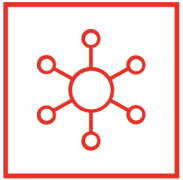




Financial
Immunities

Market Insights

May 2020



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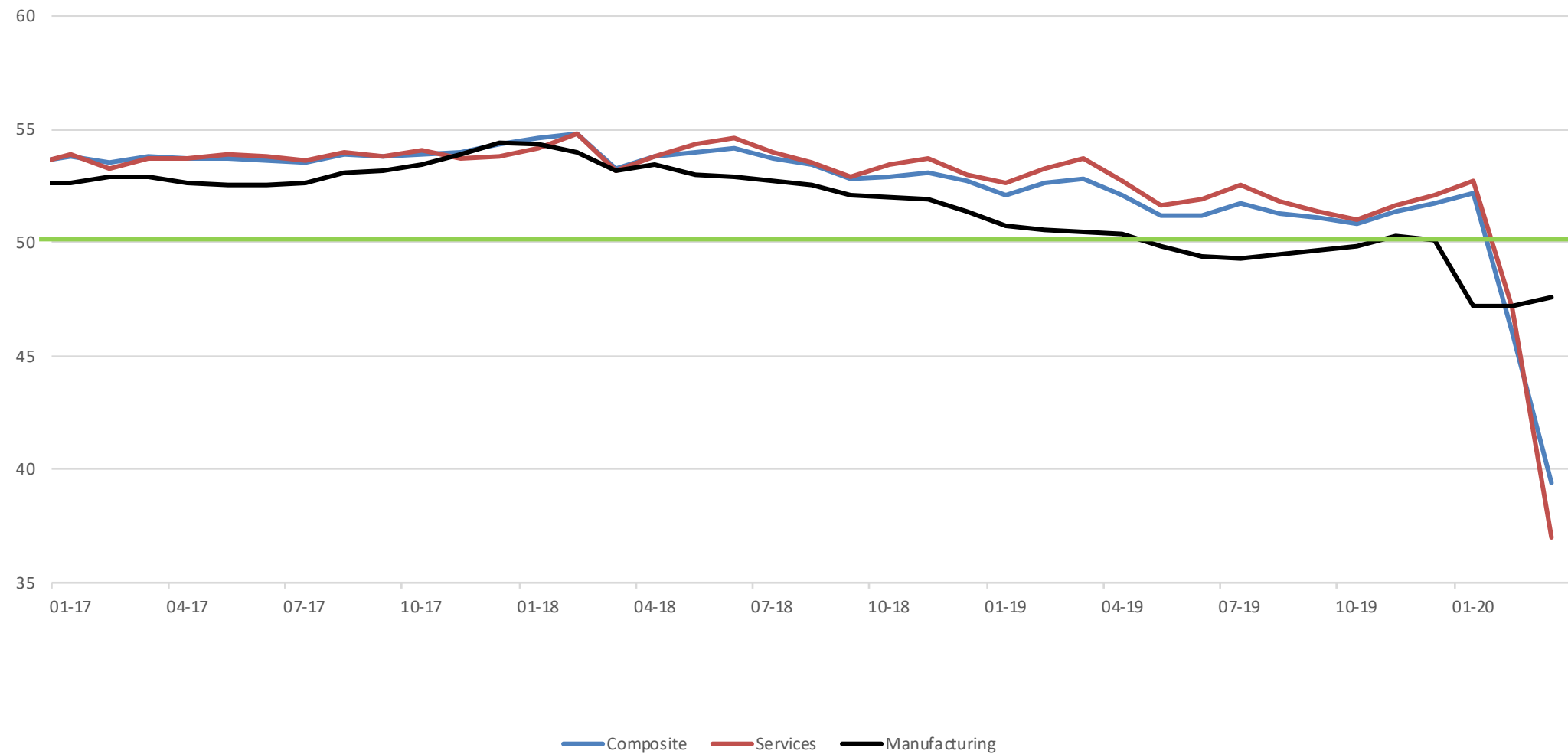
Global Economy

- The IMF declared that the Coronavirus Pandemic is a “crisis like no other” and forecast global economic activity to shrink by 3% in 2020, a scale that has not been seen since the Great Depression. This bleak situation calls for exceptional measures, as expressed, indeed by the unprecedented actions taken by governments and central banks (14tr\$) that have pledged for massive, in some cases, unlimited, liquidity injections. The global economy is projected to grow by 5.8% in 2021 as economic activity normalizes
- The social distancing and closure measures taken in many parts of the world have succeeded in flattening the Coronavirus infection curve, but all at an unprecedented economic cost. Now, when we are witnessing in many places attempts to reinvigorate economic activity the possibility of further outbreaks of the virus should be taken into account
- Unprecedented money flows by decision makers have been able to stabilize financial markets, which now reflect the expectation of a better economic future. However, oil prices continued to plummet, due to the sharp fall in demand (about 33%), the increase in supply and the limited storage capacity. In fact, today oil is the only asset that reflects the true state of the global economy
- While the fall in oil prices is bad news for oil exporters, China, the world's largest oil importer is the big beneficiary. However, recent indicators released in China indicate the biggest economic contraction in decades (Q1 GDP, -6.8%), just as China's position in the world is suffering a severe blow, due to its responsibility for the outbreak of the pandemic and its actions and attitude over the last months
- At a time when the growth engines in the west are still frozen and China's 14 trillion economy is trying to restart, the challenge facing the global economy is monumental and there's tremendous uncertainty around any economic forecast. Furthermore, one can expect the existing forecasts to be downgraded as they rely on conventional and traditional frameworks which may not be applicable



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Global PMI





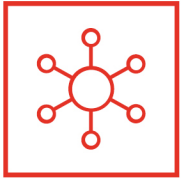
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Commodities Index (CRB)





- In light of the failure to act quickly, the United States became the focus of an outbreak of the Coronavirus. Although no national lockdown was declared in order to flatten the curve, measures taken at the state level in order to contain the spread, have led to a considerable impact on the economy, which according to the IMF is expected to shrink by a sharp 5.9% during 2020, before recovering by 4.7% in 2021. Q1 data indicate a 4.8% annualized contraction, with the economy expected to shrink by a staggering 40% in Q2, as a result of a rapid fall in private consumption and investment, ending an 11-year economic boom
- Facing an economic calamity due to a lethal combination of a pandemic and fragile financial markets, threatening to amplify the damage, the Fed and the government forged an alliance rolling out the biggest monetary and fiscal intervention ever. Those efforts cant stop the virus and its economic impact but they sure did calm the markets, enabling investors to come back to their senses and buying more time until the pandemic is finally brought under control
- After a month of prevention measures, the labor market, which is the foundation of economic activity, is suffering a severe blow. Jobless claims over the past six weeks have totaled more than 30 million and the expectation is for unemployment rate of more than 10%, a few months after fallen to a five-decade low of 3.5%. An entire decade's achievements have been wiped out in the virus's invisible hand and the last word has not yet been uttered
- The Fed has left interest rates near-zero while estimating that the economy will be affected by the outbreak of the virus in the medium term, revealing his assessment of a U shape recovery. He also called on lawmakers to provide additional fiscal incentives beyond those provided since the crisis began



