Financial Immunities

Market Insights

December 2020

Financial Immunities

Global Economy

- We live in a dual world: On the one hand, despair and fatigue over **a big wave of Coronavirus hitting the world, forcing governments to enforce renewed lockdowns**. On the other hand, optimism, almost euphoria, in the financial markets stems from the continued progress in the development of vaccines. Notable are the Asian countries, led by China, which have managed to control the Coronavirus, and brought economic activity to near-normal levels
- Indeed, **the global stock rally was intensified by vaccine optimism**, resulting from positive results announced by Pfizer, Moderna, and AstraZeneca that declared a high efficacy of the vaccines in development
- Rising long-term yields, steeper yield curves and rising inflation expectations express investors' view for robust economic recovery during 2021. **The high rate of savings and low inventory levels** that **constitute the springboards towards 2021** also contribute to this view
- **Liquidity continues to be the only game in town** as decision-makers, backed by leading economic institutions such as the IMF, continue to pour money into financial markets and economies in an attempt to buy time
- However, one can assume that this determination might change with the expected strong recovery during 2021, hence **the fear is that next year's economy will be extraordinary good, but not so much for the financial markets**
- Optimism about Coronavirus vaccine breakthroughs has led to **a sharp rise in the oil price over the past month** and to a flipped curve (backwardation), which is a bullish sign. January contracts have risen to 45.5$, and **it is not inconceivable that the oil price will increase to a level above 50$ a barrel in the coming year**. It is worth noting that the demand for gasoline and diesel returned to 90% of its level before the crisis, but for jet fuel returned to 50%, so there is room for a significant increase in demand

Financial Immunities

United States

- **Coronavirus case count continues to soar nationwide** as infections rise in all 50 states threatening to shut down the economy just before the start of the population vaccination process
- **President-elect Biden appointed former Fed chair Yellen to finance minister**. Yellen's years of experience as the White House economic council and Fed chair will allow, in her hat as Finance Minister, better synchronization between the two influential bodies, a refreshing change after in recent years the administration constantly attacked the Fed and challenged its leadership and policies
- Yellen is perceived as a monetary dove, supporting low-interest rates as long as the unemployment rate high and inflation is low. **Yellen expected to lead the continued increase in government spending**, as part of a second fiscal stimulus plan to help households and businesses and a plan for extensive investment in infrastructure, all apparently in front of a contrarian Republican Senate
- Meanwhile, **despite the spike in Coronavirus cases, the economy continues to recover**. Consumer spending rose while incomes declined amid lack of new government aid. Manufacturing and services are expanding at a solid pace, as shown in the PMI index, which rose to 56.7 and 57.7, respectively. Durable goods orders increased at a faster than expected pace due to higher demand for computers and metals. Housing market activity is robust amid historically low mortgage rates and the tectonic move to relocate to suburbs. Housing index sentiment is at a record-high, housing starts, new and existing home sales, and housing prices all rose above market expectation
- **The labor market continues to recover**, but some signs of fatigue are already evident as the pace of hiring is slowing. 638K new jobs in October managed to lower the unemployment rate to 6.9%, a respectable achievement by all accounts, **but the road to full recovery, which means the return of over 8 million jobs, is still long**

Financial Immunities

Eurozone

- **A huge wave of new Coronavirus cases**, which has led to new restrictions, **has apparently pushed the economy towards a renewed contraction**, hence to a possibly double-dip recession
- **The virus containment measures mainly affected the services sector**, as reflected in the PMI index, which declined to 41.3, a 6-month low. The manufacturing-sector positively affected by the recovery abroad, although fell to 53.6. The average PMI reading of 47.6 in Q4 so far is the lowest since the region’s debt crisis and indicative of a steep decline in GDP
- The European Commission sentiment index fell in November for the first time in seven months. Retailers, consumers and services providers were particularly pessimistic, and unemployment indicator declined for a second month. **Consumers are worried about their future financial situation and economic outlook and services concern most about future demand**
- The deterioration in economic activity has not gone unnoticed by decision-makers. At its December meeting, **the ECB expected to announce a series of additional incentives** that will enable the continued flow of credit to businesses and households. The bloc's governments are also working to alleviate the economic blow resulting from the restrictions, although no progress made at the European Commission level amid opposition from several member countries
- The renewed deterioration in the European economy and the possibility of further incentives did not deprive **the Euro** of its strength. Over the past month, it **stabilized at a level close to 1.20. Dollar weakness, optimism about vaccines that support risk assets and hope regarding a Brexit agreement breakthrough are the main reasons**. It is important to remember that the last time it happened, European Central Bank officials' verbal interventions helped weaken the Euro

Israel

- **With the reopening of the economy in Q3 2020, the local economy expanded 37.9% annually**, after a contraction of 29.8% in Q2 and 7% in Q1. During the past year, the GDP contracted by 1.4% and, weighted by demographic growth, the economy returned to its level 3 years ago. Although consumer spending fell 9.7% and investment decreased by 10.8%, the robust high tech sector and the small weight of tourism in the domestic product allowed the economy to keep its head above water
- A report by the IMF indicates Israel's relatively good entry conditions at the onset of the Coronavirus crisis. Determined and rapid intervention by decision-makers has managed to soften the blow, leading to a smaller contraction than that of other advanced countries. However, **the future outlook is uncertain and depends on the development of the pandemic**
- **S&P rating agency has announced that it has decided to leave Israel's credit rating unchanged, at the AA- level**. A rich and robust economy, strong external accounts, flexible monetary policy and cheap credit costs were the basis for the decision. The agency assumes that the Israeli government will address the budget deficit and work to reduce it, starting in the second half of 2021. **It estimates that the economy will contract by 5% this year and return to growth of 4.5% in 2021**
- **However, despite the compliments from the IMF and S&P, the reality is not simple**. The rapid reopening of the economy after the second lockdown is leading to an increase in infection rates and bringing the possibility of a third lockdown closer. The labor market is just starting to recover from the second lockdown with an 18% unemployment rate, and it is clear that the road back to normality is very long, especially in light of the streamlining processes many companies are taking, the extensive digitization processes and of course multiple bankruptcies among small businesses

