Financial Immunities

Market Insights

November 2020

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Global Economy

- **A new wave of Coronavirus is sweeping the world, forcing many governments to impose restrictions** and tighten limitations. Citizens' distrust of governments and fatigue from the duration of the event are hurting the ability to contain the second wave
- **The IMF expects the global economic downturn during 2020 to be slightly milder than it had forecast in June** (-4.4% instead of -5.2%). The slight improvement is due to higher-than-expected growth in the major developed countries during Q2 and China's strong return to growth. All this, of course, courtesy of the monetary, fiscal and regulatory response of decision-makers. However, economics' gauges already point to a renewed weakening of activity in industrial nations in October, particularly in Europe
- Development processes that took a decade to complete were compressed as a result of the crisis into months, as tremendous progress in the development of vaccines, drugs and rapid test kits made. **It is now clear** that vaccines themselves are not a magic bullet and that **the response to the pandemic will be a combination of vaccines, drugs and tests together**
- The expectation of advances in vaccine development and approval, which has been confirmed by drug companies and regulators, along with continued support from decision-makers, governments and central banks, supported financial markets over the past month. However, **the process of distributing the vaccines, the public's willingness to receive them and their effectiveness are unclear at this stage**, hence the future state of markets and the economy in 2021
- While the world is still clawing its way out of the economic and health crisis, **China** which has taken rapid and aggressive measures aimed at containing the virus, **returned to 4.9% YOY growth in Q3**, lower than investors' expectations but still much better off than its peers. China is the only G20 country to grow during 2020 **and now accounts for 40% of global GDP growth**

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United States

- Ahead of the Nov. 3rd presidential election, **more than 9 million people have been diagnosed with Coronavirus, and more than 230K have lost their lives**. In October, the number of infections continued to rise for the second month in a row to a new pandemic record, though Coronavirus deaths fell to a three-month low. A combination of circumstances, including the administration's strong desire to restart the economy, along with failures in dealing with the pandemic led to the robust resurgence
- **As government assistance stops or dwindles, and the number of coronavirus cases rising, economic recovery is expected to lose some momentum**. True, the labor market continues to improve, but the recovery is moderating. The U.S. consumer continues to spend at a handsome pace as retail sales rose 1.9% in September, the fastest pace in three months, fueled by government support. However, the absence of additional fiscal stimulus is likely to lead to a moderation in spending
- **Meanwhile, unlike in Europe, business activity during October was the strongest in almost two years** as reflected in the composite PMI, which increased to 55.5, a reading that indicates growth, and expectation spiked to 10 year high on hopes over vaccines, election certainty and more fiscal stimulus
- The pandemic-induced slowdown allowed for a slight rise in prices, although the level of inflation is still far from the Fed target. Over the past year, prices have risen by 1.4% and for the time being, high unemployment is preventing supply-side issues and higher input costs to materialize. **The Fed expected to continue its ultra-accommodative policy until 2023**, to allow inflation to go beyond the 2% target
- **The US budget deficit totaled 16%, which is $ 3.1 trillion, a record since World War II**. The deficit increased mainly due to a 47% increase in government spending, including those for pandemic relief, primarily to compensate the unemployed and small businesses

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Eurozone

- The number of new cases of Coronavirus spiked to record levels over the past month. More and more countries are struggling to regain control over the spread of the virus, gradually adopting new restrictions, knowing that **a lockdown similar to that imposed in March is not feasible amid strong opposition from the civilian population**
- **The renewed restrictions**, aimed at containing the second wave of the Coronavirus, **are reflected in a key-indicator of the Eurozone economy, the PMI**, which fell to 49.4, a four-month low and a level reflecting a renewed contraction of the economy. Although the manufacturing sector fell to 53.7, it continues to expand, while the services sector suffers badly from the resurgence of the virus and its level dropped to 46.2, which reflects a deepening of the sectoral recession
- The ECB acknowledges the fact that the renewed restrictions aimed will take an extra toll on local economies and push recovery further into the future, hence further adjust to current policy is inevitable
- **Britain credit rating downgraded by Moody's to Aa3**, seven months after similar action by Fitch. This act adds to the rest of Britain problems, including the Brexit and uncertainty surrounding the Coronavirus
- Contacts between Britain and the EU are continuing, for the time being without consent. In the event of **Hard Brexit**, generic WTO tariffs will be the base of trade agreements, and that **will probably lead to chaos in supply chains**. Although the deadline for reaching an agreement is 31 December, the considerable time for drafting requires that the official agreement be signed earlier

Israel

- According to the IMF, **the Israeli economy expected to shrink by 5.9%** in 2020 before gradually recovering by 4.9% in 2021. The IMF forecast a 0.5% drop in prices during 2020, lower than inflation in advanced Europe (0.5%) and the US (1.5%)
- The labor market suffered a significant blow as a result of the second lockdown. **The unemployment rate jumped to 14.2% during September,** and in the second half of the month, as the market felt the full force of the lockdown, the unemployment rate surged to 19.1%. Severe damage was evident among young people, women and in the trade and services sectors. Growing concern that the recovery will take a long time, as a result of the bankruptcy of many businesses during the second lockdown
- A sense of despair and melancholy surrounds the Israeli consumer, as he becomes more pessimistic and anxious about his future and the future of the economy. After a slight improvement in the first half of September, **consumer confidence plunged again, indicating caution and unwillingness to make large purchases, a sign that does not bode well for the economy**
- The fiscal deterioration resulting from the Coronavirus crisis reveals its ugly face. **The budget deficit in the past year jumped to 9.1% as a result of a sharp increase of 70B Shekels in expenses**, mainly to deal with the crisis, along with a sharp decrease of 53B Shekels in tax revenues. To date, the government has implemented only 56% of the total Corona budget of 84.8B Shekels
- The BOI left the interest rate unchanged but increased the bond purchases program by 35B Shekels and allocated loans of 10B to the banking system. The ILS appreciated to a record high despite 30B$ purchases by the BOI since March. Competitiveness erosion of exports and deflation is the side effect of the appreciation, which explains the statement of the BOI Deputy Governor in which the Shekel is “bouncing around the edge of our window, we continue to monitor it and, if necessary, we’ll intervene.”

