Financial Immunities

Market Insights

July 2020

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Global Economy

- **18.4 trillion $, this is the extent of the total aid programs that have been raised so far** since the crisis began in order to prevent economies and markets from collapsing. Now that the containment phase is over, decision makers are moving toward policies aimed at supporting economic recovery, especially fiscal support that will enable households and small businesses to bridge these difficult times
- This is the first time since the financial crisis of 2008 that **the center of gravity of economic policy is moving towards fiscal policy**, whose total scope so far exceeds 10 trillion$, an amount equal to the total damage caused to the global GDP
- WTO says that decisive actions taken by government cushioned trade downturn. WTO gave a wide range with an optimistic scenario of 13% contraction and a pessimistic scenario of 32% drop. On the other hand, the **IMF, in a pessimistic outlook, projects 4.9% contraction of global GDP in 2020** versus 3% previously
- As economies gradually open, **it is evident that economic activity is gaining momentum**. More and more workers are returning to the job market, trade is growing, industrial activity is recovering and even buds of civil aviation and tourism can be seen
- **However, the global economy is not out of the woods yet** and as it embarks on its long journey of easing the lockdowns, setbacks are most probably expected, as pandemic is still alive and kicking
- **Many countries redefine relations with China**. US-China conflict continues over hegemony and control of critical technologies, as US allies are required to choose a side in the conflict. The EU is also busy redefining its relationship with China in an effort to limit its power and influence and prevent it from exploiting the economic crisis to gain influence in Europe. Tariffs and legislation are tools in the fight to curb China's "Belt and Road" infrastructure plan and to fight back against companies acquisitions

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United States

- **The US economy is bottoming out, producing better than expected data**. After the April economic depression, momentum is gaining and in some industries the level of activity even returns to pre-crisis levels. A strong jump in consumer spending, which account for almost 70% of economic activity, indicate that providing incentives and opening up the economy produce, for now, a V-shape recovery
- After a tough period, **the job market begins the long journey towards recovery**, with more and more businesses opening up and amid government stimulus, contingent on rehiring workers. Payrolls rose by 4.8M in June after 2.7M gain in May following 20.7M tumble in April and 1.37M in March. Unemployment dropped to 11.1% from 13.3% and average hourly earnings rose 5% in June from a year ago
- May was probably a turning point in the job market and June brought more improvements, **but the numbers still reflect a very harsh reality**. Underemployment index, which includes part-time workers that want full-time employment and those who are discouraged from looking for work, fell sharply in June to18%, still a staggering number
- Hope for economic recovery is important, but **decision makers** understand that by the end of the day, money talks, so lawmakers continue to **debate about the possibility of extra fiscal incentives**, while the Fed has recently launched a new loan program, the latest in trillions of support it has already poured into the economy and markets
- The Fed chairman made it unequivocally clear that the bank intends to continue pumping incentives to support the economy until the job market recovers from the trauma caused by the coronavirus. This mood reflects the relentless commitment and determination of the Fed and the government to do whatever they can for as long as it takes. Currently, the **Fed is expected to maintain its bond buying program of at least 120B $ a month and leave interest rates near zero by the end of 2022**

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Eurozone

- Unlike past crisis, **decision-makers led by the central bank and the European Commission, taking an aggressive approach**, similar to the one the Fed is taking in the US. The ECB announced that it plans to increase bond purchases by 600B to 1.35T Euro and the European Commission has proposed a 750B Euro joint recovery fund
- The Union's initiative for a consolidated aid program is precisely the element that has been missing since the creation of the currency block, which many investors see as an initial but important step towards fiscal consolidation
- Germany’s government agreed another 130 billion Euro fiscal stimulus push and said it will back the proposed new 750B Euro European Union recovery fund
- Meanwhile, **Eurozone’s GDP fell by 14.4% (annually) in Q1 and GDP is expected to shrink by more than 8% in 2020**
- Containment measures, especially lockdowns, implemented since March, resulted in the collapse of output and demand, however, with the steps taken to reopen the economy, the downturn in the Eurozone started to recover. Leading indicators, such as the PMI, measuring activity in both the services and manufacturing sector, came in at 47.5, up from 31.9 in May. In other words, **the bloc's economy continues to shrink, but at a much slower pace**
- Looking ahead, a long and slow recovery is expected as unemployment is still rising, new business continue to fall and companies cut prices to help sales. The central bank accurately defined the situation by saying that while risks of financial turmoil have receded significantly, **the speed and scale of the recovery remain “extremely uncertain”**

Israel

- **The OECD**, in a gloomy outlook for the Israeli economy, **expects GDP to fall by 6.2% during 2020. In the case of a second coronavirus outbreak**, as we are now witnessing, **the economy will fall by a staggering 8.3%**
- **Activity return to pre-crisis level will extend by the end of 2021** due to high unemployment rates and falling demand. In the event of a second outbreak, the recovery is expected to be longer due to firm insolvencies and prolonged unemployment
- So far, **only 35 billion ILS of aid money, out of 100, has been transferred to households and businesses**, which raises fears of bankruptcy on a large scale, resulting in high unemployment rates and a fall in demand that will delay economic recovery. Indeed, **65K companies are expected to go bankrupt in 2020, a 50% increase over 2019**
- The scenario of short-term deflation and long-term inflation is fully realized after the May CPI Index fell 0.3%, similar to the April drop, and **inflation fell 1.6% YOY, the sharpest decline since 2004**
- The job market has begun its journey toward recovery, though it is expected to be long and slow. With the opening of the economy and the removal of restrictions, workers who were on unpaid leave, who account for almost 90% of the unemployed, began to return and **unemployment rate began to fall from a peak of almost 28% to about 22%**. With the grants offered to employers to call back their furloughed workers unemployment is expected to drop to 10%-12%
- The government **budget deficit** continues to rise rapidly to 6% in the past year. A sharp decline in income along with a jump in spending **is expected to raise** the deficit **to double-digit levels by 2020**. Being a global phenomenon, investors' focus is not on the deficit issue, and deviating from targets is seen as a key to the survival of the local economy and its ability to recover