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Core Economic Indicator

USA

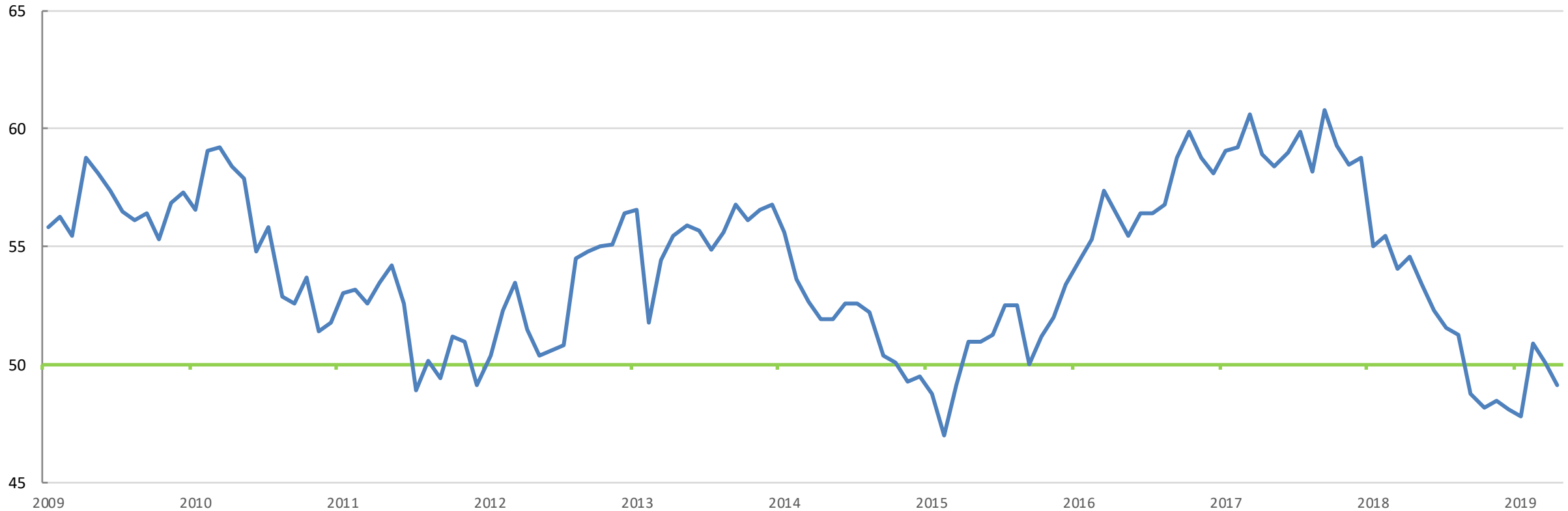
Economic Indicator	Latest Figure	Reference Period
Growth Rate	-4.8%	Q1-2020
Unemployment Rate	4.4%	March -2020
Inflation Rate (Core PCE, YoY)	1.7%	March -2020
Central Bank Interest Rate	0%-0.25%	May-2020
10 Years Yield	0.61%	May-2020
Ratio of Surplus in Current Account to GDP	2.29%-	Q4-2019
Ratio of Public Debt to GDP	106.78%	October-2019