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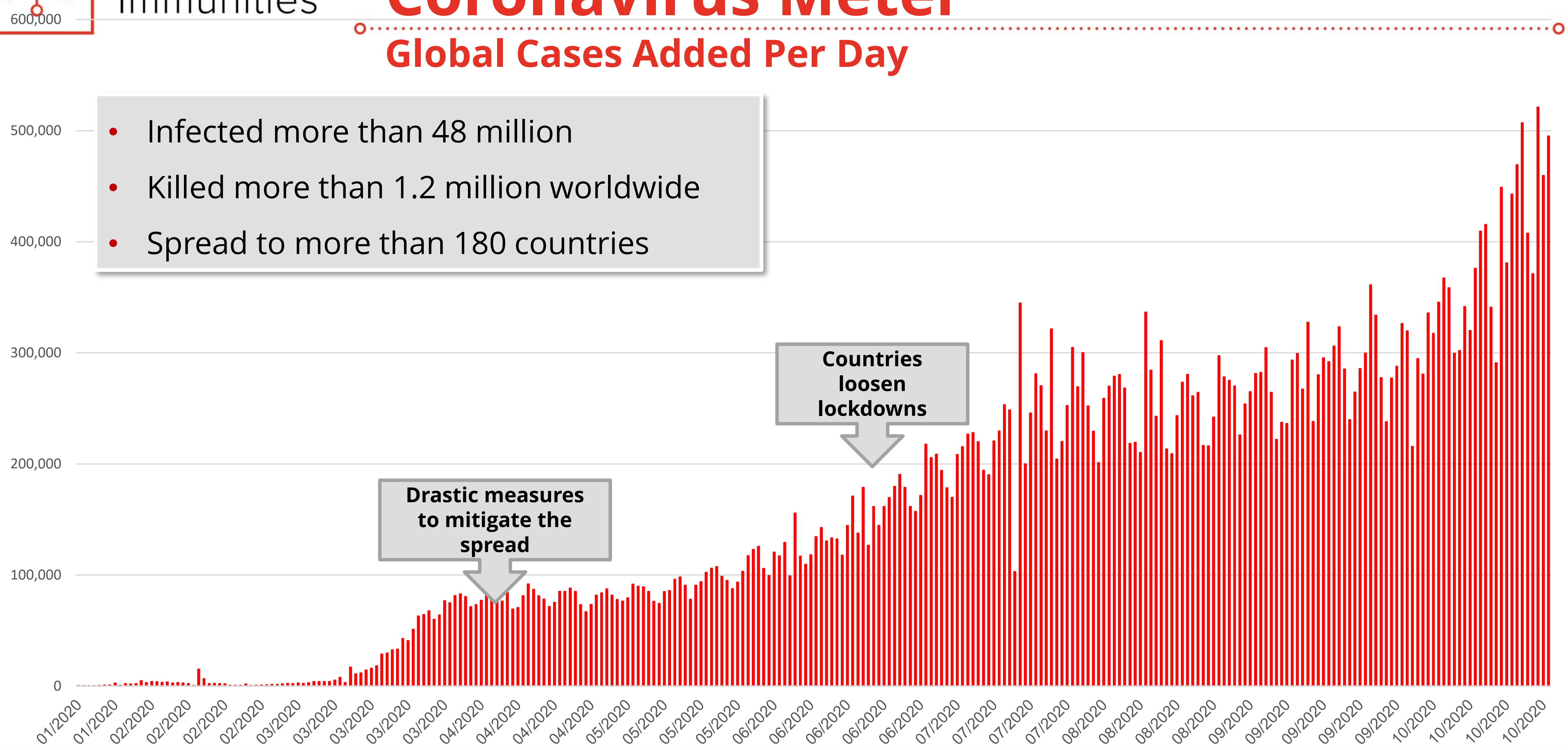
Coronavirus Meter

Global Cases Added Per Day

- Infected more than 48 million
- Killed more than 1.2 million worldwide
- Spread to more than 180 countries



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Stimulus Tracker

Country	Monetary Stimulus ($ bn.)	Fiscal Stimulus ($ bn.)	% of GDP	Rate Cut
USA	3,438	2,842	28.9%	1.5%
EU	1,720	2,133	16.4%	---
China	221	792	7.2%	0.4%
Japan	1,631	1,125	53.5%	---
UK	669	90	26.9%	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	31	12.7%	0.15%
IMF	---	200	---	---
Global Economy	**8,500**	**11,400**	**22%**	**---**

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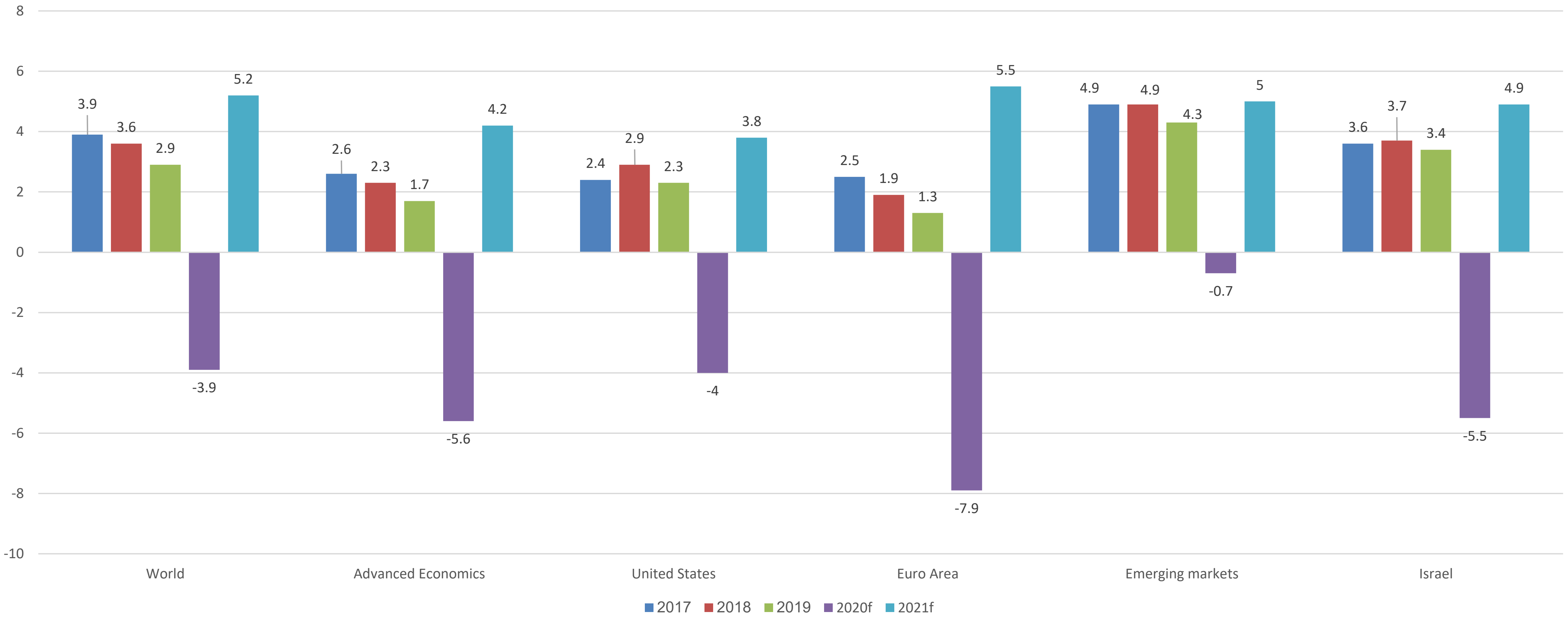
GDP Forecast (%)



