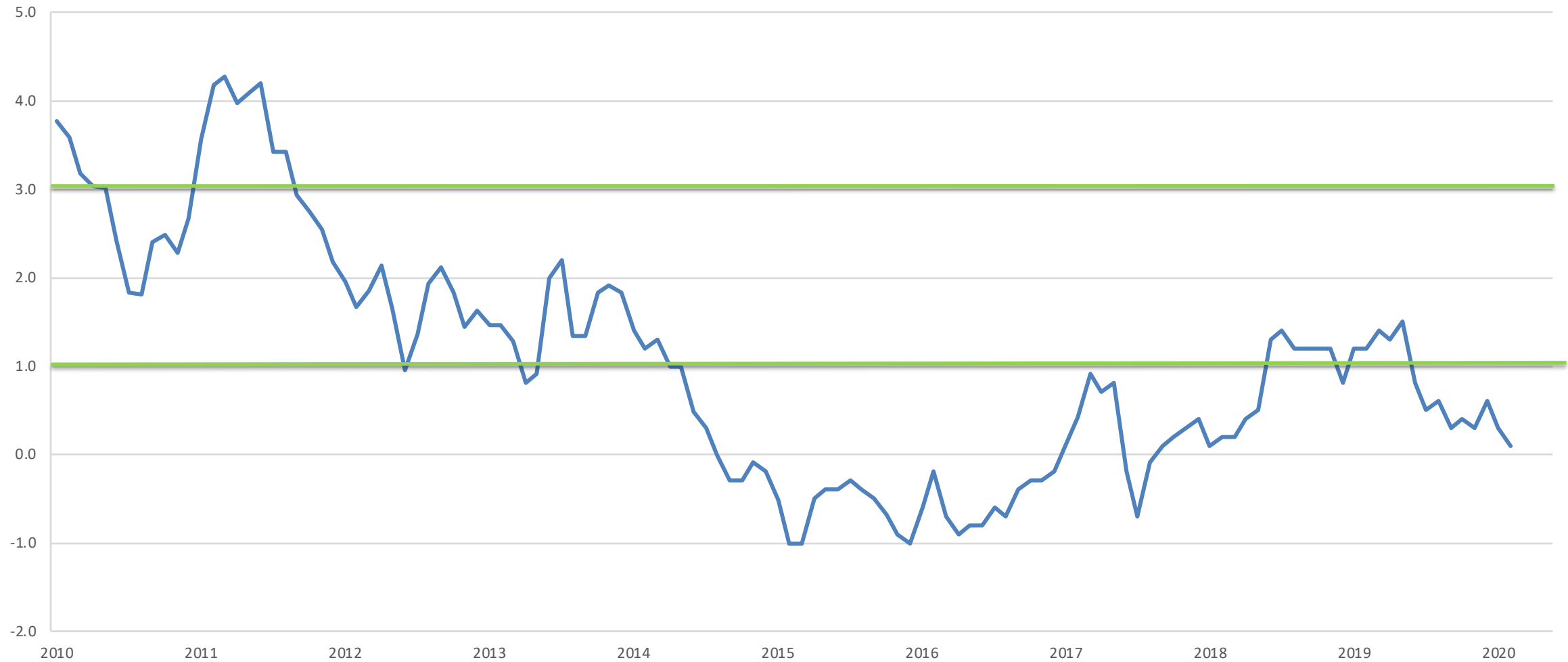
Economic Indicator	Latest Figure	Reference Period
Growth Rate	4.20%	Q4-2019
Unemployment Rate	3.4%	February-2020
Inflation Rate (YoY)	0.1%	February-2020
Central Bank Interest Rate	0.25%	March-2020
10 Years Yield	1.06%	March-2020
Ratio of Surplus in Current Account to GDP	3.6%	Q4-2019
Ratio of Public Debt to GDP	61.00%	Q4-2017



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Inflation

CPI (YoY)