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Economic Sentiment

Manufacturing ISM

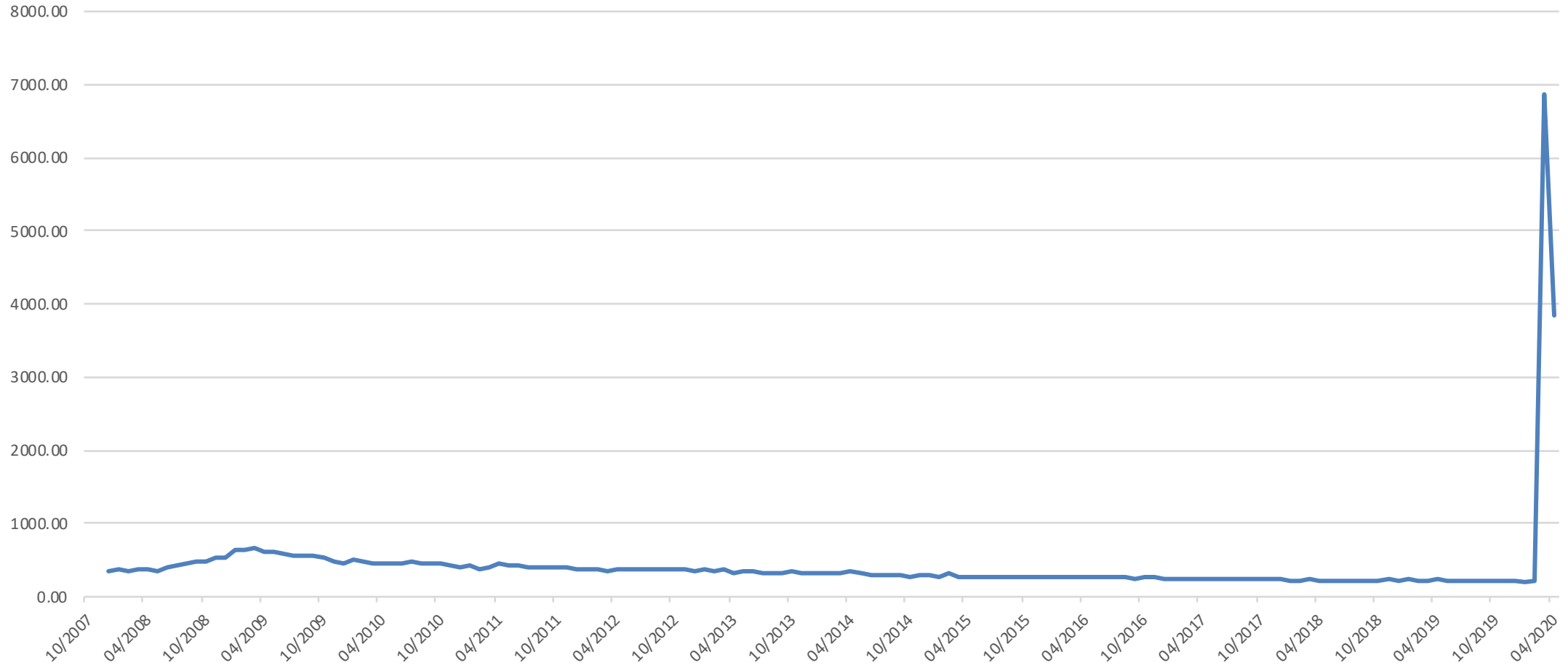




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Weekly Jobless Claims

In thousands

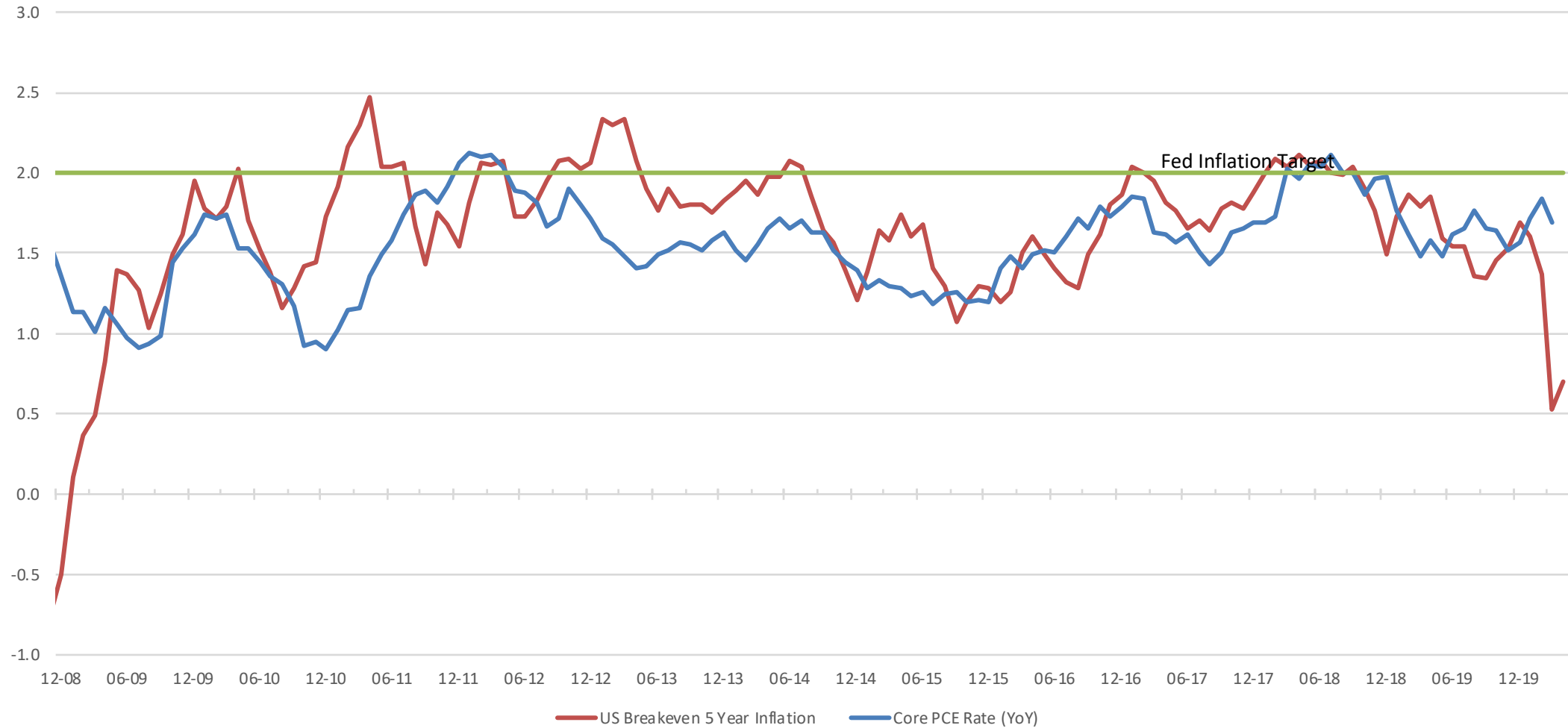


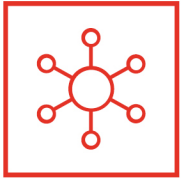


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Inflation

5Y Inflation Forecast





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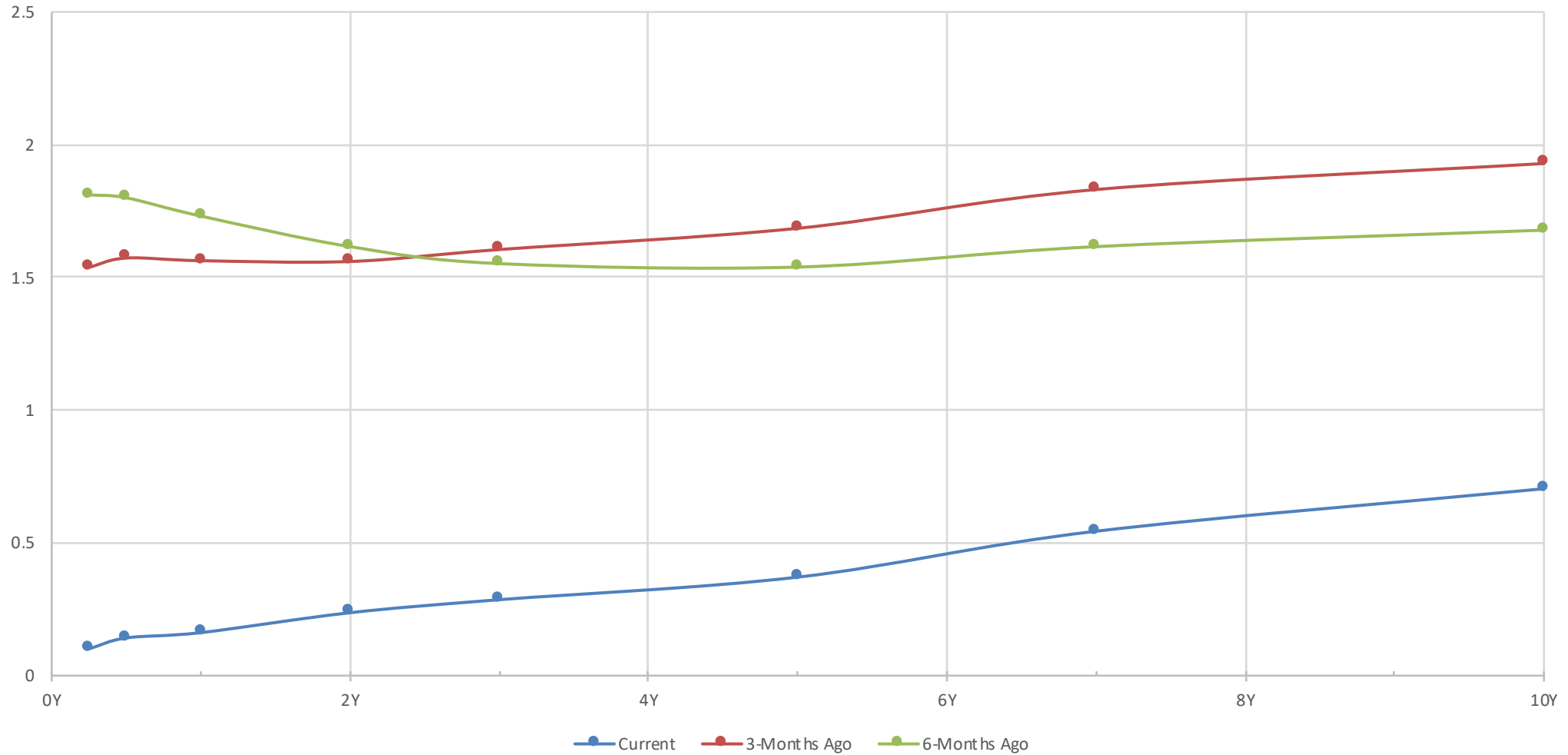
10YR Treasury Yield to Maturity