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US Economy

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Core Economic Indicator

Economic Indicator	Latest Figure	Reference Period
Growth Rate	33.1%	Q3-2020
Unemployment Rate	7.9%	September-2020
Inflation Rate (Core PCE, YoY)	1.5%	September-2020
Central Bank Interest Rate	0.25%-0%	October-2020
10 Years Yield	0.86%	November-2020
Ratio of Surplus in Current Account to GDP	-2.60%	Q2-2020
Ratio of Public Debt to GDP	135.64%	April-2020

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Better than Expected Performance

Citi Economic Surprise

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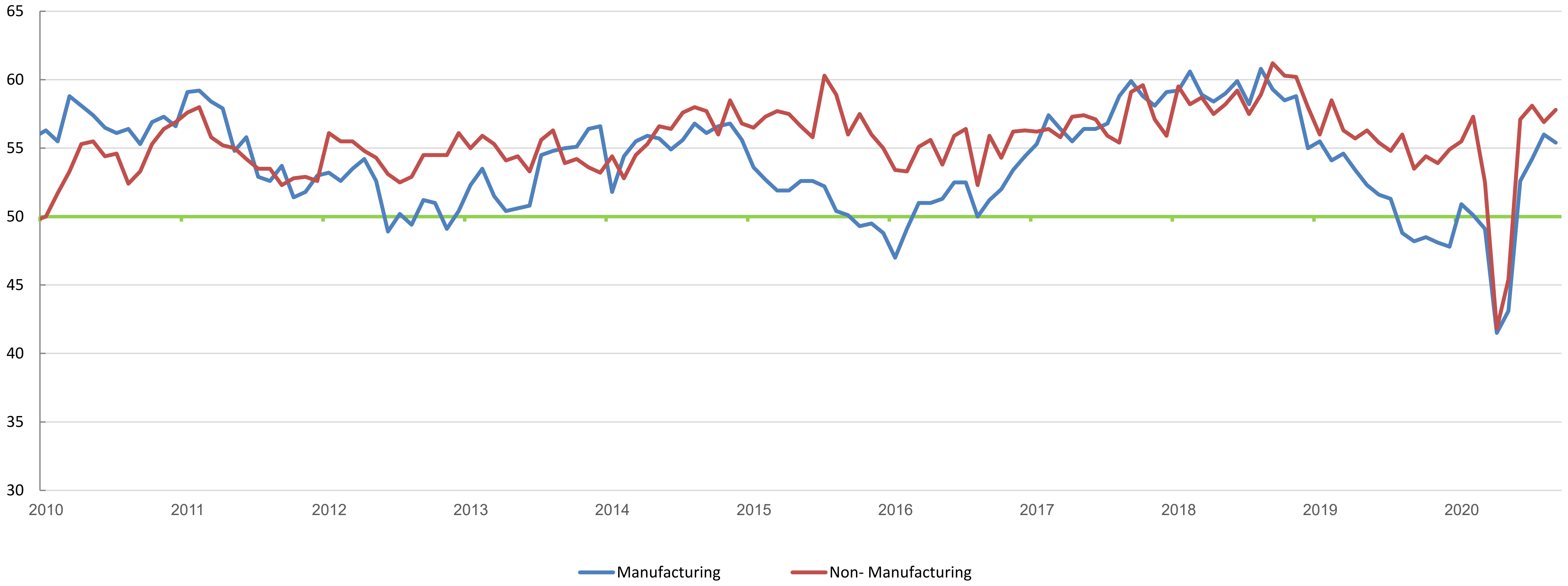
Sharp Recovery

ISM



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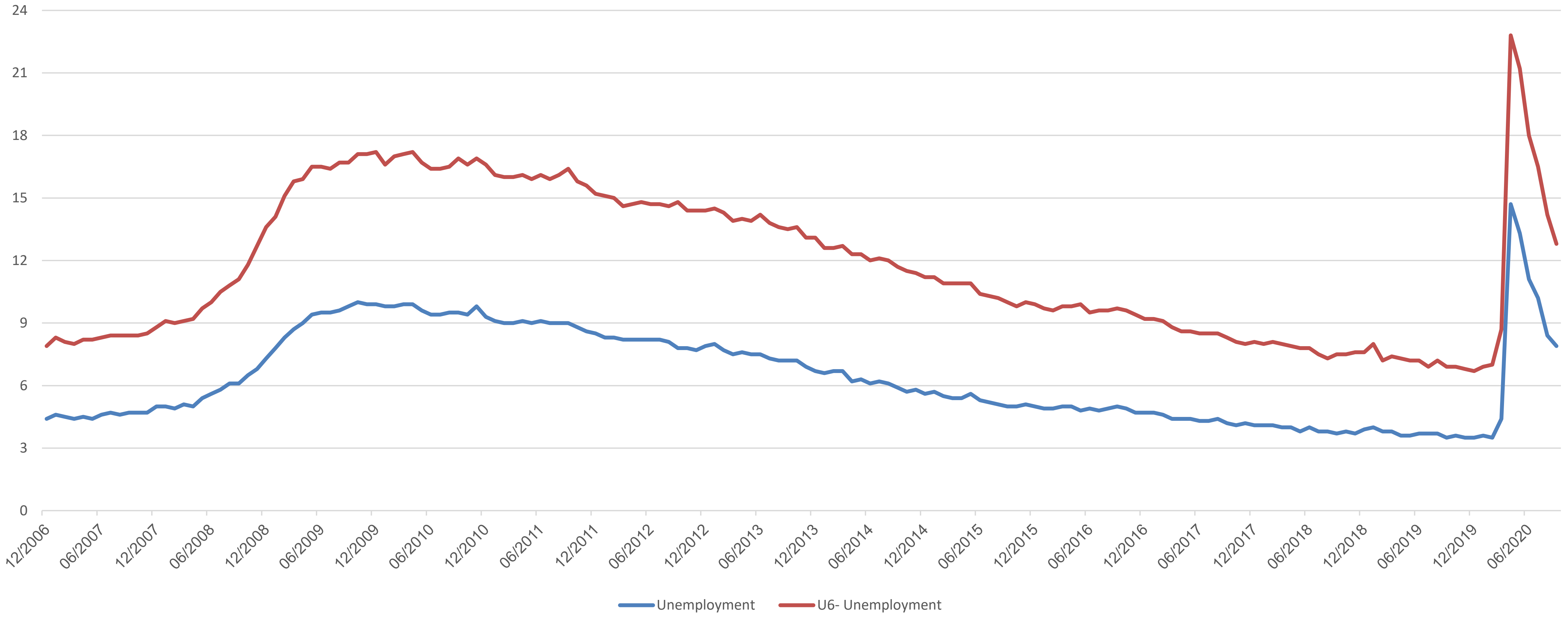
The Recovery is Long and Bumpy