Financial Immunities

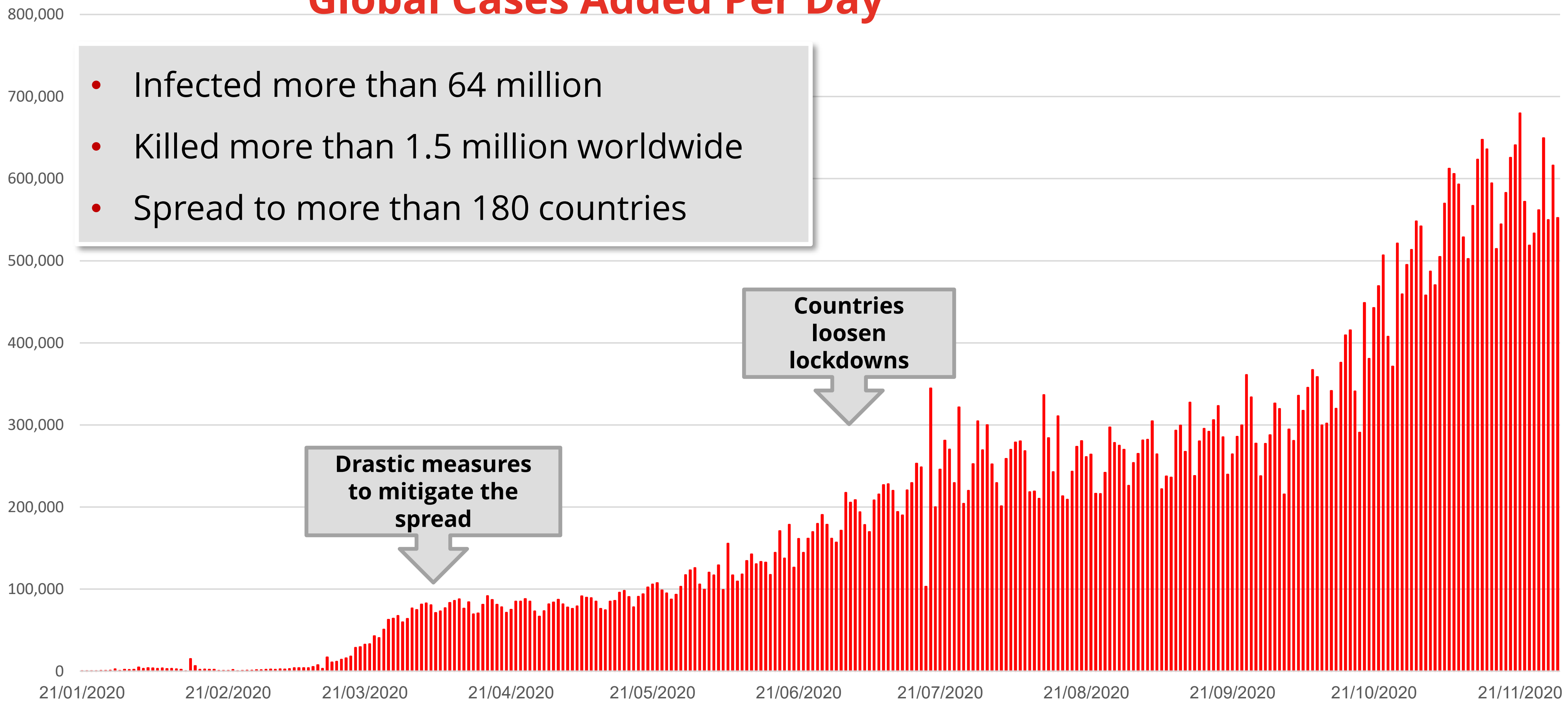
Global Economy

Financial Immunities

Coronavirus Meter

Global Cases Added Per Day

- Infected more than 64 million
- Killed more than 1.5 million worldwide
- Spread to more than 180 countries



Financial Immunities

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%**	**---**

Endless Liquidity

Global Money Supply (M2)

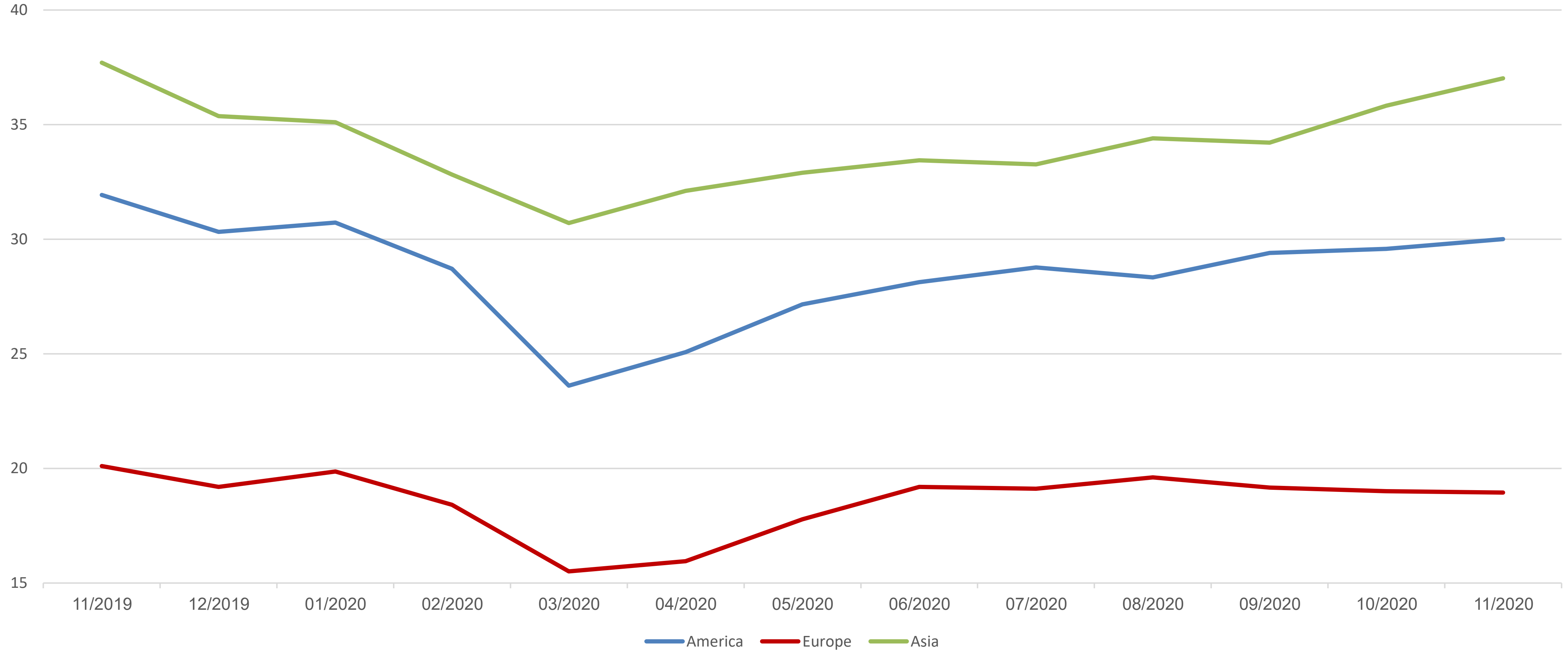
The money supply roughly includes both cash and deposits that can be used almost as easily as cash

Financial Immunities

GDP Forecast (%)

Asia is Leading the Recovery

Petroleum Consumption (millions barrels per day)



Financial Immunities

US Economy

Financial Immunities

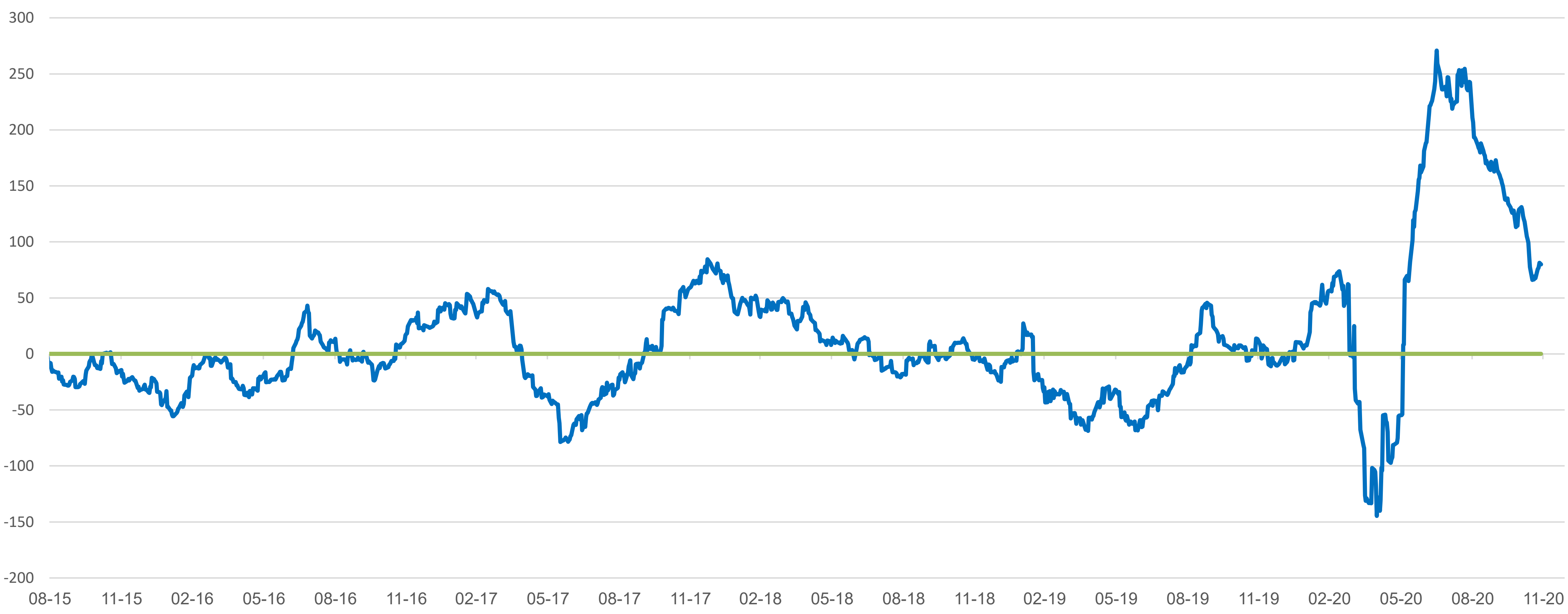
Core Economic Indicator

Economic Indicator	Latest Figure	Reference Period
Growth Rate	33.1%	Q3-2020
Unemployment Rate	6.9%	October-2020
Inflation Rate (Core PCE, YoY)	1.4%	October-2020
Central Bank Interest Rate	0.25%-0%	November-2020
10 Years Yield	0.84%	November-2020
Ratio of Surplus in Current Account to GDP	-2.60%	Q2-2020
Ratio of Public Debt to GDP	135.64%	April-2020