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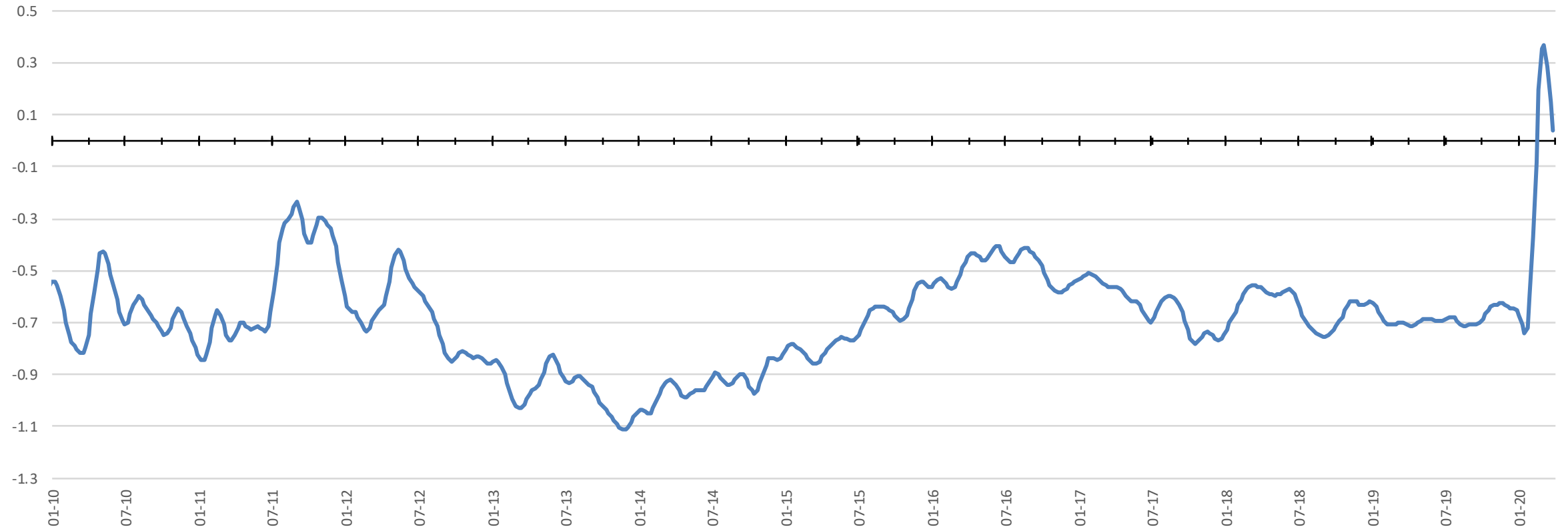
US Treasury Yield Curve





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Chicago Fed's National Financial Condition Index (NFCI)



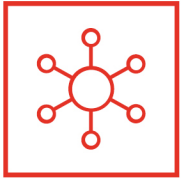
The NFCI provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets and the traditional and “shadow” banking systems. Negative values have been historically associated with looser-than-average financial conditions



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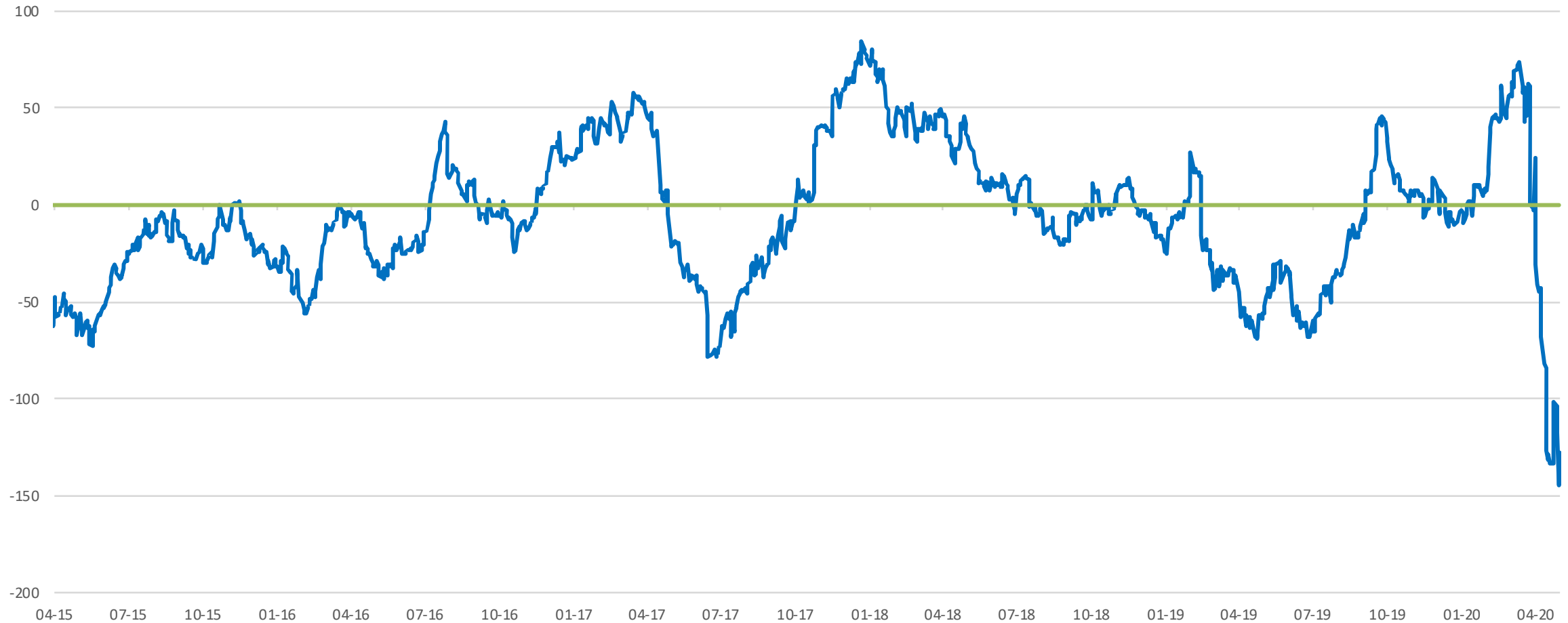
US Dollar Index (DXY)