Unemployment Rate



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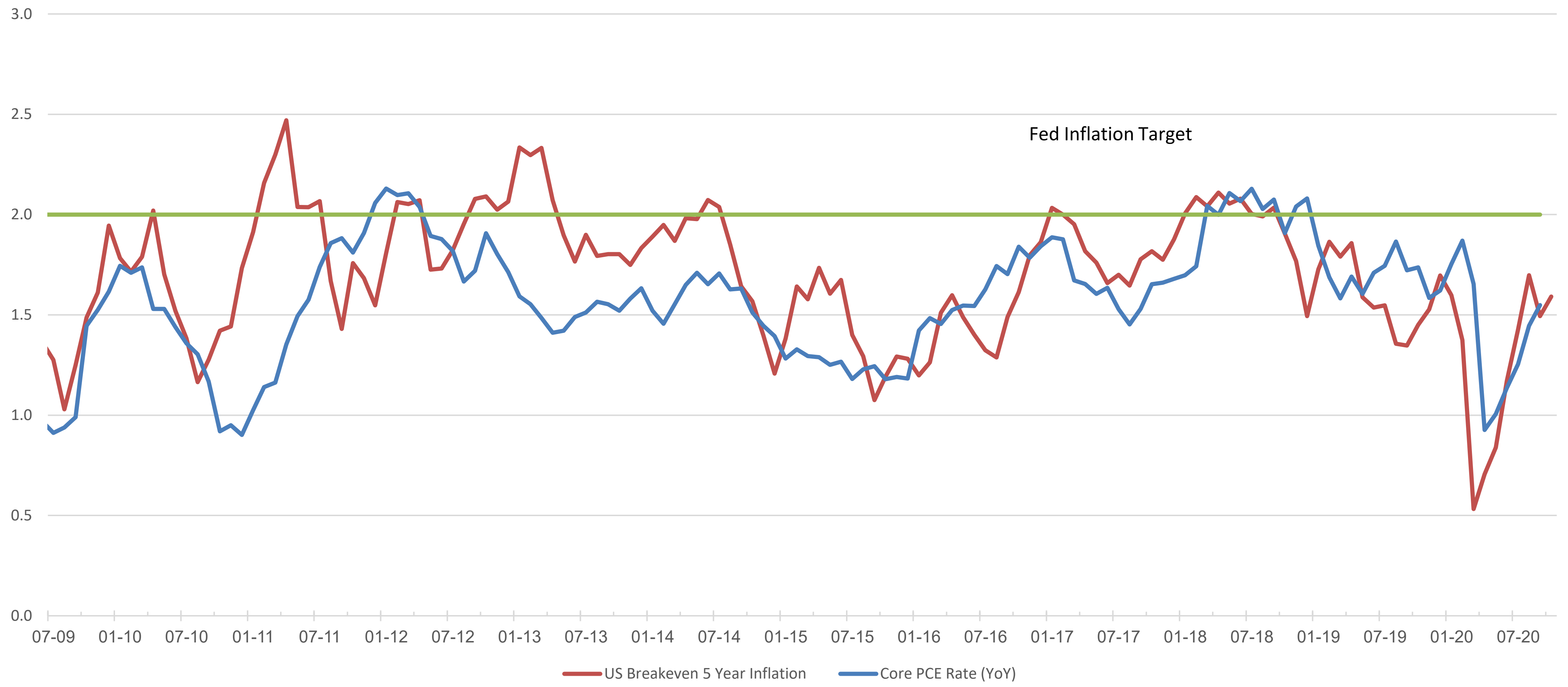
Price Pressures Still Not Seen



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Long Term Yields Start Rising

10YR Treasury Yield to Maturity

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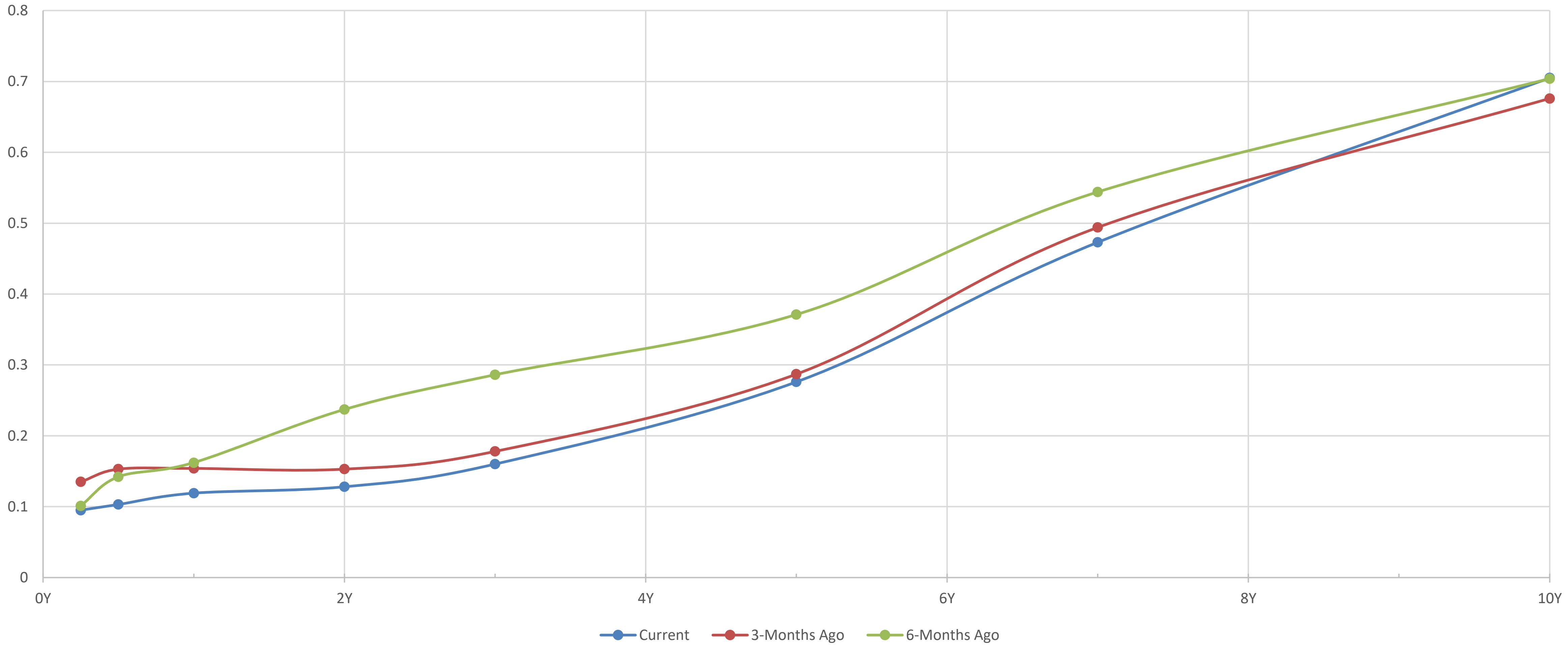
US Treasury Yield Curve