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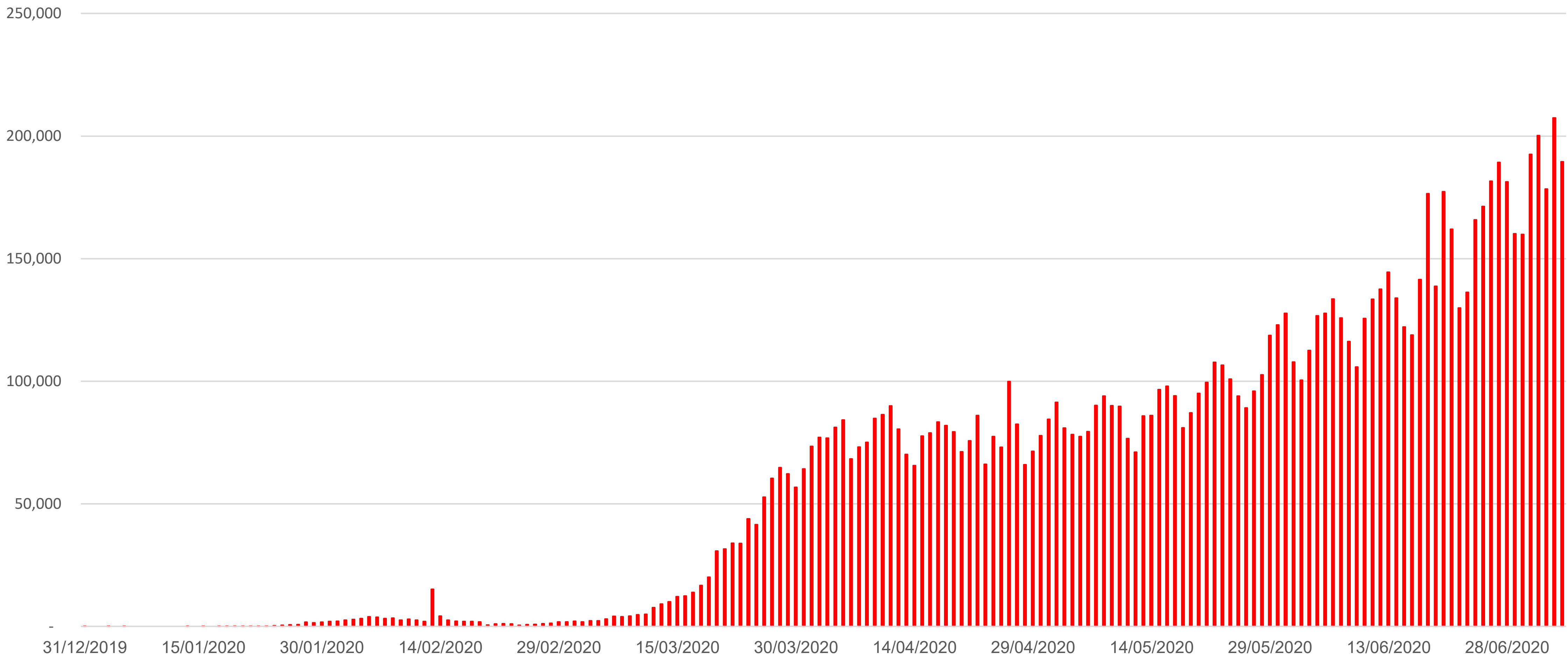
Coronavirus Meter

Global Cases Added Per Day



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Stimulus Tracker

Country	Monetary Stimulus ($ bn.)	Fiscal Stimulus ($ bn.)	% of GDP	Rate Cut
USA	3,558	2,842	29.5%	1.5%
Eurozone	1,720	1,276	16.4%	---
China	221	792	7.2%	0.4%
Japan	1,000	1,125	41.5%	---
UK	635	52	24.3%	0.7%
Australia	40.7	197	20.8%	0.5%
Canada	205	133	19.4%	1.5%
India	50	289	10.6%	1.2%
Israel	20	29	12.2%	0.15%
IMF	---	200	---	---
Global Economy	**7,900**	**10,500**	**20%**	**---**

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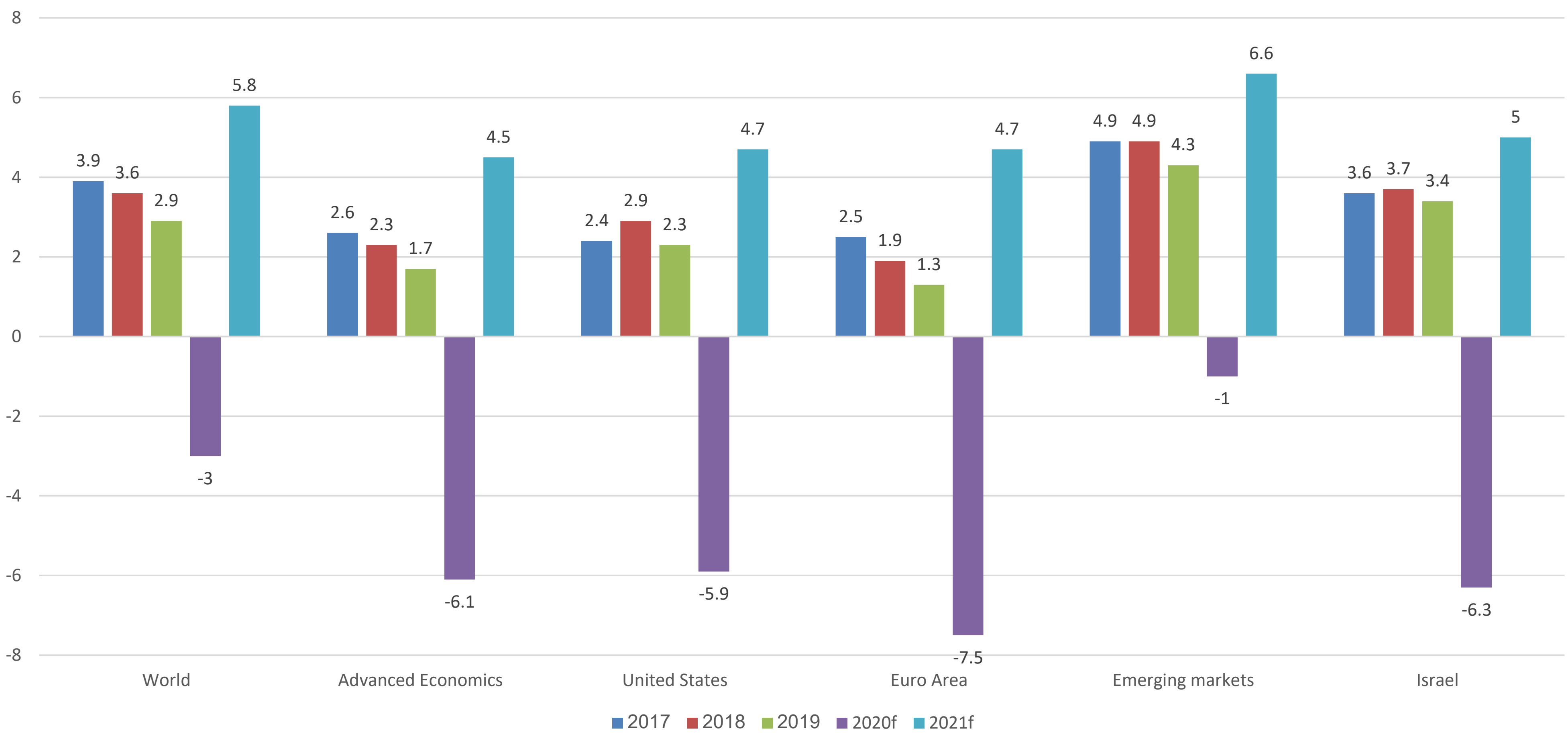
GDP Forecast (%)