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Citi Economic Surprise





- The Coronavirus hit the European economy furiously. The major economies on the continent, especially Italy, Spain, France and Germany, had to shut down all economic engines to stop the rapid spread of the virus. The rule of thumb says that every month of closure means a 3% contraction in GDP, with the IMF estimating that the bloc economy will shrink by 7.5% during 2020, before recovering again by 4.7% in 2021. Data revealed lately showed that the Eurozone economy contracted by 3.8% in the first quarter (14.4% annually), the lowest reading on record
- With over a million infected with the virus, the Eurozone is required for individual actions for each country as well as coordinated actions through the statutory bodies. Hence, the European Commission launched a € 540bn aid package, the European Investment Bank launched a program of up to € 200bn to assist SMEs, and a € 100bn loan-based device created to assist workers. In addition, the Commission removed the 3% deficit limit imposed on the bloc countries, allowing each and every Member States to expand fiscal with great intensity
- The ECB decided to keep its interest rates unchanged but to provide additional support of over € 1 trillion through sovereign and corporate asset purchases as well as providing loans, guarantees and support to individuals and SMEs during 2020-2021. The bank has also reduced the coverage, liquidity and capital adequacy ratios required by the financial institutions to increase their flexibility, but asked them not to distribute dividends to maximize the resources available
- Leading indicators such as the OECD CLI continued to slide down, indicating an ongoing decrease in economic activity, as a turning point is yet to be seen. Privet sector activity as shown in the composite PMI plunged to 13.5 points, a sharper than expected slump to the lowest level ever recorded
- Borrowing costs for some countries in the region, such as Italy, has risen as investors worry about debt sustainability. In a problematic timing, the Fitch rating agency downgraded Italy's credit rating to one notch above junk level saying that unless Debt to GDP will be placed on a downward path over time downward pressure on the rating could resume



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Core Economic Indicator

Eurozone

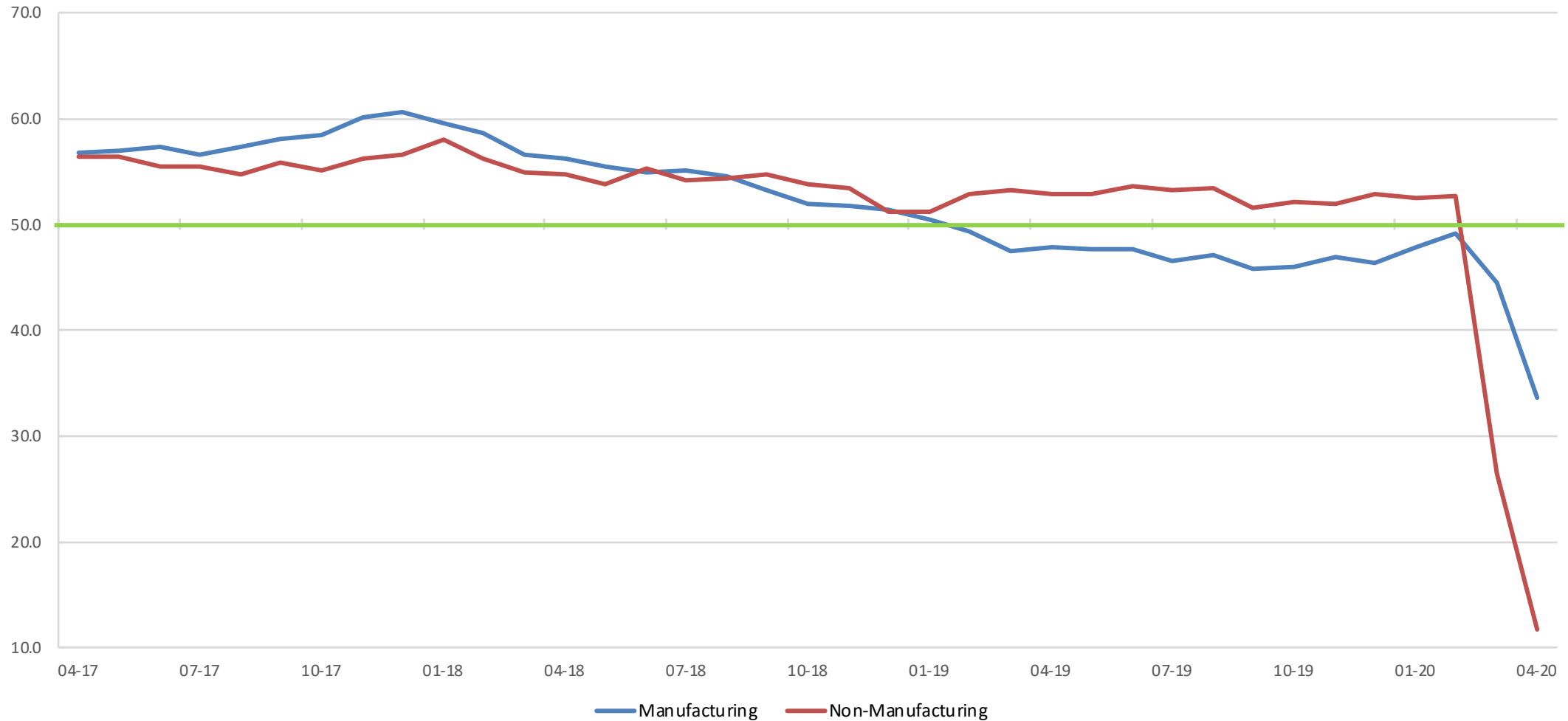
Economic Indicator	Latest Figure	Reference Period
Growth Rate	14.4%-	Q1-2020
Unemployment Rate	7.4%	March-2020
Inflation Rate (Core, YoY)	0.9%	April-2020
Central Bank Interest Rate	0.00%	April-2020
10 Years Yield (Germany)	-0.59%	May-2020
Ratio of Surplus in Current Account to GDP	2.99%	Q4-2019
Ratio of Public Debt to GDP	84.20%	Q4-2019