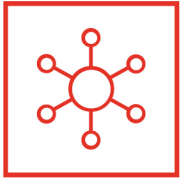




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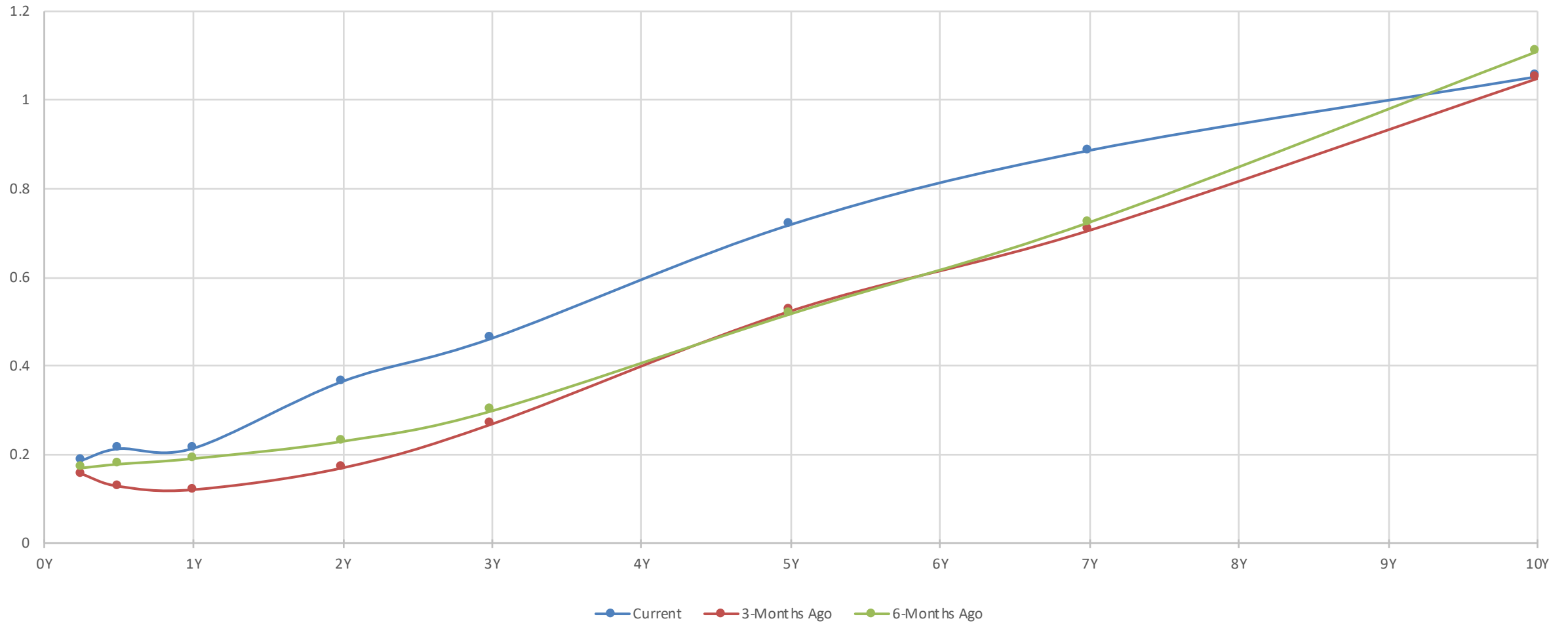
10YR Government Bond Yield





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Government Bond Yield Curve





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Hedging Costs

USDILS 1YR Forward Premium





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Exchange Rate

USDILS (Left) BOI Nominal Effective Rate (Right)





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Index Summary

Date	29/02/2020	31/03/2020	Change
USDILS	3.4711	3.5482	2.22%
EURILS	3.832	3.9129	2.11%
GBPILS	4.4493	4.4023	-1.06%
EURUSD	1.1026	1.1031	0.05%
GBPUSD	1.2823	1.242	-3.14%
USDJPY	107.89	107.54	-0.32%
DXY	98.132	99.048	0.93%
USDILS BOI Nominal Effective Rate	78.72211	79.96862	1.58%

Date	29/02/2020	31/03/2020	Change
TA-125	1,543	1,277	-17.22%
S&P 500	2,954	2,585	-12.51%
DAX	11,890	9,936	-16.44%
FTSE	6,581	5,672	-13.81%
HANG SENG	26,130	23,603	-9.67%
NIKKEI 225	21,143	18,917	-10.53%
GOLD	1,586	1,577	-0.54%
Crude OIL WTI	44.76	20.48	-54.24%
CRB	451.56	420.03	-6.98%



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CONNECTING THE RIGHT DOTS

CREATING THE RIGHT PICTURE