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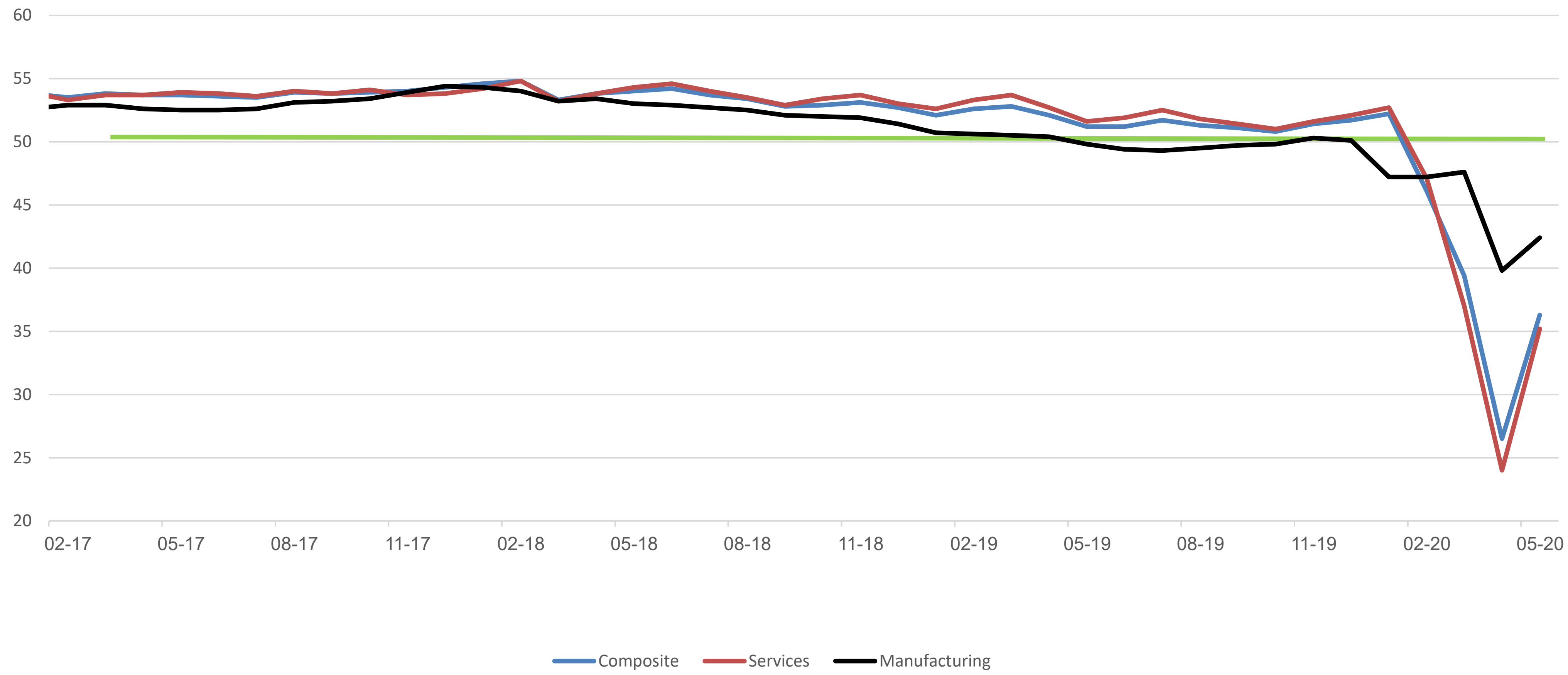
V Shape Recovery (for Now)

Global PMI



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US Economy

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Core Economic Indicator

Economic Indicator	Latest Figure	Reference Period
Growth Rate	-5%	Q1-2020
Unemployment Rate	11.1%	June -2020
Inflation Rate (Core PCE, YoY)	1%	May -2020
Central Bank Interest Rate	0%-0.25%	July -2020
10 Years Yield	0.67%	July-2020
Ratio of Surplus in Current Account to GDP	-2.13%	Q1-2020
Ratio of Public Debt to GDP	107.82%	January- 2020

Economic Indicators are Better than Expected

Citi Economic Surprise

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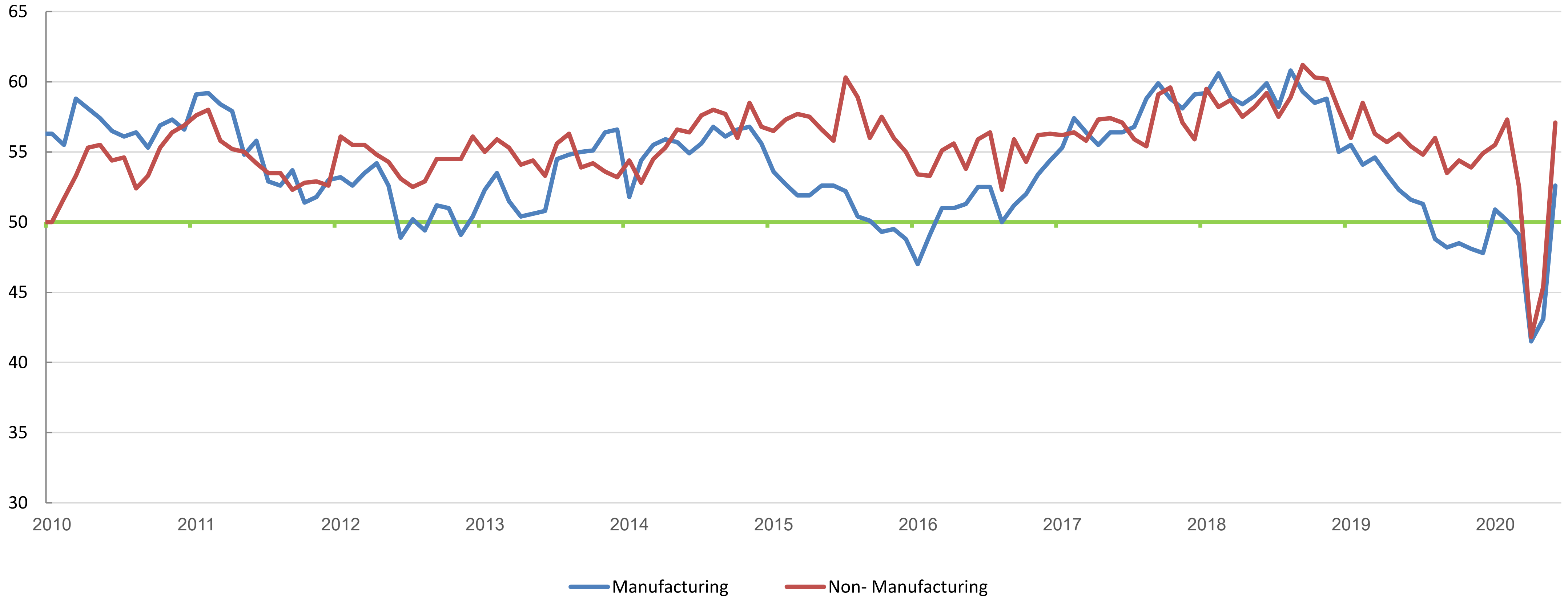
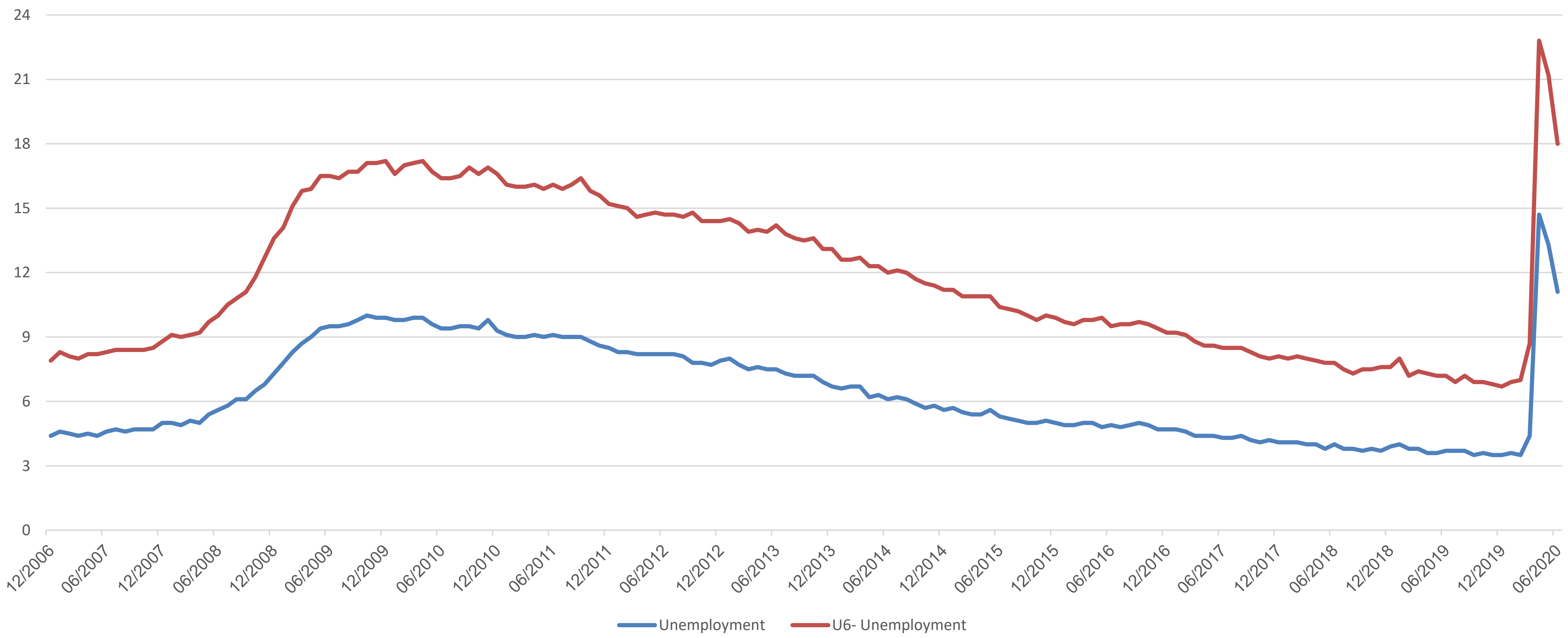
Sharp Recovery