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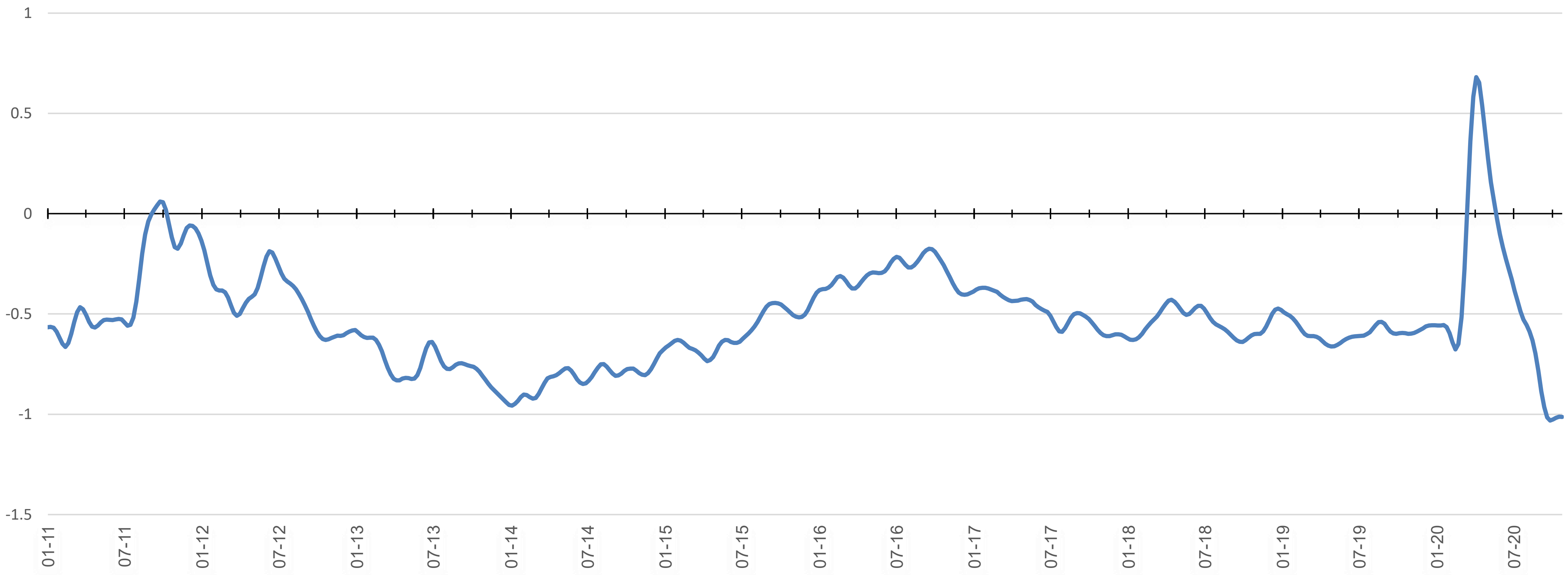
Ultra Accommodative Monetary Conditions

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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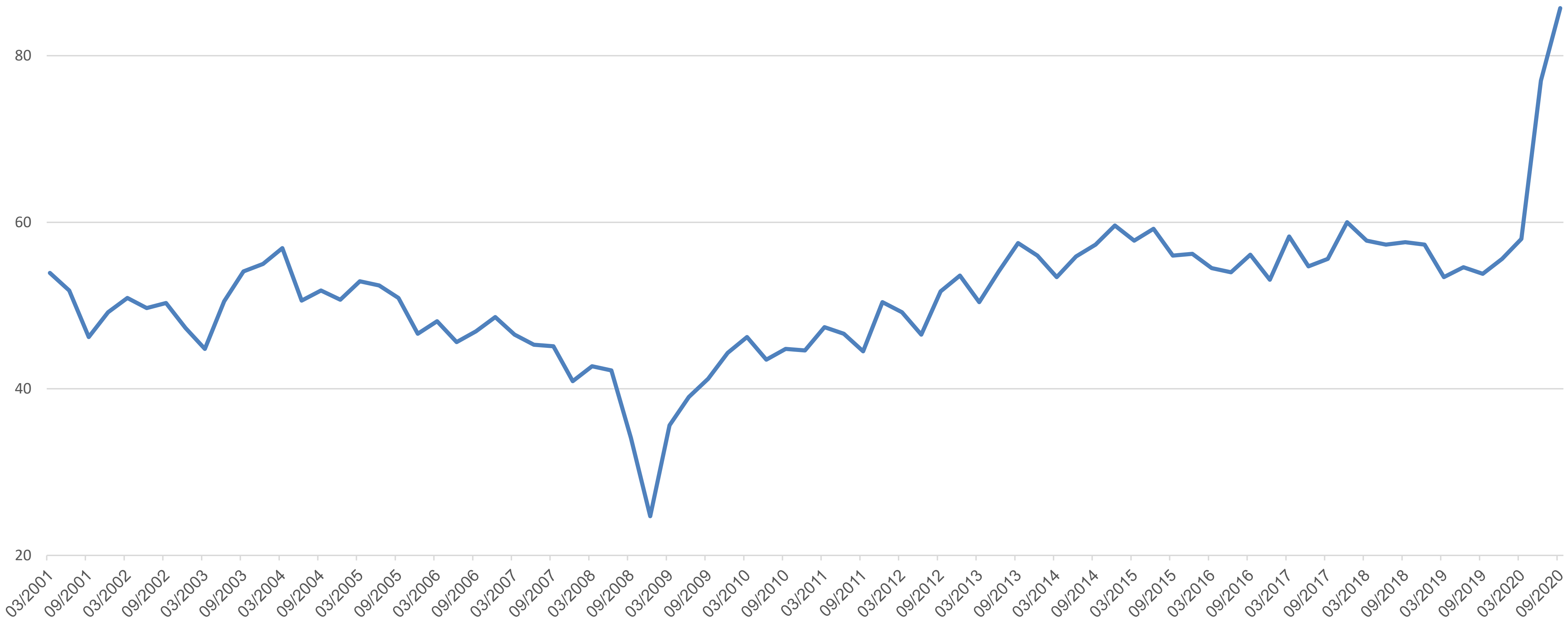
Robust Activity in Housing Market

US Housing Market Index (NAHB)



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	61.10%	Q3-2020
Unemployment Rate	8.3%	September-2020
Inflation Rate (Core, YoY)	0.2%	October-2020
Central Bank Interest Rate	0.00%	October-2020
10 Years Yield (Germany)	-0.63%	November-2020
Ratio of Surplus in Current Account to GDP	2.39%	Q2-2020
Ratio of Public Debt to GDP	95.10%	Q2-2020

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The Economic Indicators Match the Expectations