Financial Immunities

Still Better than Expected Performance

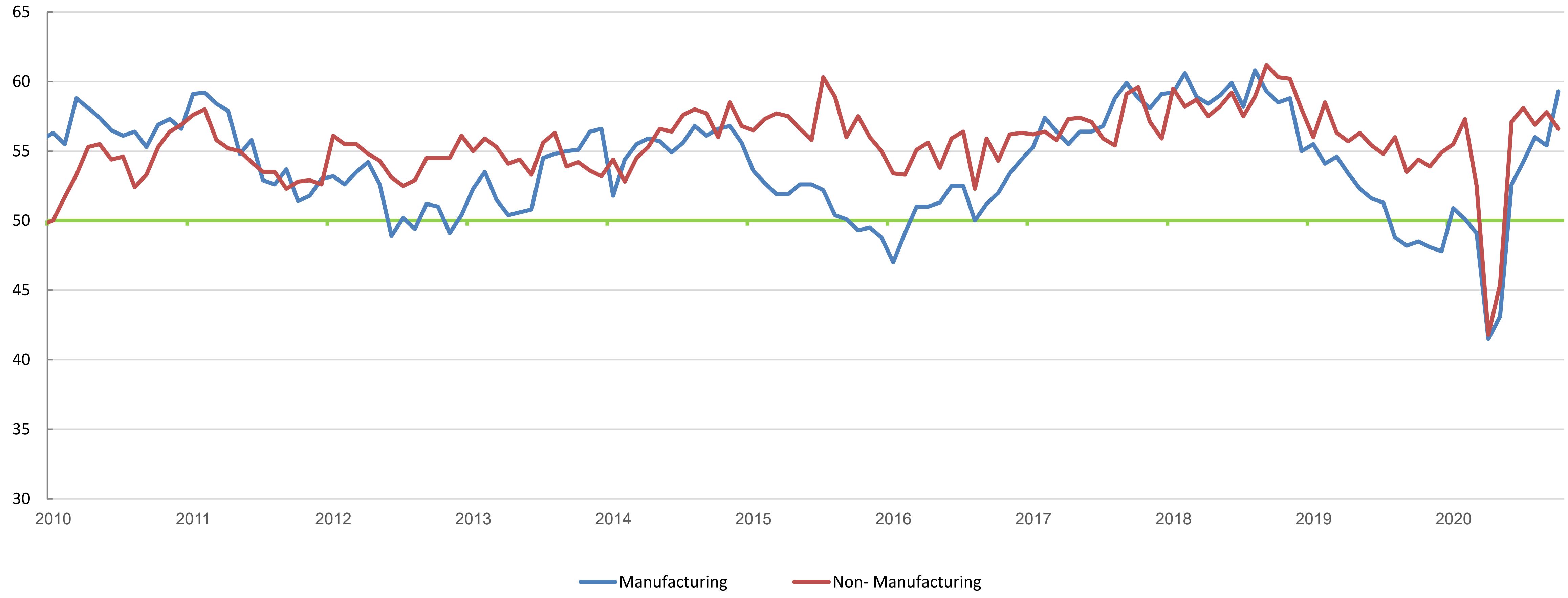
Citi Economic Surprise



Financial Immunities

V Shape Recovery

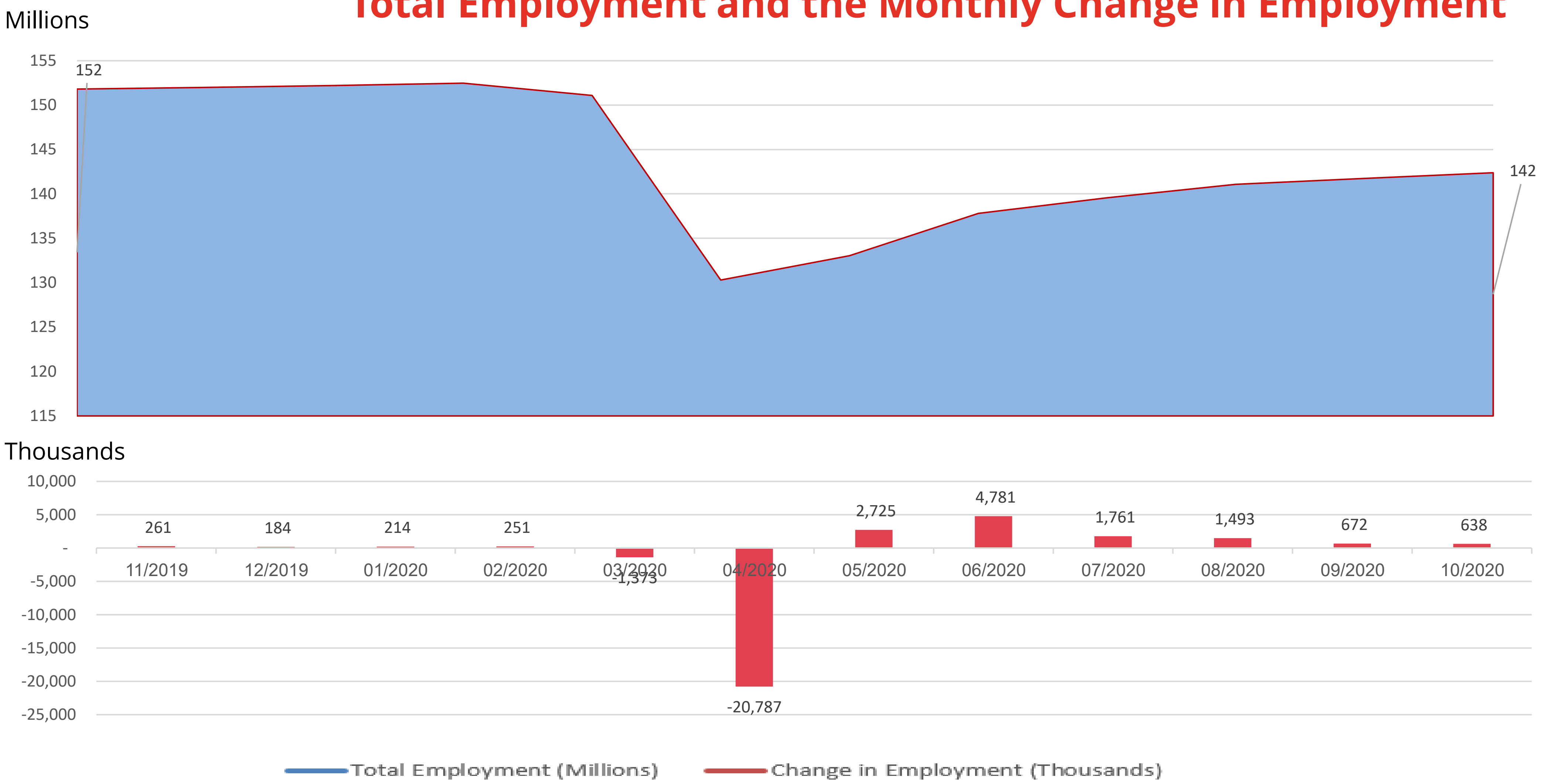
ISM



Financial Immunities

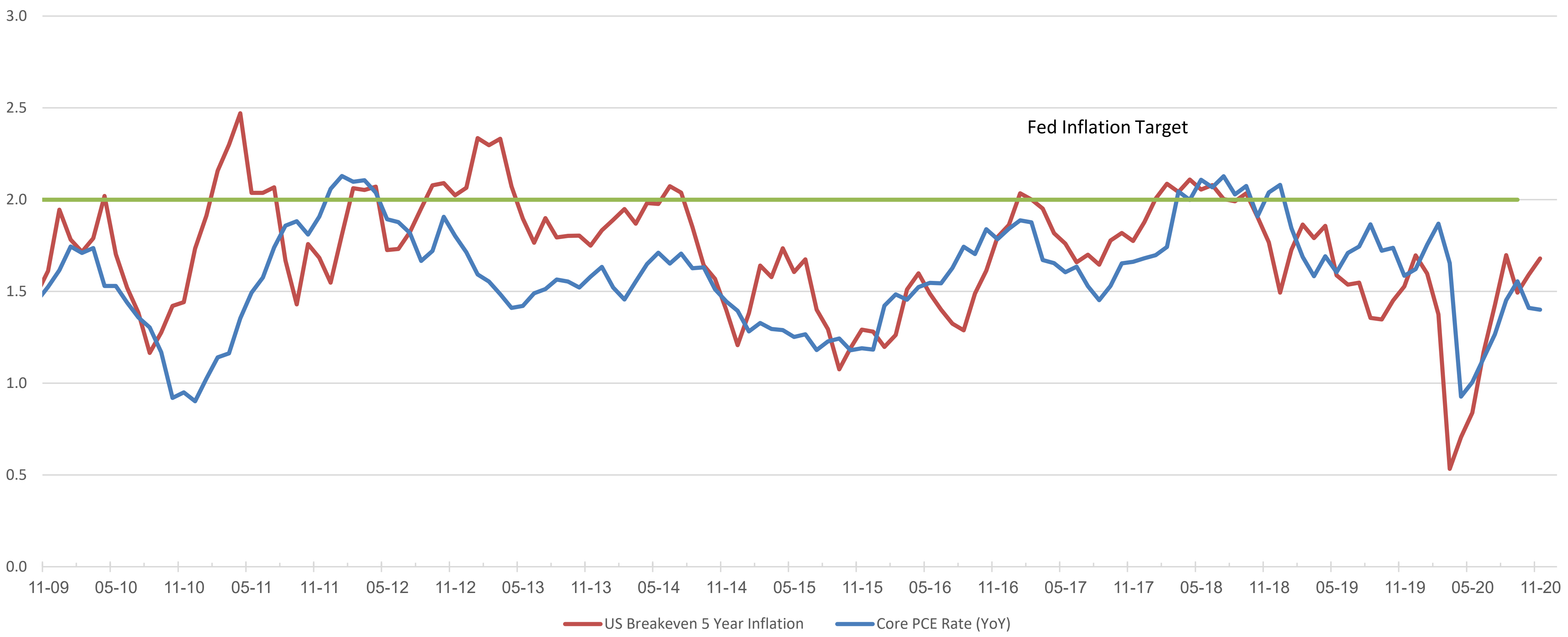
The Road to full Recovery is Still Long

Total Employment and the Monthly Change in Employment