ISM



Labor Market is Still in Trauma

Unemployment Rate



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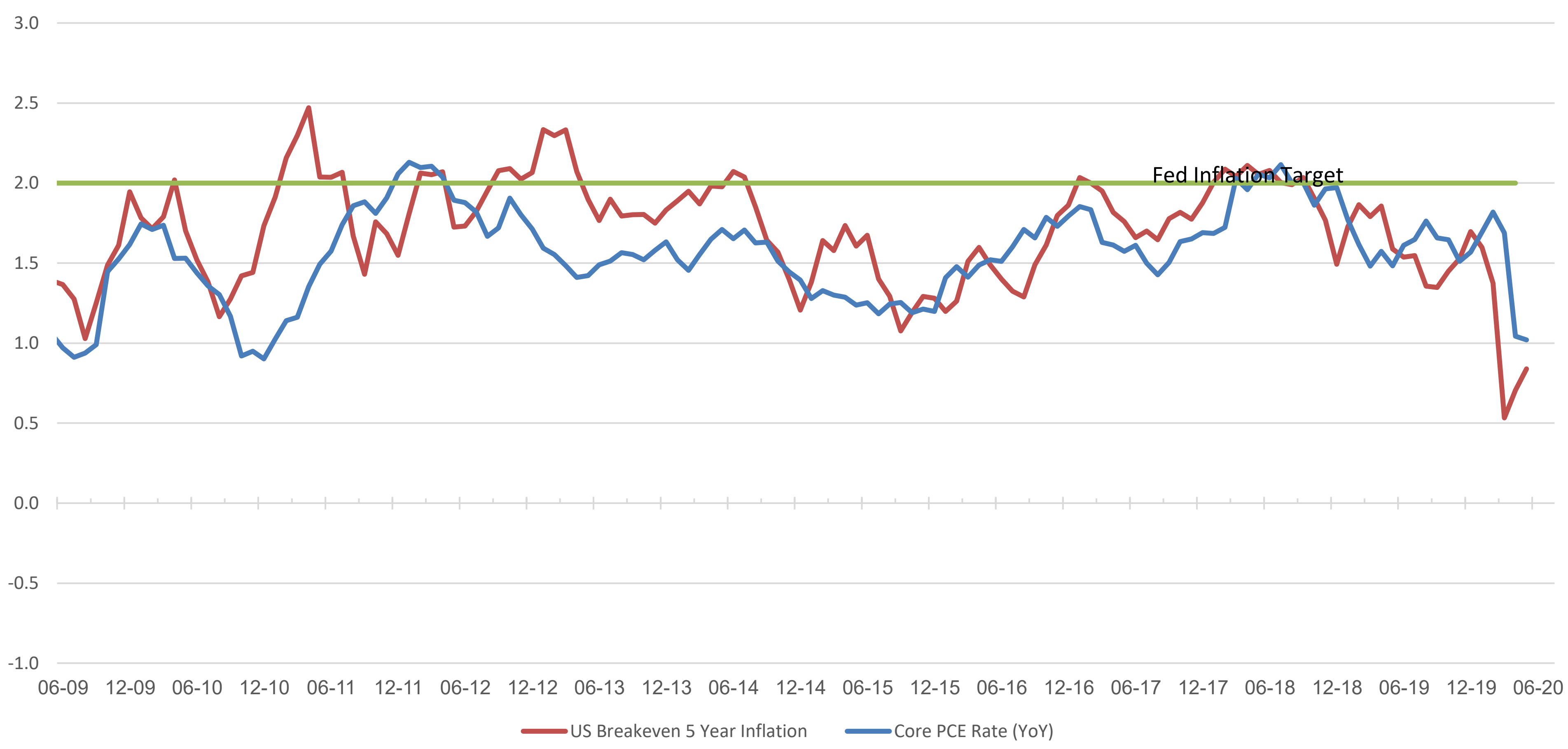
Low Inflation in the Short Term



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Lowest Yields Ever Courtesy of the Fed