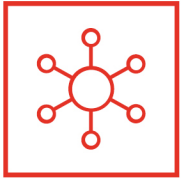


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Economic Sentiment

Manufacturing and Non-Manufacturing PMI





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Inflation

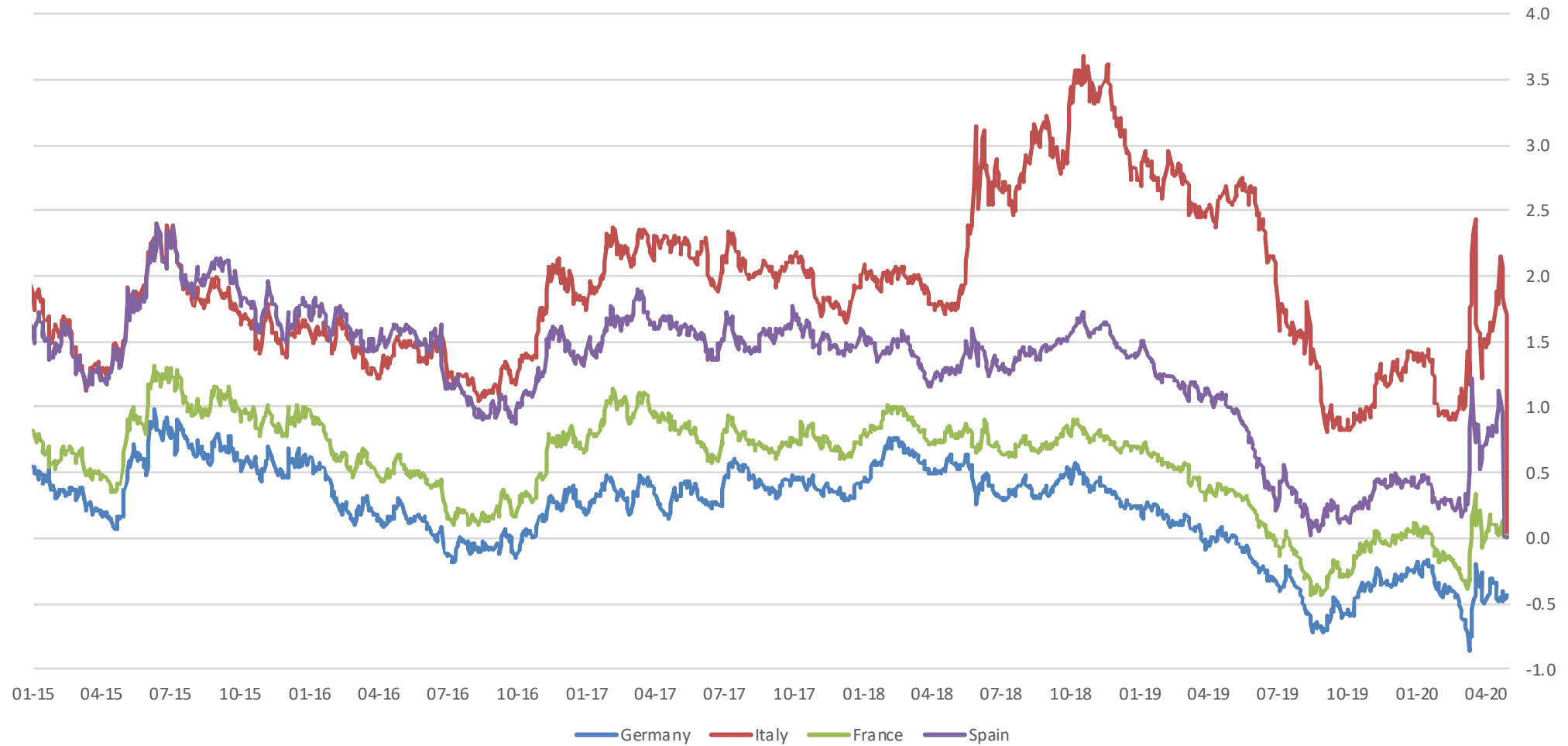
CPI and Core CPI (YoY)