Financial Immunities

Price Pressures Still Not Seen



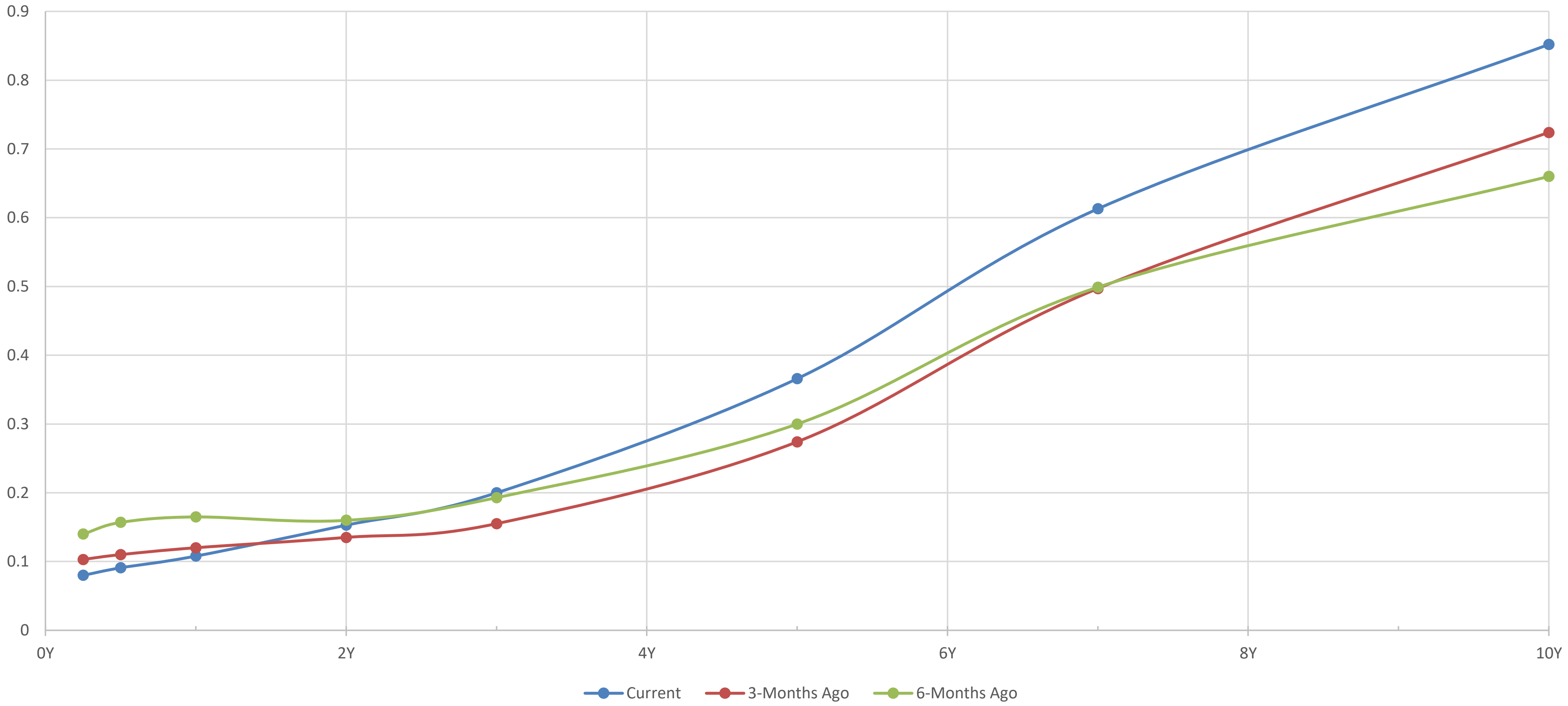
Financial Immunities

Long Term Yields Start Rising

10YR Treasury Yield to Maturity

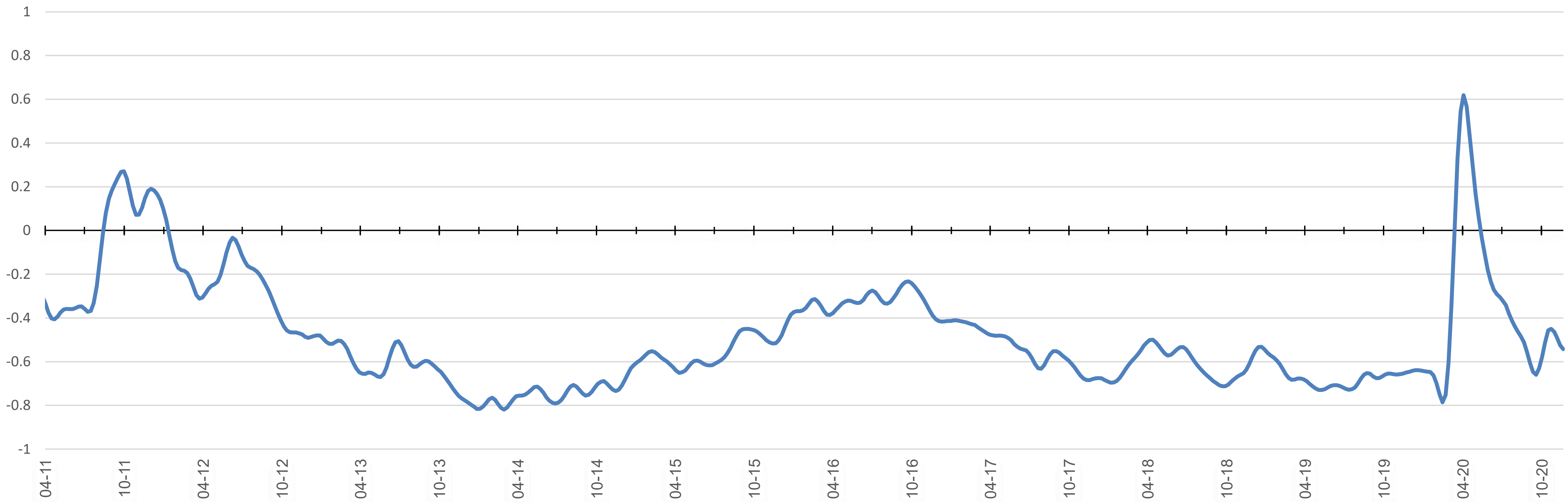
Financial Immunities

US Treasury Yield Curve



Ultra Accommodative Monetary Conditions

Chicago Feds National Financial Condition Index (NFCI)