10YR Treasury Yield to Maturity

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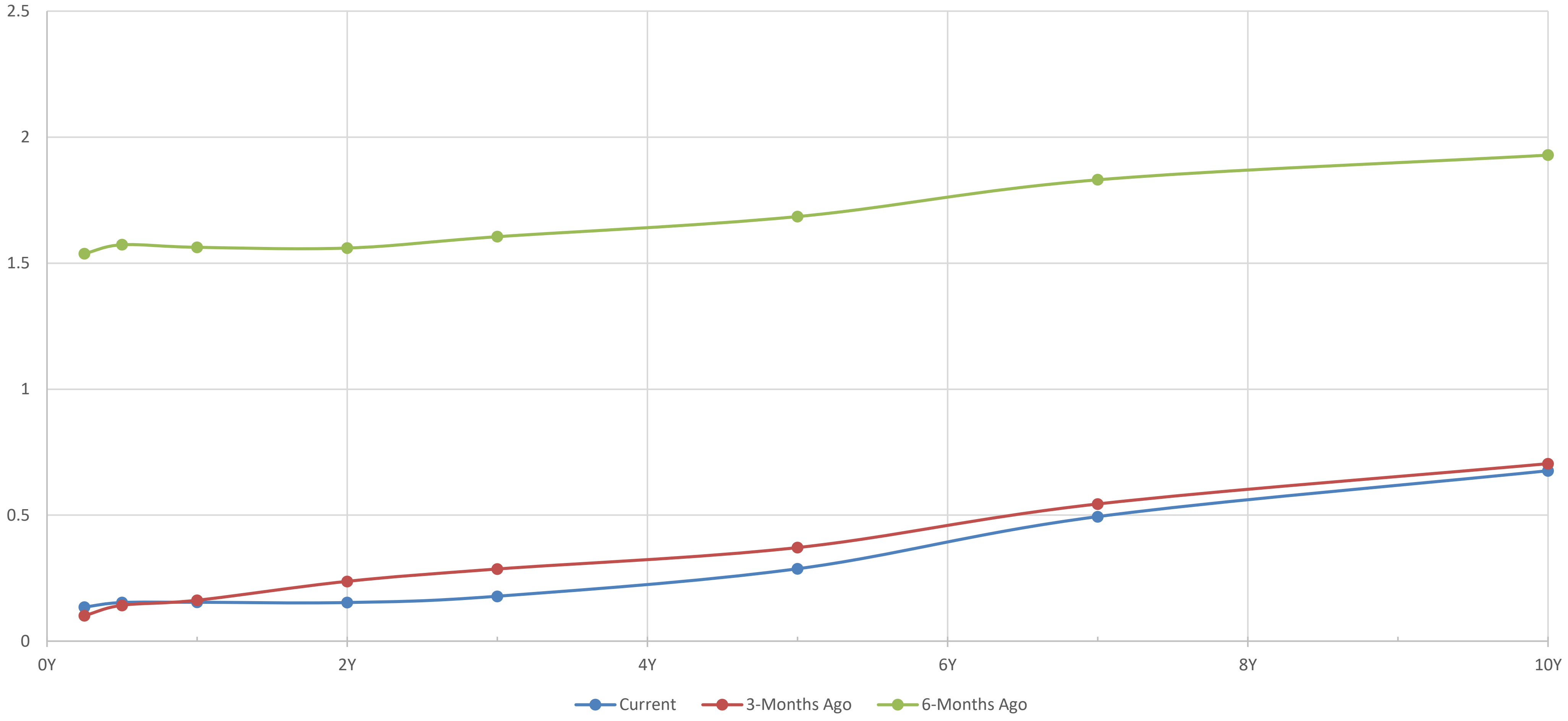
US Treasury Yield Curve



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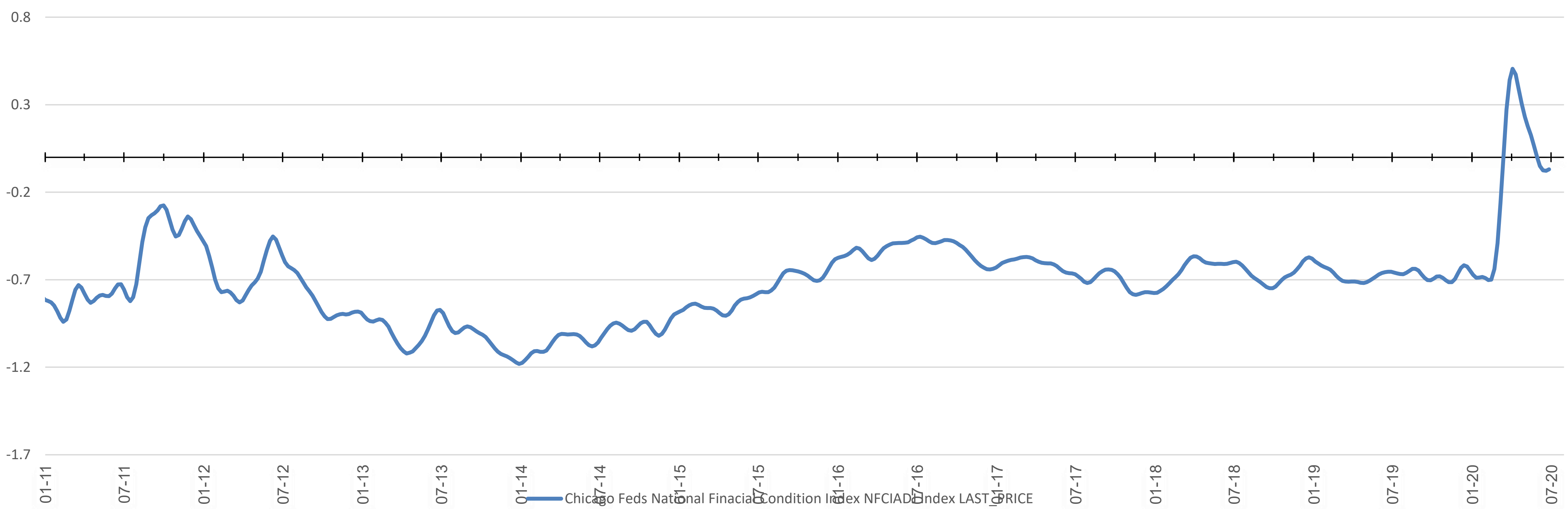
The Monetary Conditions are No Longer Tight

Chicago Feds 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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Eurozone Economy

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Core Economic Indicator

Economic Indicator	Latest Figure	Reference Period
Growth Rate	-13.6%	Q1-2020
Unemployment Rate	7.4%	May-2020
Inflation Rate (Core, YoY)	0.8%	June-2020
Central Bank Interest Rate	0.00%	June-2020
10 Years Yield (Germany)	-0.45%	June-2020
Ratio of Surplus in Current Account to GDP	2.4%	Q1-2020
Ratio of Public Debt to GDP	84.20%	Q4-2019