Citi Economic Surprise

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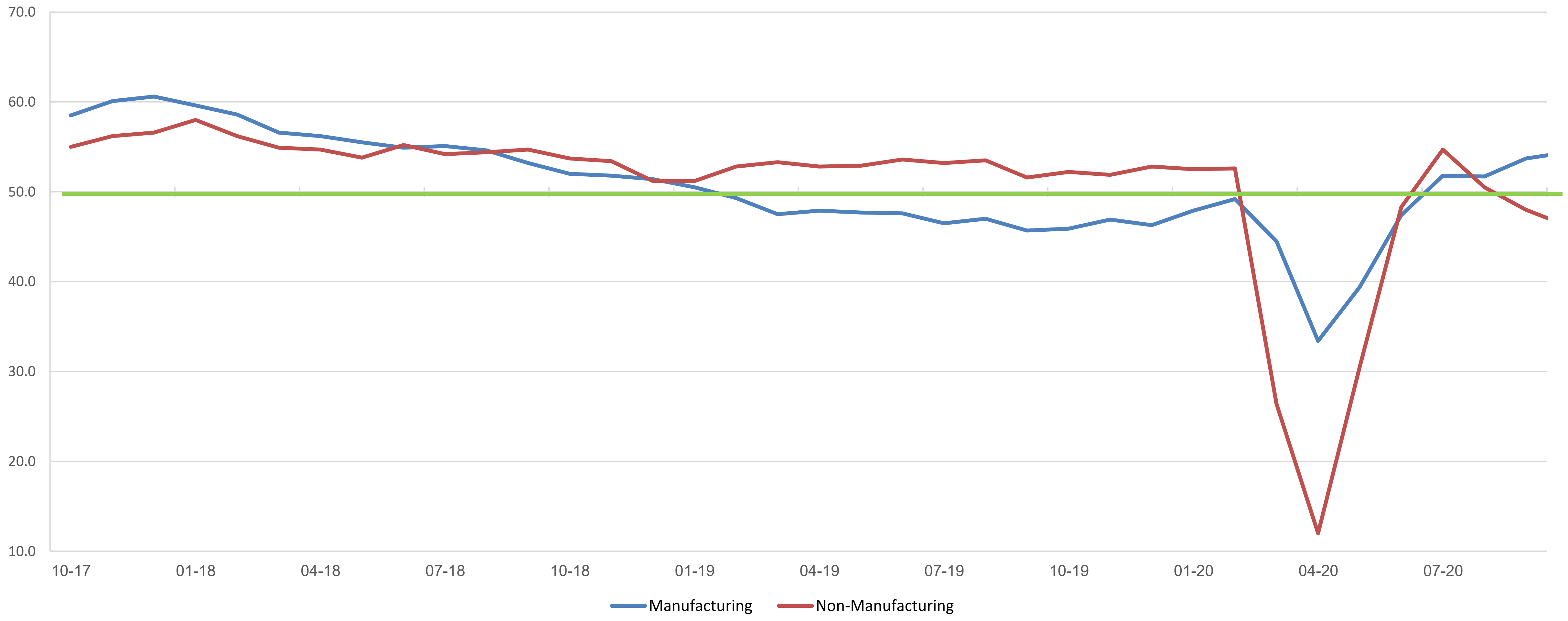
The Second Wave is Hitting the Economy

Manufacturing and Non-Manufacturing PMI



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The Inflation is Still Subdued

CPI and Core CPI (YoY)

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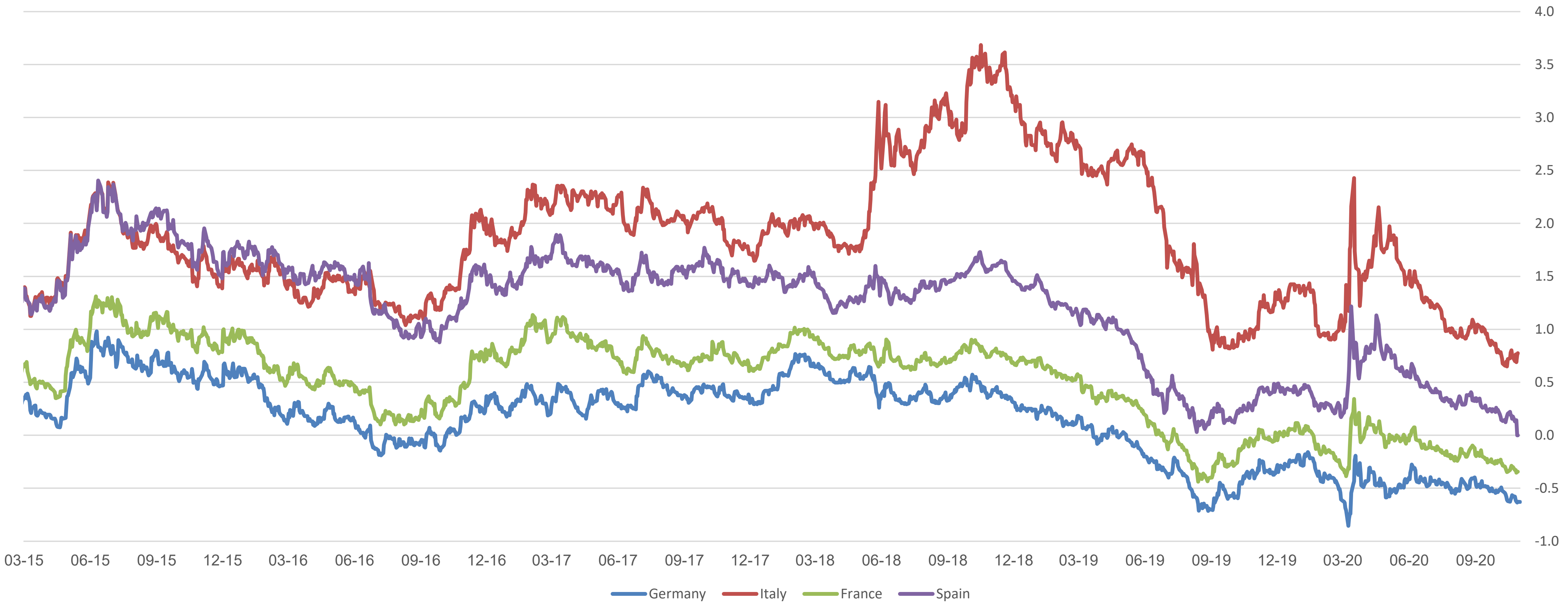
Fiscal Consolidation = Yield Convergence

10YR Government Bond Yield



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The Euro is Losing Momentum Amid the Second Wave

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	-28.80%	Q2-2020
Unemployment Rate	4.7%	September-2020
Inflation Rate (YoY)	-0.7%	September-2020
Central Bank Interest Rate	0.10%	November-2020
10 Years Yield	0.81%	October-2020
Ratio of Surplus in Current Account to GDP	3.51%	Q2-2020
Ratio of Public Debt to GDP	61.00%	December 2019