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10YR Government Bond Yield

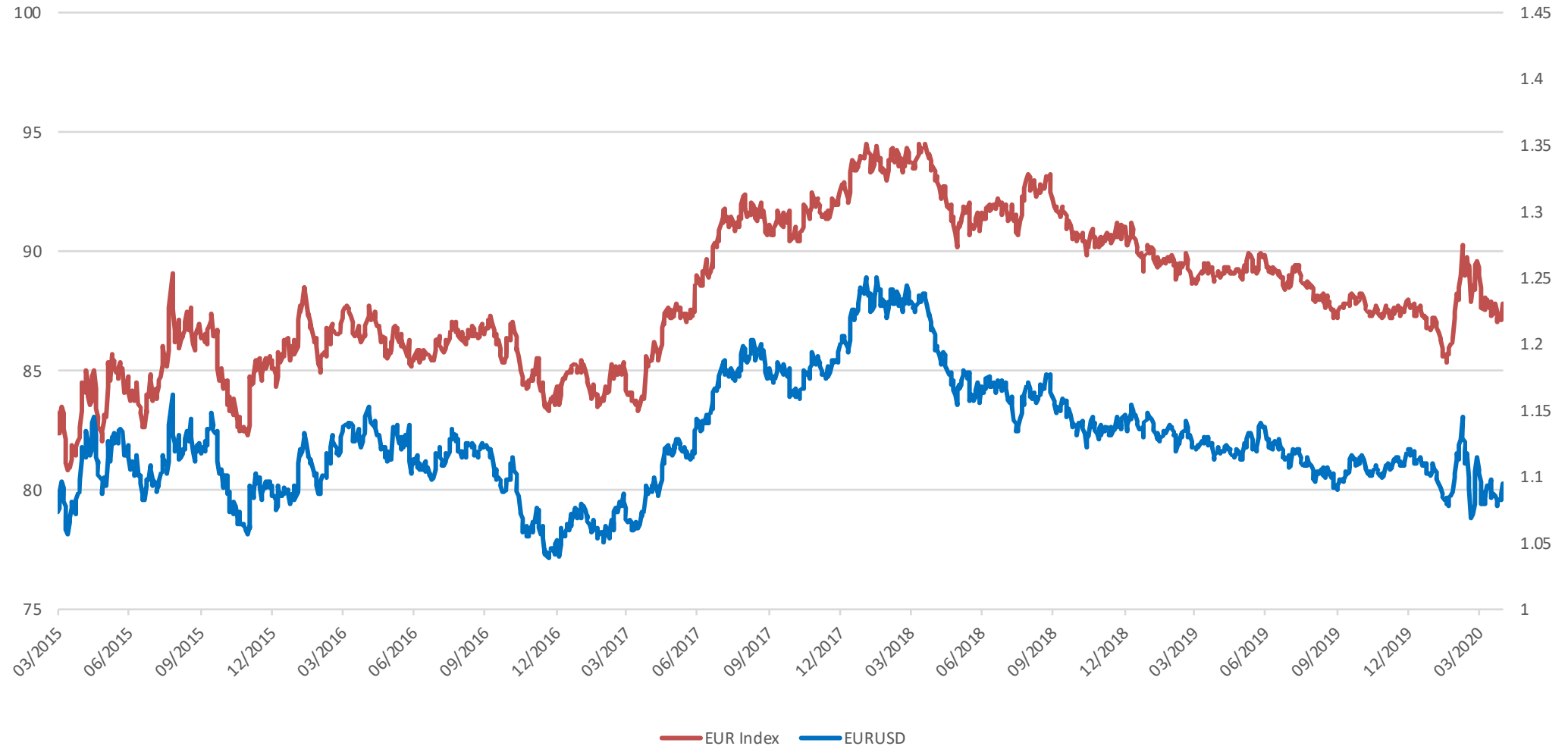




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Exchange Rate

EUR Index (Left) EURUSD (Right)

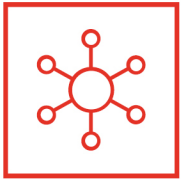




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Citi Economic Surprise





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Israel

- Two months since the beginning of the crisis, the picture becomes clearer and the economic damage becomes more and more tangible. The IMF predicts that the local economy will experience an unprecedented recession during which it will shrink by 6.3% in 2020 before bouncing back by 5% during 2021. The BOI assumes a gradual return to full economic activity by the end of June and estimate a contraction of 5.3% in 2020 followed by a sharp recovery of 8.7% in 2021
- More than 1.125m jobless claims, most of whom are on unpaid leave, and an unemployment rate of about 27% are the shocking result of the health crisis affecting the local economy. Despite the expected gradual return to routine, the IMF assumes an average unemployment rate of 12% during 2020 and 7.6% in 2021. This compares with a much more optimistic outlook by the BOI, which forecasts an average unemployment rate of 6% in 2020 and 5.5% in 2021
- After years of meticulous budget management, which allowed the reduction of debt burden and debt-to-GDP ratio from 90% to 60%, we have witnessed a negative change in recent years. This change led Moody's rating agency to downgrade the outlook on the Government of Israel's A1 ratings to stable from positive. A similar change can be expected to be made by the S&P rating agency, given a projected surge of more than 10% in the deficit in 2020 and a jump in the debt-to-GDP ratio to about 75%
- An unwanted consequence of the crisis is the decline in inflation. After 6 years of struggle with low inflation and in light of the sharp fall in demand and oil prices, the CPI, which has already dropped to 0%, is expected to fall further by about 1% to 2% during 2020, unlike most countries in the world. This move is expected to raise real interest rates, especially during the period when maximum monetary relief is required and put additional pressure on the BOI to reduce interest rates



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Core Economic Indicator

Israel

Economic Indicator	Latest Figure	Reference Period
Growth Rate	4.60%	Q4-2019
Unemployment Rate	27%	March-2020
Inflation Rate (YoY)	0%	March-2020
Central Bank Interest Rate	0.1%	April-2020
10 Years Yield	0.84%	May-2020
Ratio of Surplus in Current Account to GDP	3.62%	Q4-2019
Ratio of Public Debt to GDP	61%	Q4-2017



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Inflation

CPI (YoY)





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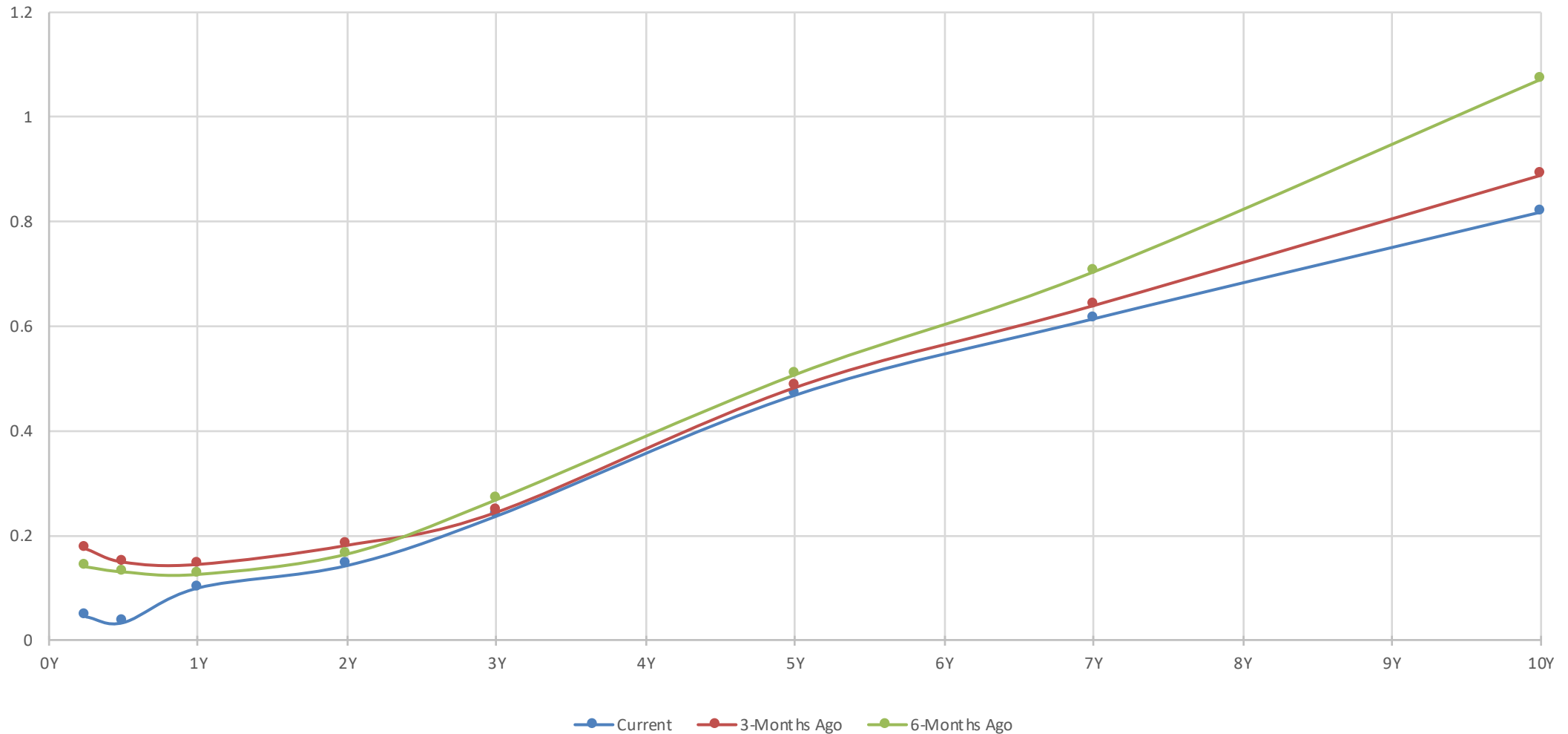
10YR Government Bond Yield