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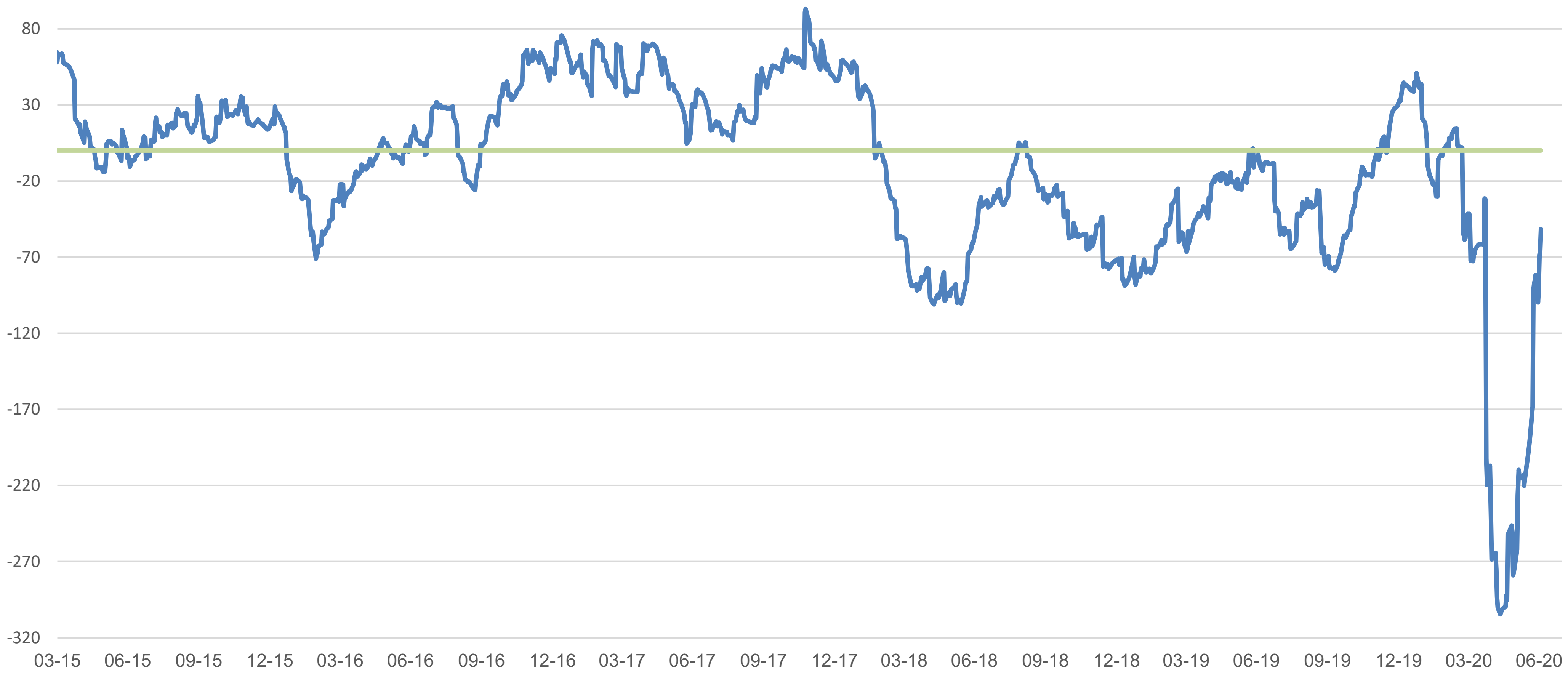
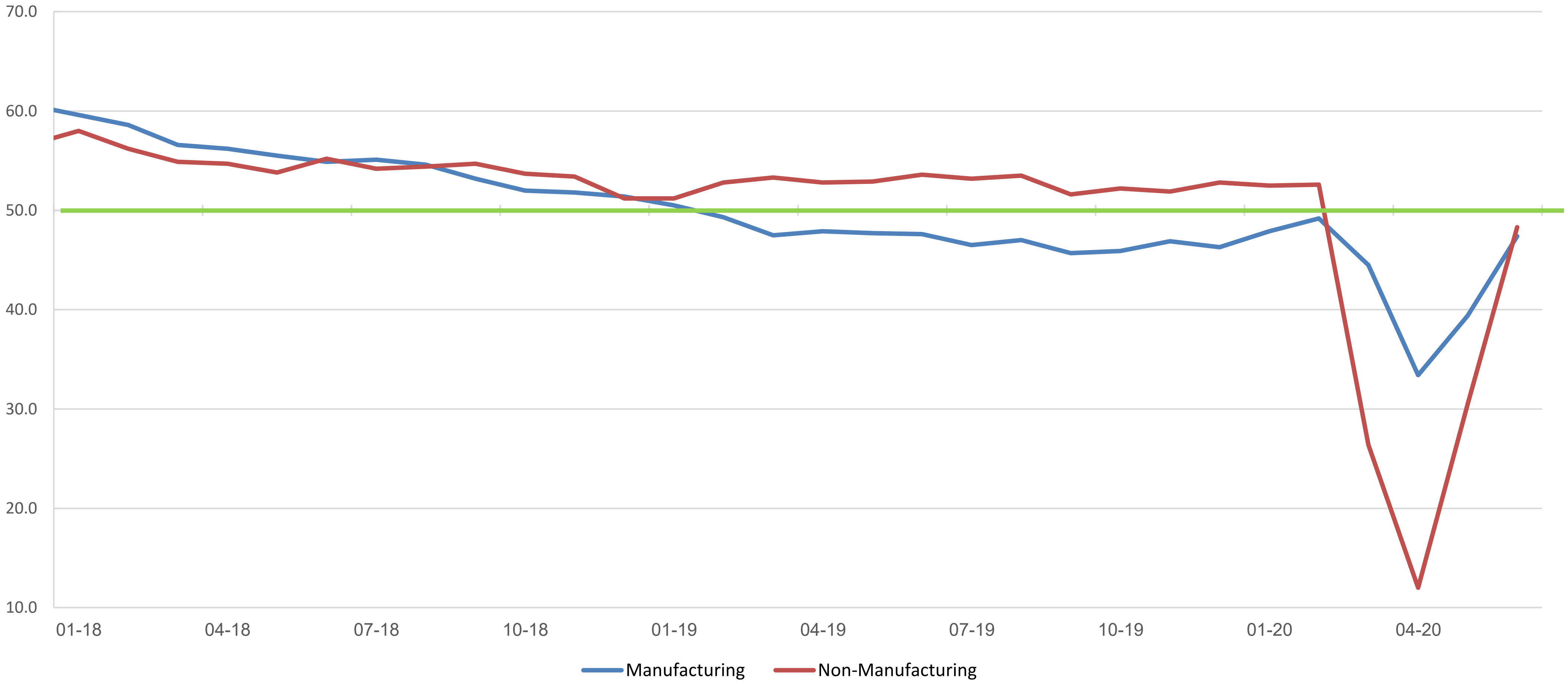
The Recovery is Fragile

Citi Economic Surprise



Economic Sentiment is Improving

Manufacturing and Non-Manufacturing PMI



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Zero Inflation

CPI and Core CPI (YoY)