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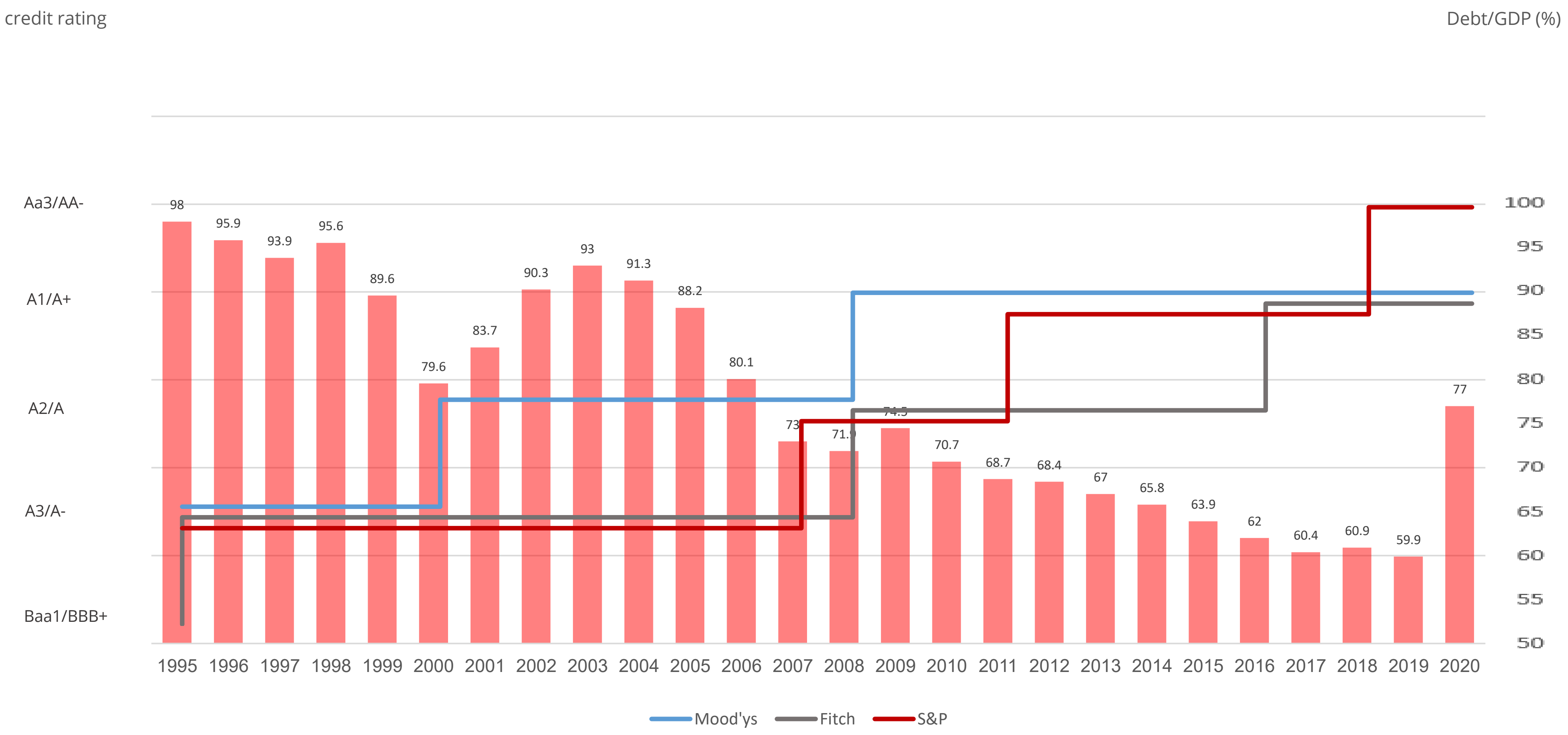
Israel's Credit rating (left) vs Government Debt/GDP (right) 1995-2020



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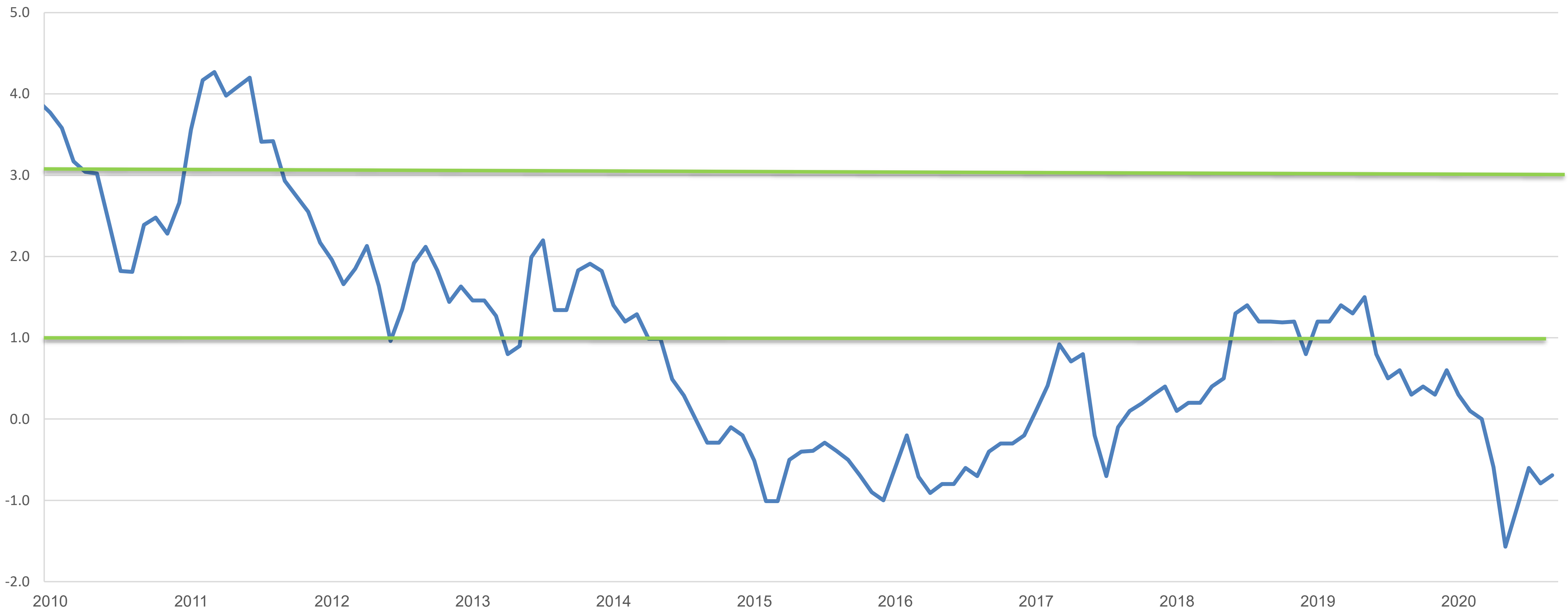
Continuing Deflation

CPI (YoY)