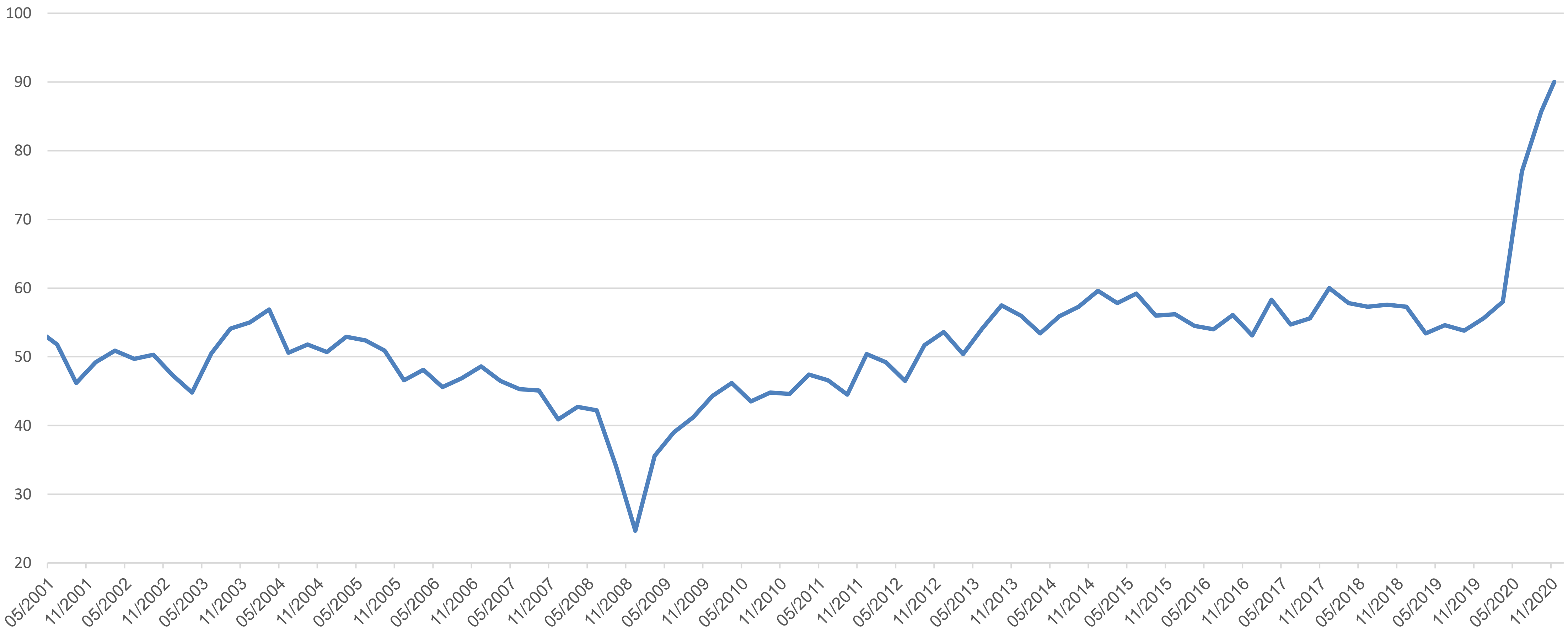


The NFCI provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets and the traditional and "shadow" banking systems. Negative values have been historically associated with looser-than-average financial conditions

Financial Immunities

Housing Market Sentiment is at a Record High

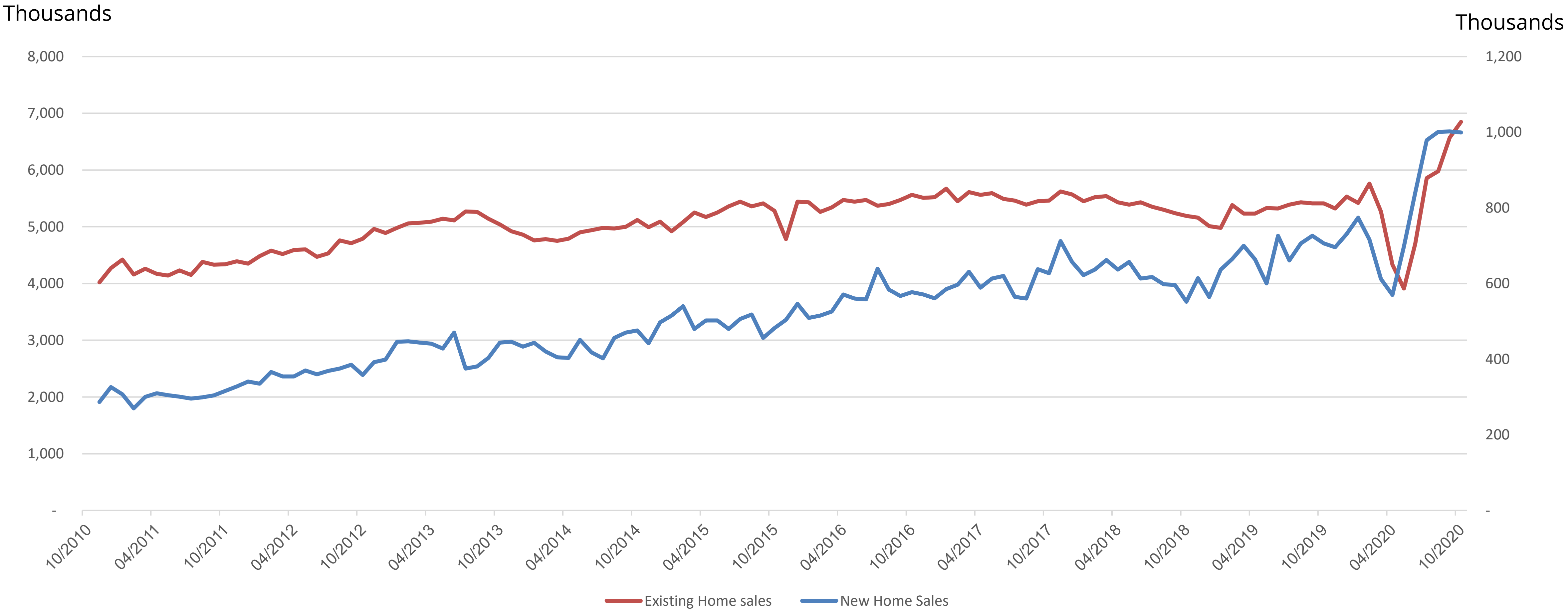
US Housing Market Index (NAHB)



Financial Immunities

Robust Activity in Housing Market

Existing Home Sales (Left) and New Home Sales (Right)



Financial Immunities

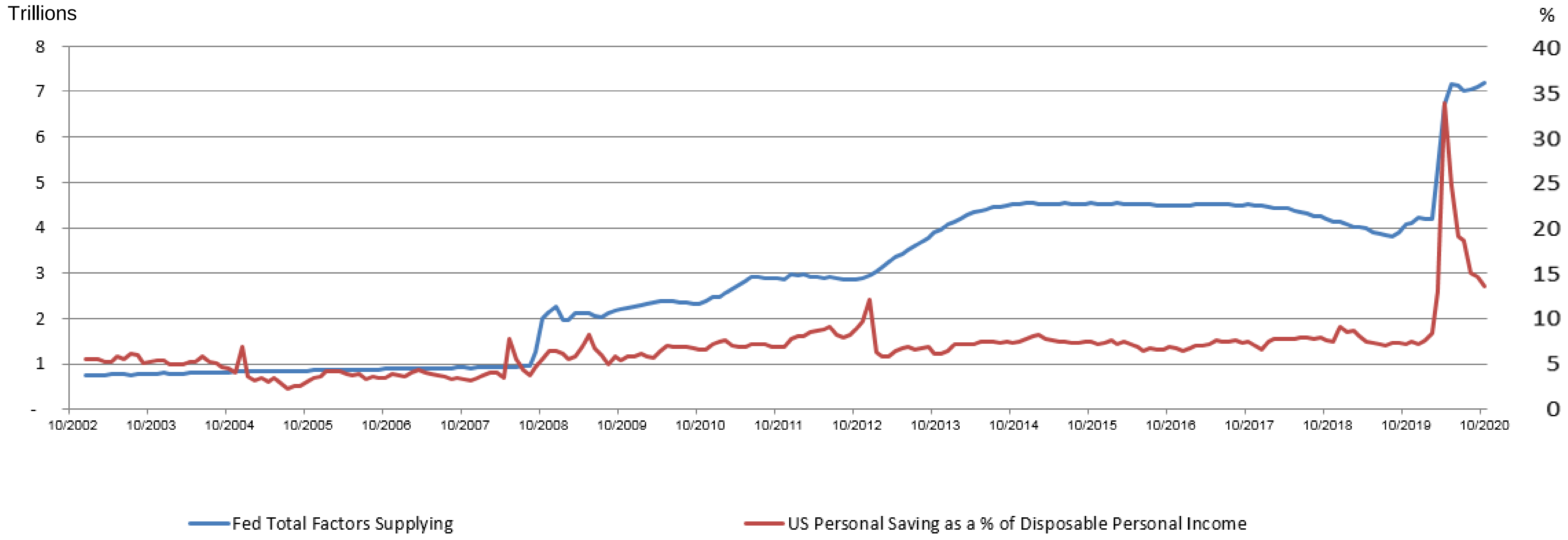
US Dollar Fell to 2 Years Low

US Dollar Index (DXY)