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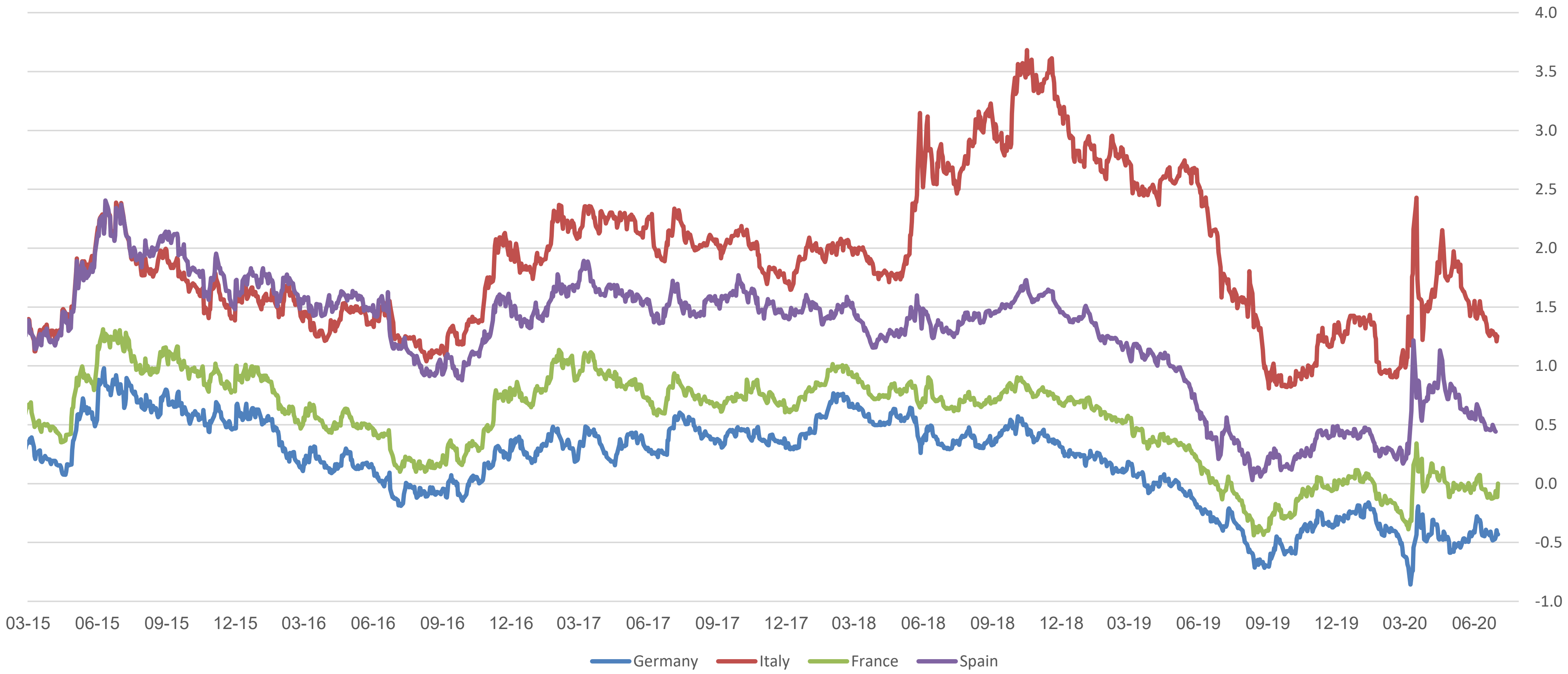
Yield Convergence

10YR Government Bond Yield



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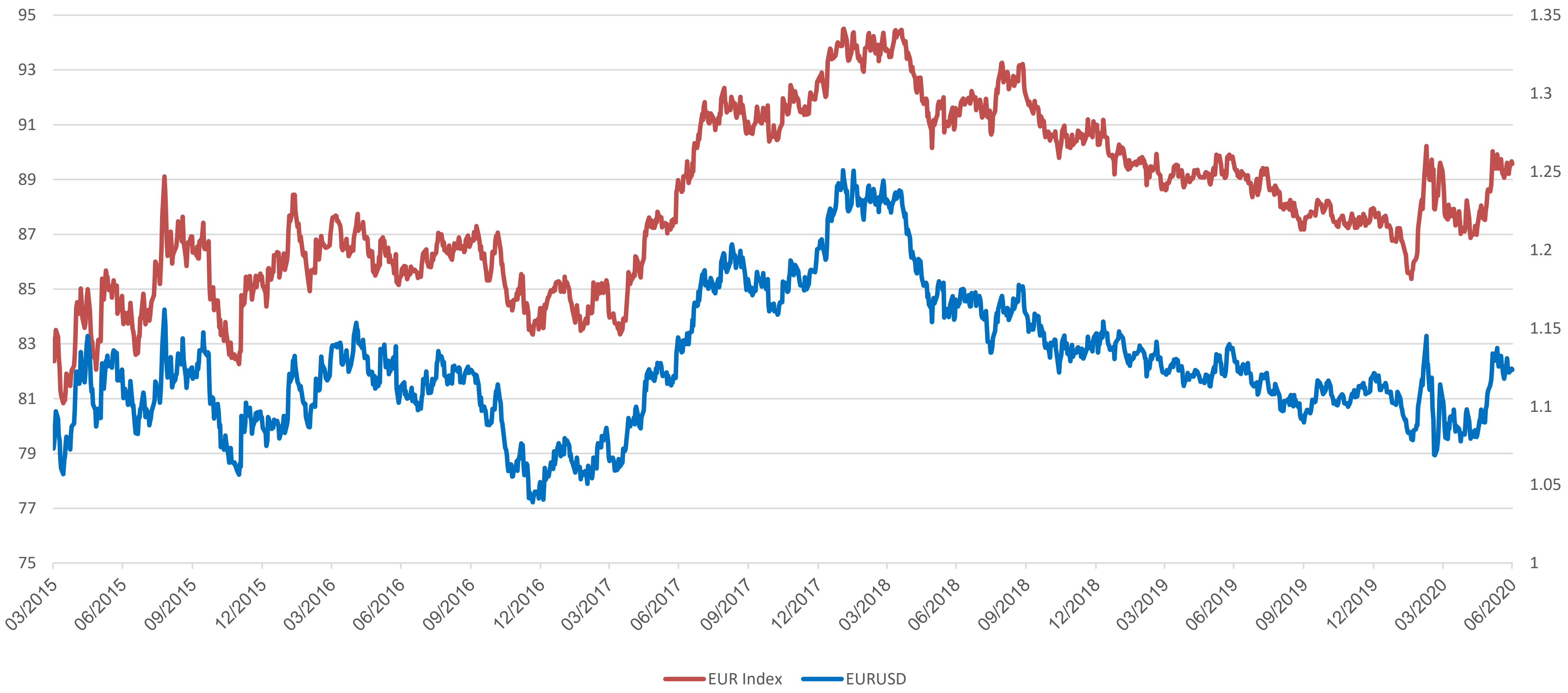
Fiscal Consolidation Strengthens the Euro

EUR Index (Left) EURUSD (Right)



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Israel Economy

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Core Economic Indicator

Economic Indicator	Latest Figure	Reference Period
Growth Rate	-6.8%	Q1-2020
Unemployment Rate	22%	June-2020
Inflation Rate (YoY)	-1.59%	May-2020
Central Bank Interest Rate	0.1%	July-2020
10 Years Yield	0.64%	July-2020
Ratio of Surplus in Current Account to GDP	3.57%	Q1-2020
Ratio of Public Debt to GDP	61%	Q4-2017

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Short Term Deflation

CPI (YoY)