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All Time Low

10YR Government Bond Yield

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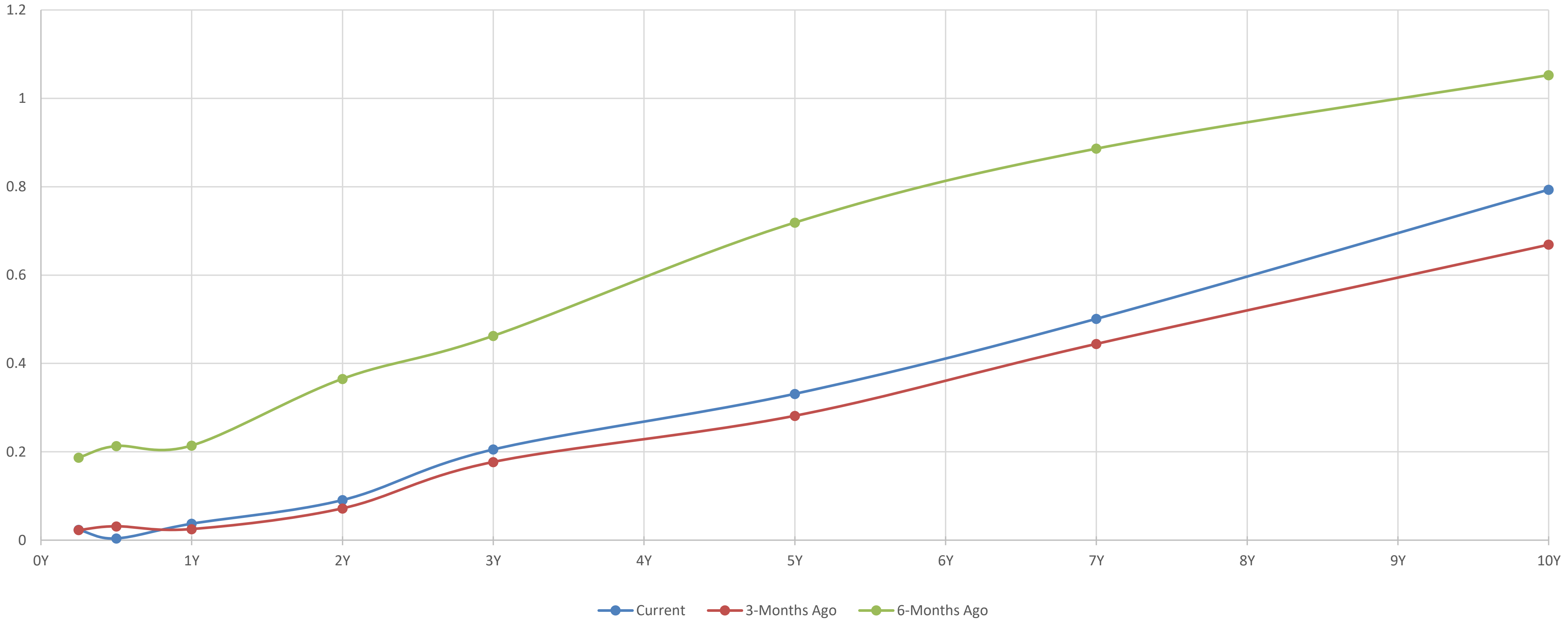
Government Bond Yield Curve



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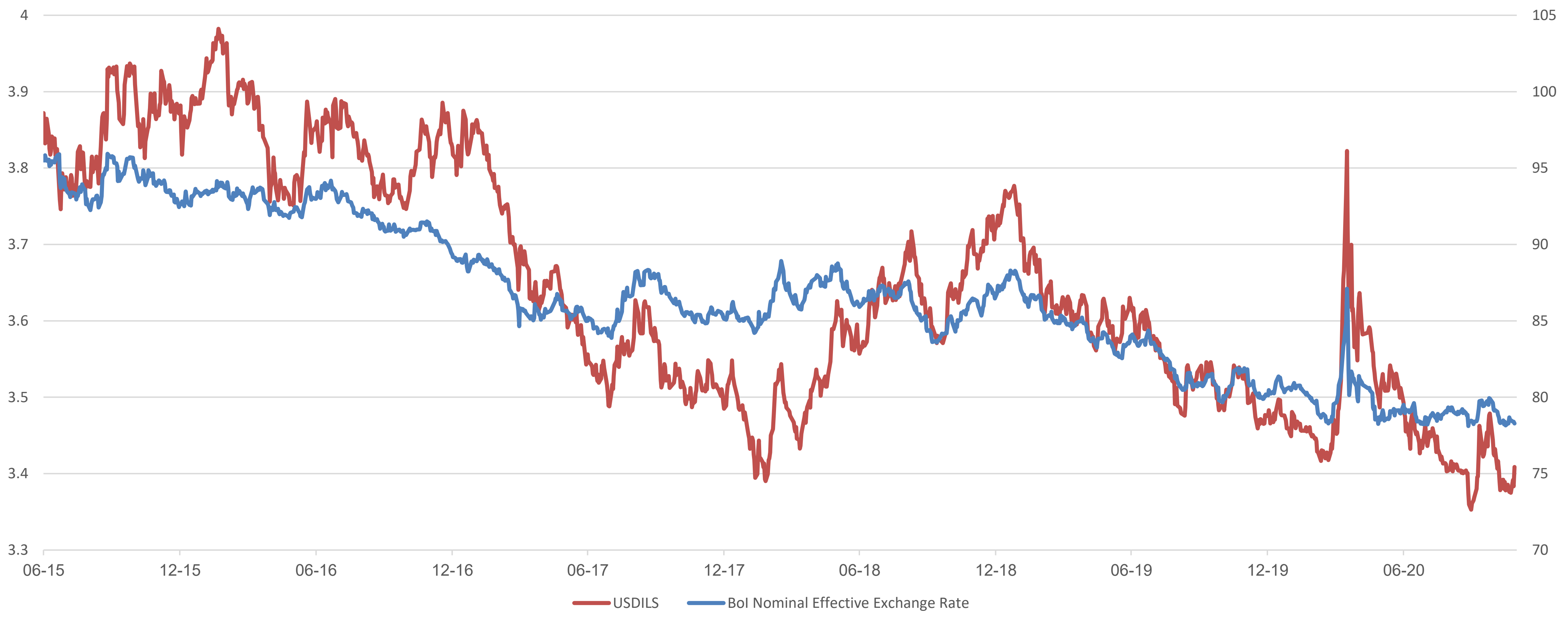
The Hedging Cost is Shrinking

USDILS 1YR Forward Premium

The Shekel is Close to All Time High

USDILS (Left) BOI Nominal Effective Rate (Right)



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Index Summary

Date	30/09/2020	31/10/2020	Change
USDILS	3.4258	3.4059	**0.58%-**
EURILS	4.0176	3.9638	**1.34%-**
GBPILS	4.4296	4.4133	**0.37%-**
EURUSD	1.1721	1.1647	**0.63%-**
GBPUSD	1.292	1.2947	**0.21%**
USDJPY	105.48	104.66	**0.78%-**
DXY	93.886	94.038	**0.16%**
USDILS BOI Nominal Effective Rate	79.17647	78.74079	**0.55%-**

Date	30/09/2020	31/10/2020	Change
TA-125	1,345	1,374	**2.12%**
S&P 500	3,363	3,270	**2.77%-**
DAX	12,761	11,556	**9.44%-**
FTSE	5,866	5,577	**4.92%-**
HANG SENG	23,459	24,107	**2.76%**
NIKKEI 225	23,185	22,977	**0.90%-**
GOLD	1,886	1,879	**0.37%-**
Crude OIL WTI	40.22	35.79	**11.01%-**
CRB	458.82	467.71	**1.94%**

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CONNECTING THE RIGHT DOTS

CREATING THE RIGHT PICTURE

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