Financial Immunities

The Fed Enables the V Shape Recovery

Total Factors Supplying Reserve Funds (Weekly Average) in USD Trillions (Left), Personal Saving as % of Personal Income

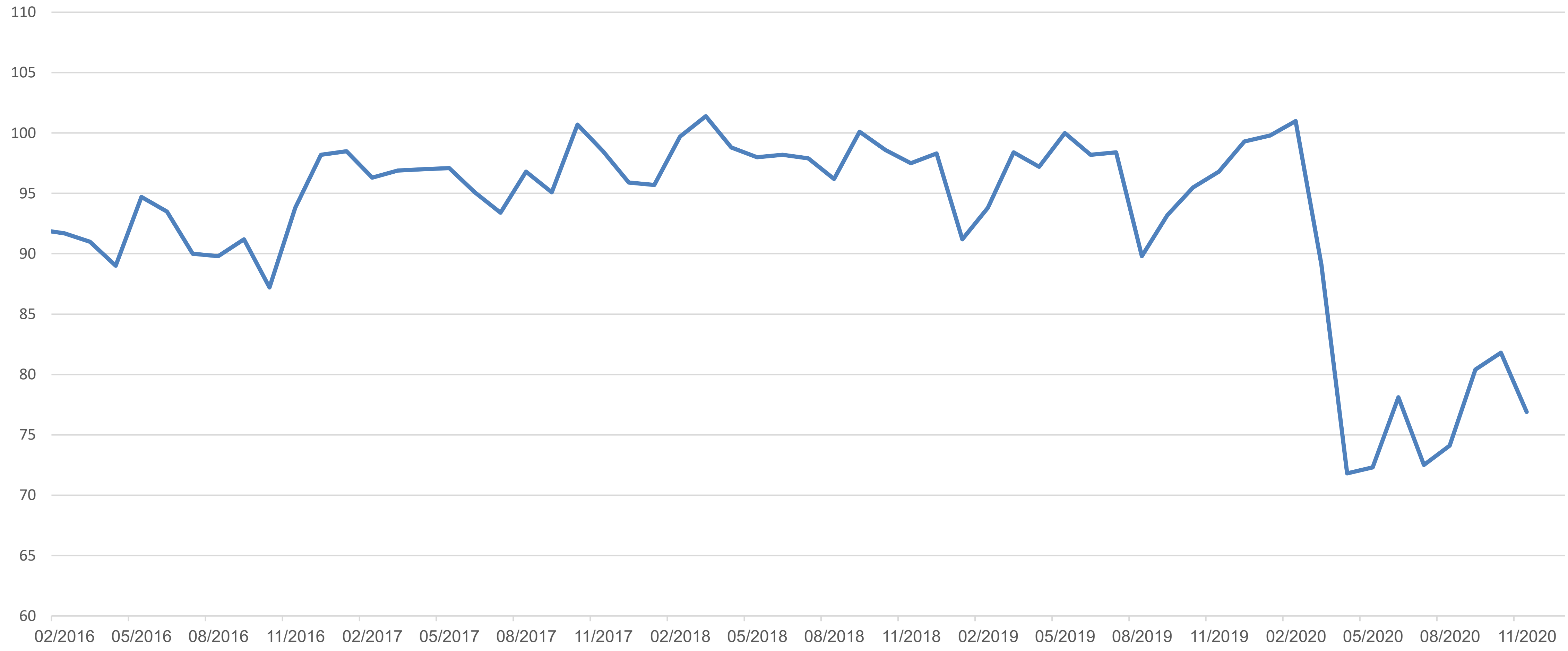


Total factors supplying reserve funds are the sum of "Reserve Bank credit," "gold stock," the "special drawing right certificate account" and "Treasury currency outstanding”

Financial Immunities

The Consumers are Still Worried About the Future

University of Michigan Consumer Sentiment Index



Financial Immunities

Eurozone Economy

Financial Immunities

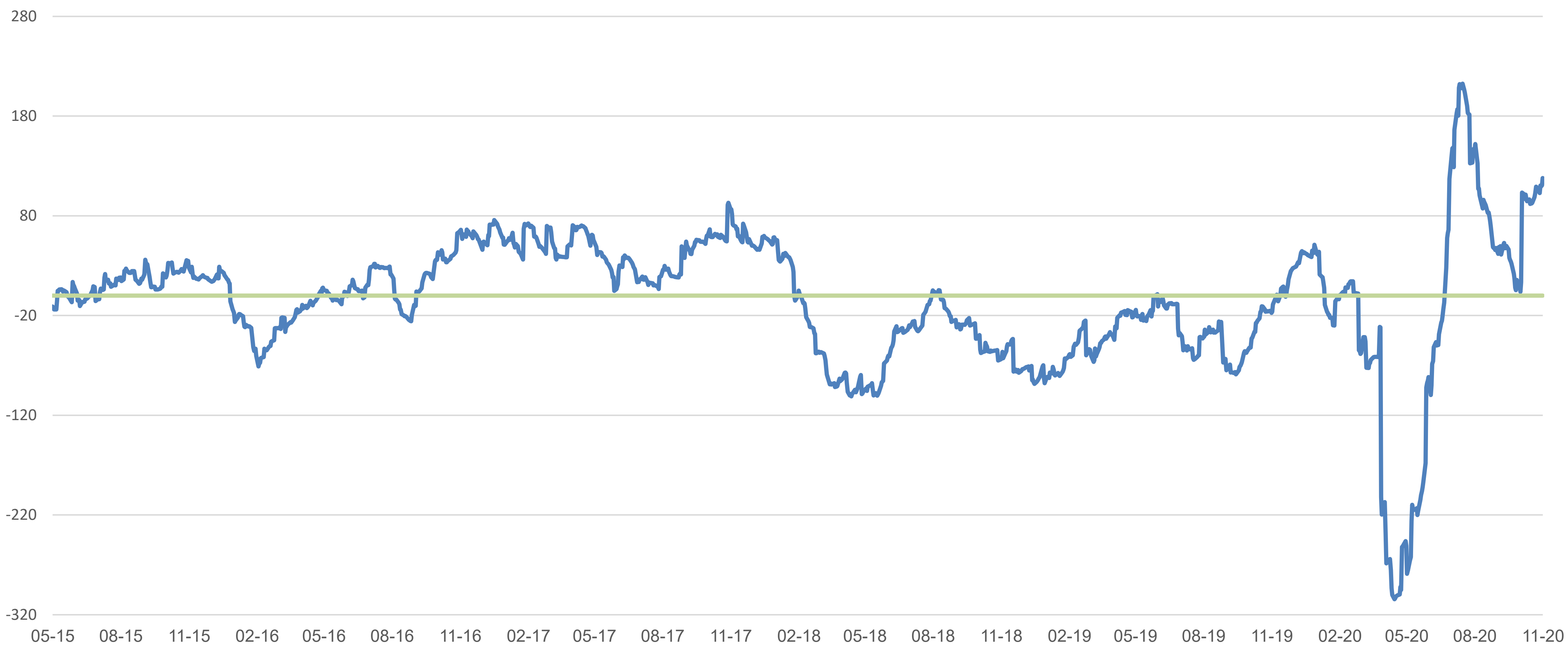
Core Economic Indicator

Economic Indicator	Latest Figure	Reference Period
Growth Rate	60.50%	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)	-0.59%	November-2020
Ratio of Surplus in Current Account to GDP	2.39%	Q2-2020
Ratio of Public Debt to GDP	95.10%	Q2-2020