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All Time Low

10YR Government Bond Yield

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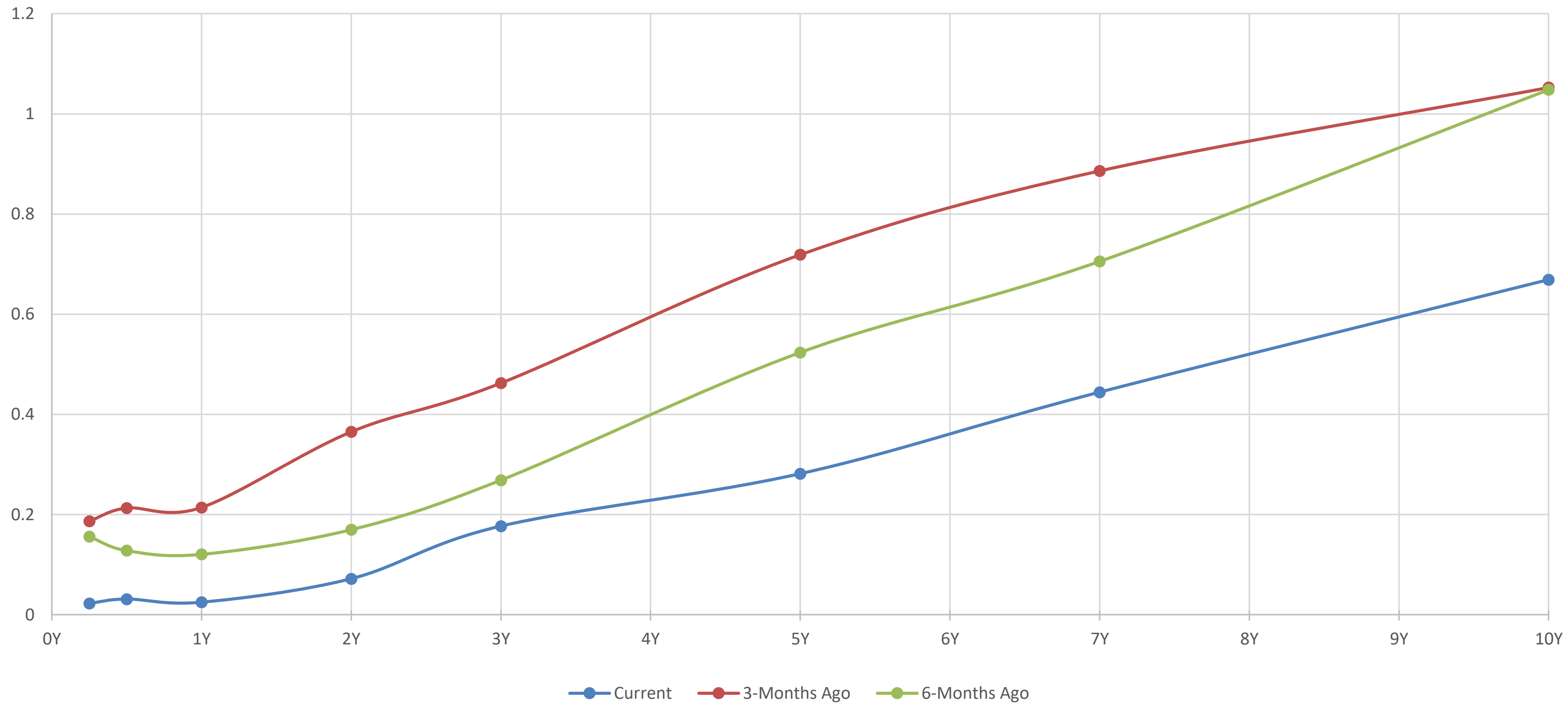
Government Bond Yield Curve



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Hedging Costs

USDILS 1YR Forward Premium

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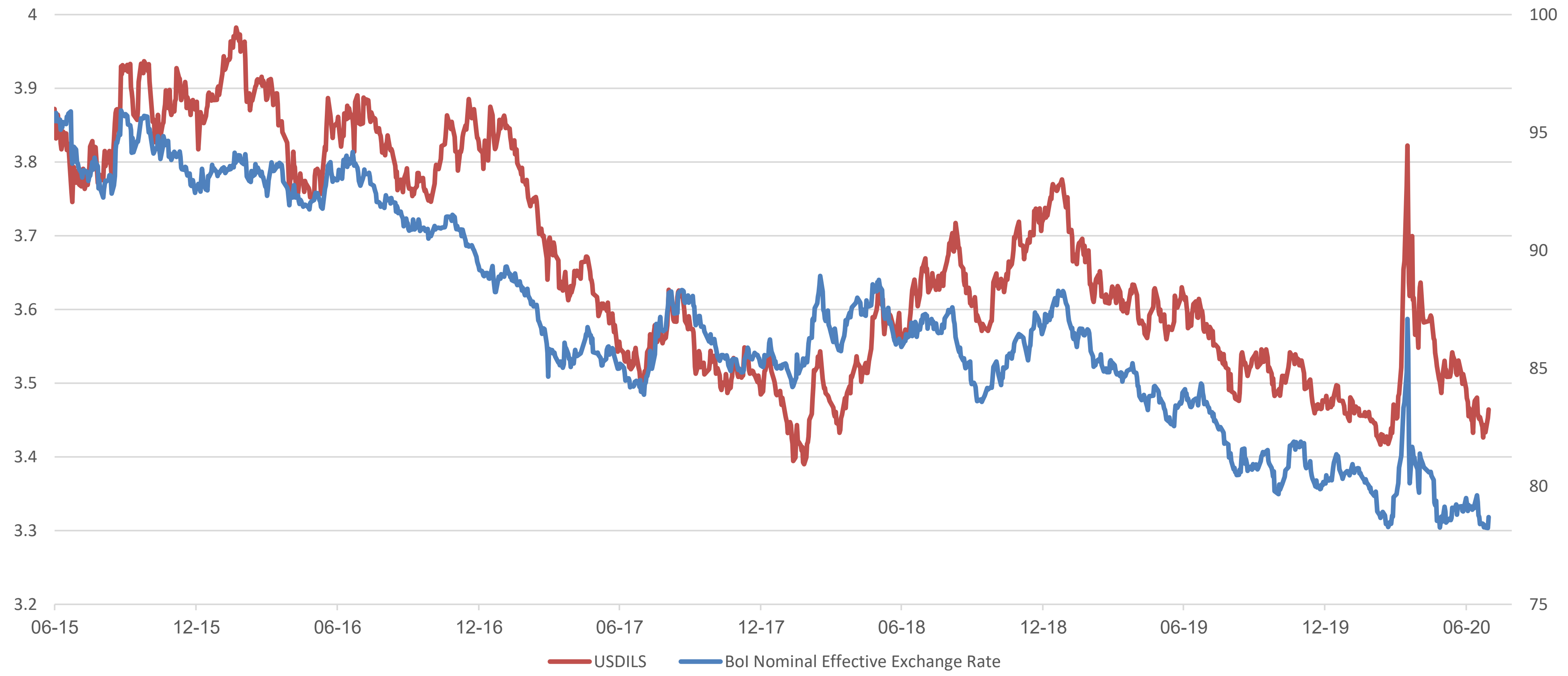
Exchange Rate

USDILS (Left) BOI Nominal Effective Rate (Right)



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Index Summary

Date	31/05/2020	30/06/2020	Change
USDILS	3.5116	3.4643	**-1.35%**
EURILS	3.8982	3.8933	**-0.13%**
GBPILS	4.335	4.2953	**-0.92%**
EURUSD	1.1101	1.1234	**1.20%**
GBPUSD	1.2343	1.2401	**0.47%**
USDJPY	107.83	107.93	**0.09%**
DXY	98.344	97.391	**-0.97%**
USDILS BOI Nominal Effective Rate	78.93445	78.69838	**-0.30%**

Date	31/05/2020	30/06/2020	Change
TA-125	1,395	1,325	**-4.97%**
S&P 500	3,044	3,100	**1.84%**
DAX	11,587	12,311	**6.25%**
FTSE	6,077	6,170	**1.53%**
HANG SENG	22,961	24,427	**6.38%**
NIKKEI 225	21,878	22,288	**1.88%**
GOLD	1,730	1,781	**2.93%**
Crude OIL WTI	35.49	39.27	**10.65%**
CRB	416.39	417.74	**0.32%**

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CONNECTING THE RIGHT DOTS

CREATING THE RIGHT PICTURE

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