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Government Bond Yield Curve





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Hedging Costs

USDILS 1YR Forward Premium

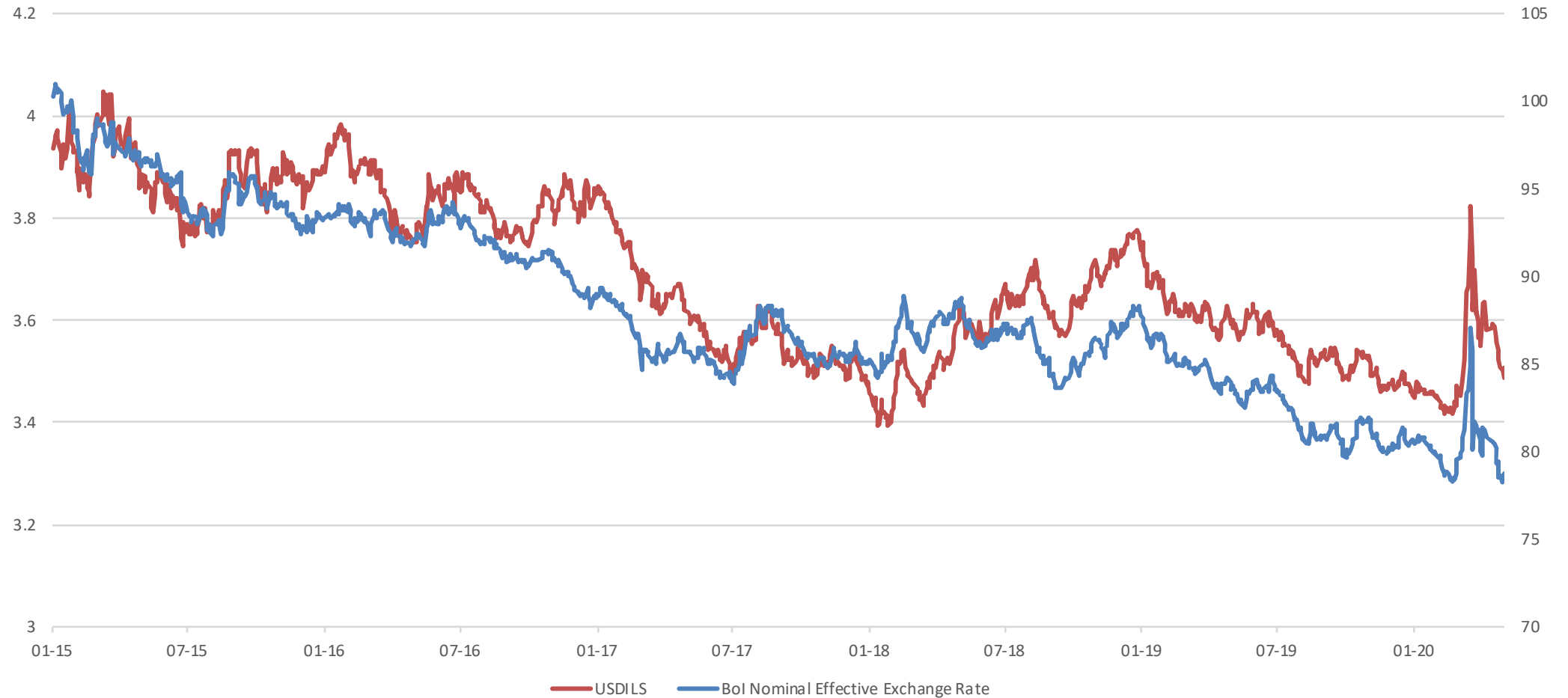




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Exchange Rate

USDILS (Left) BOI Nominal Effective Rate (Right)





Financial
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Index Summary

Date	31/03/2020	30/04/2020	Change
USDILS	3.5482	3.4867	-1.73%
EURILS	3.9129	3.8195	-2.39%
GBPILS	4.4023	4.3902	-0.27%
EURUSD	1.1031	1.0955	-0.69%
GBPUSD	1.242	1.2594	1.40%
USDJPY	107.54	107.18	-0.33%
DX	99.048	99.016	-0.03%
USDILS BOI Nominal Effective Rate	79.96862	78.71384	-1.57%

Date	31/03/2020	30/04/2020	Change
TA-125	1,277	1,407	10.21%
S&P 500	2,585	2,912	12.68%
DAX	9,936	10,862	9.32%
FTSE	5,672	5,901	4.04%
HANG SENG	23,603	24,644	4.41%
NIKKEI 225	18,917	20,194	6.75%
GOLD	1,577	1,687	6.93%
Crude OIL WTI	20.48	18.84	-8.01%
CRB	420.03	412.24	-1.85%



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CONNECTING THE RIGHT DOTS

CREATING THE RIGHT PICTURE