Financial Immunities

Policy Makers are Changing the Economic Picture

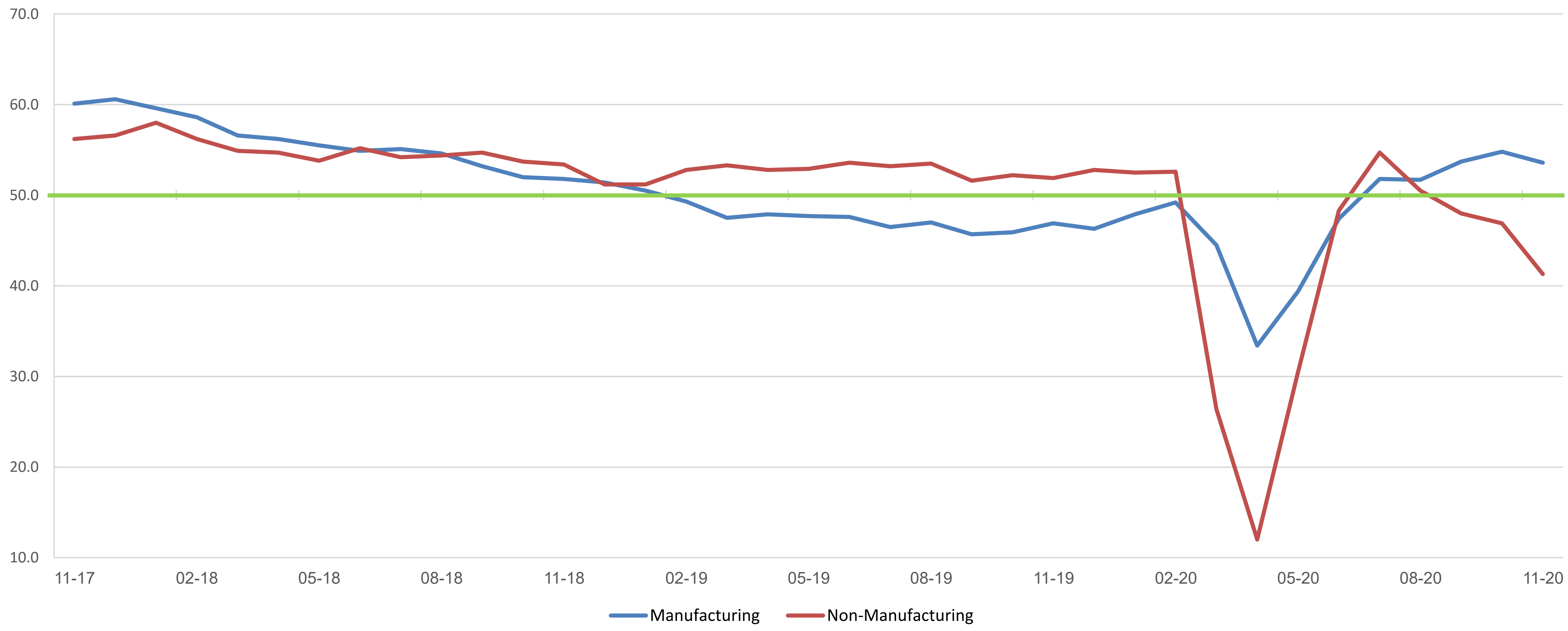
Citi Economic Surprise



Financial Immunities

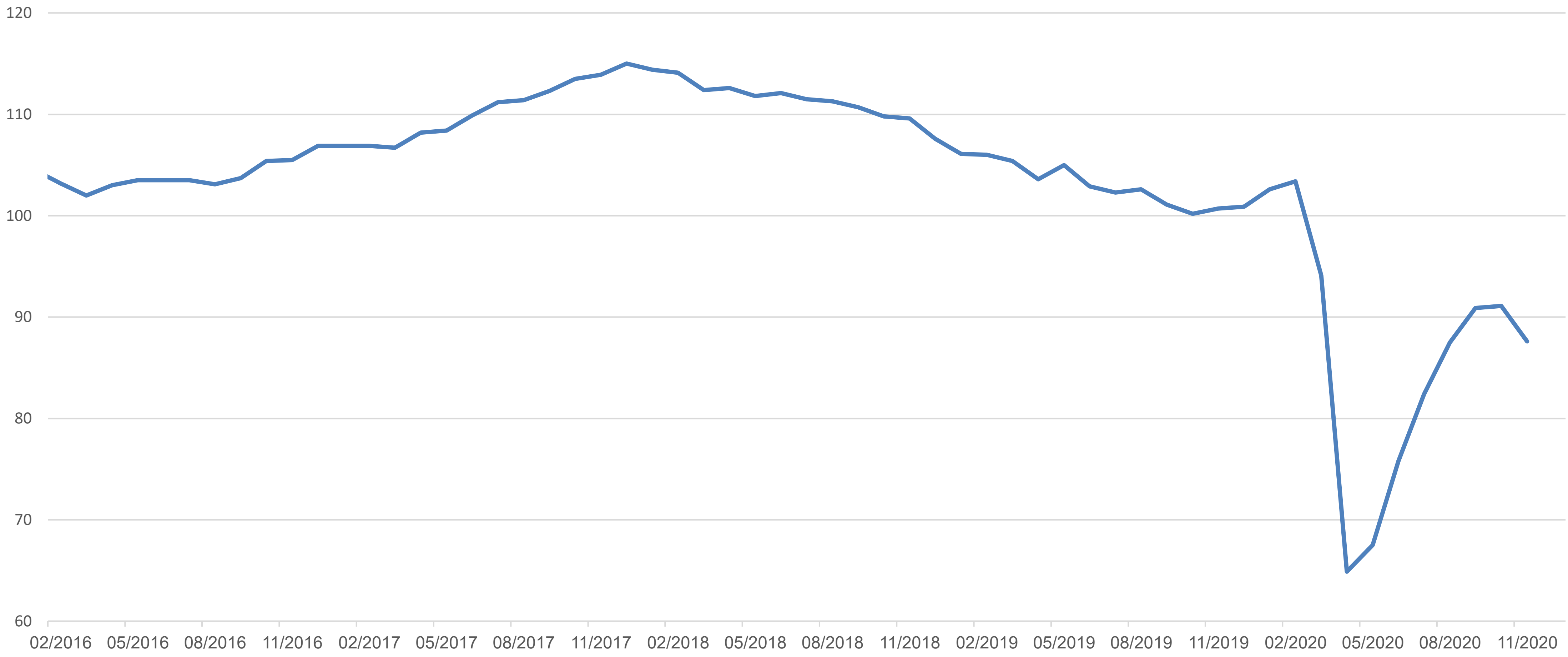
The Second Wave is Hitting Mostly the Services

Manufacturing and Non-Manufacturing PMI



Second Wave Consumer Hesitance

Euro Area Economic Sentiment



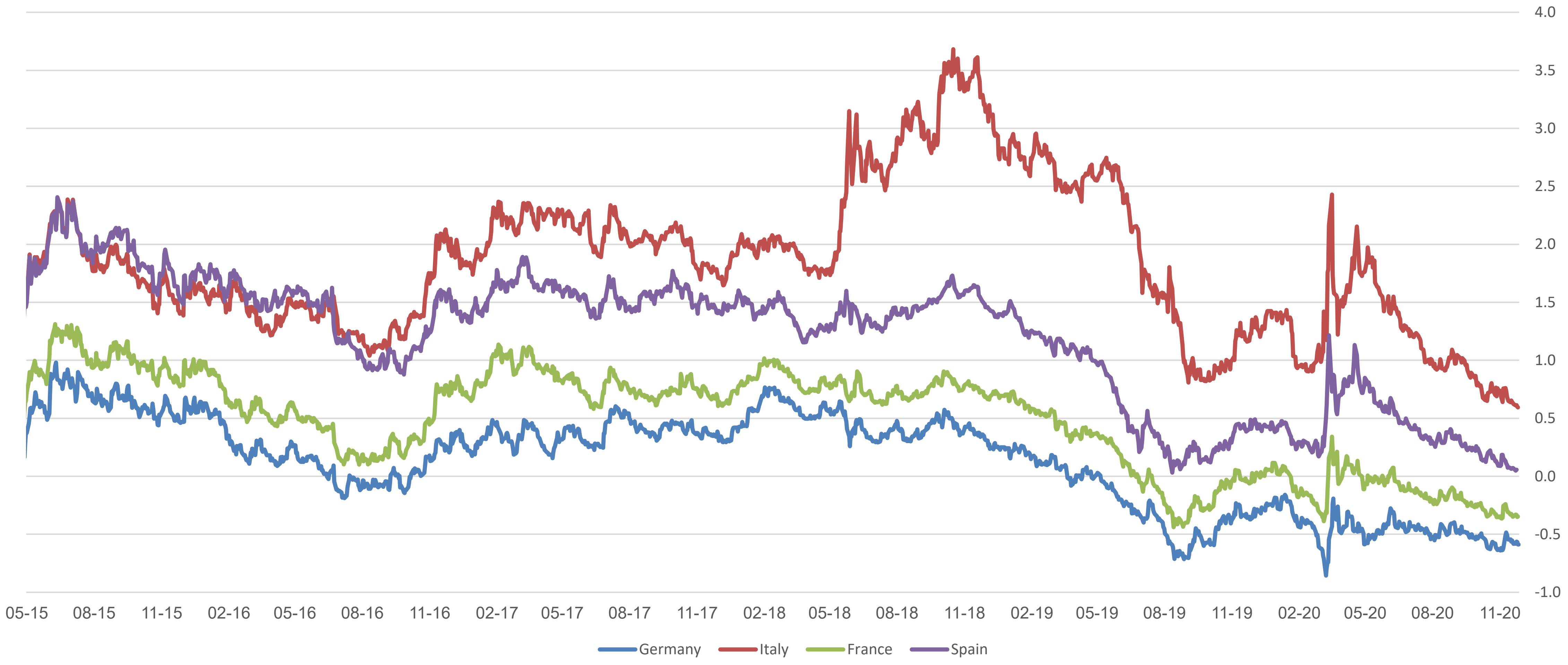
Financial Immunities

The Inflation is Still Subdued

CPI and Core CPI (YoY)

Fiscal Consolidation = Yield Convergence

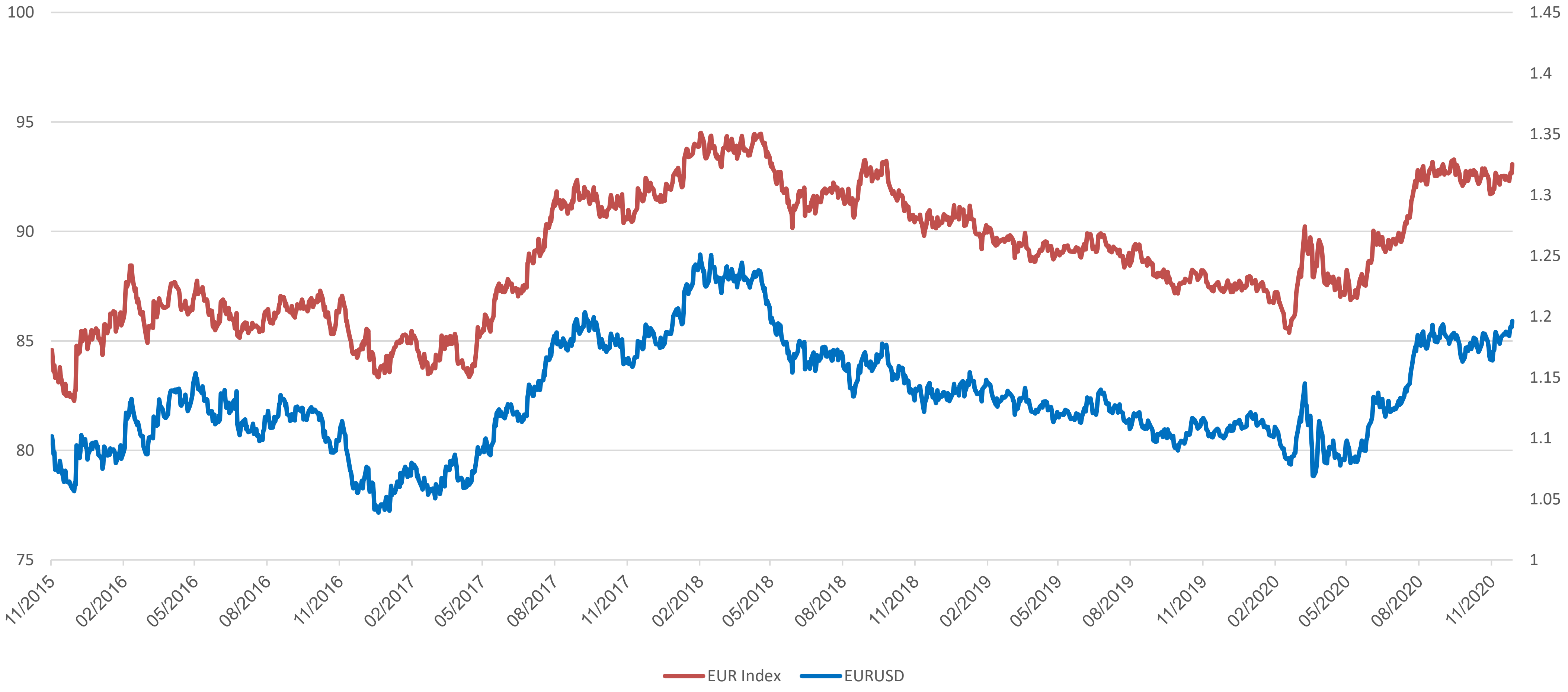
10YR Government Bond Yield



Financial Immunities

The Euro is Resilient to the Second Wave

EUR Index (Left) EURUSD (Right)



Financial Immunities

Israel Economy

Financial Immunities

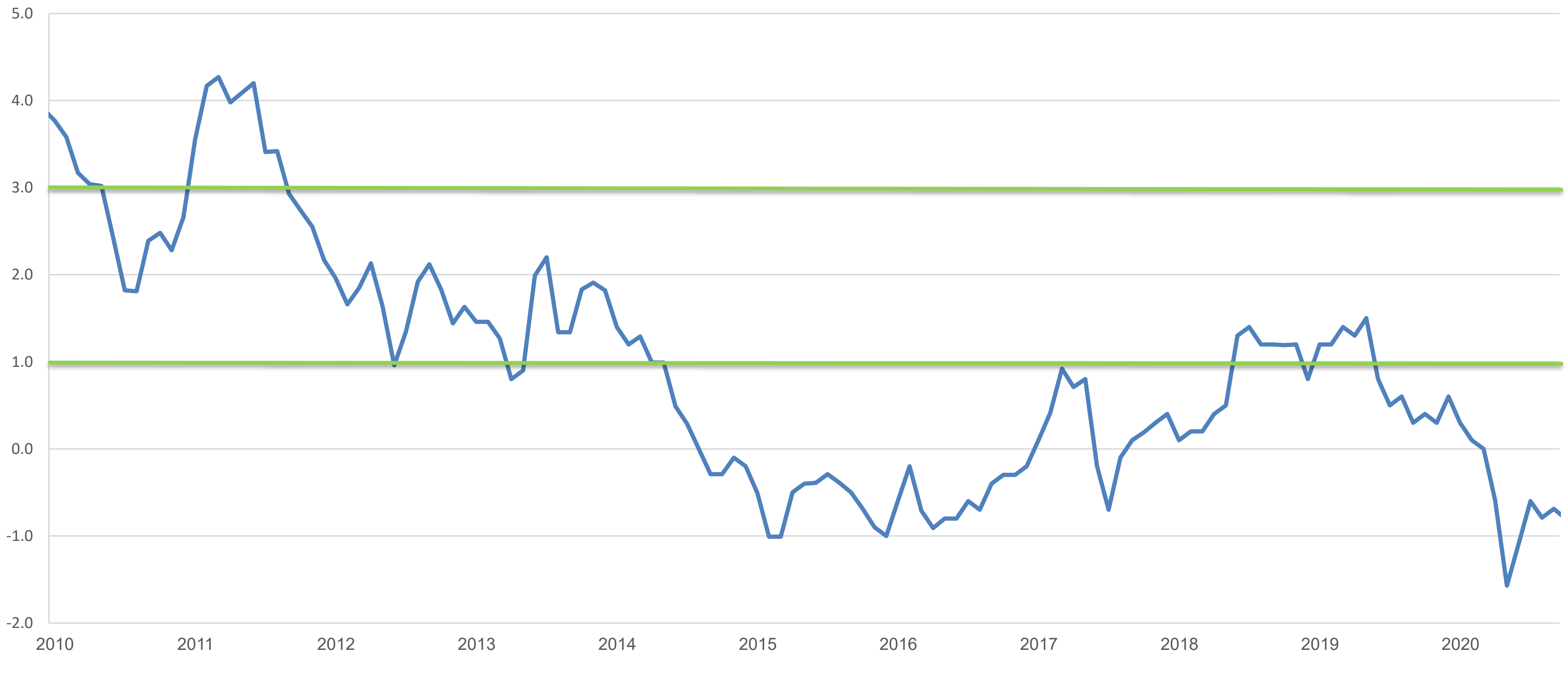
Core Economic Indicator

Economic Indicator	Latest Figure	Reference Period
Growth Rate	37.9%	Q3-2020
Unemployment Rate	4.7%	October-2020
Inflation Rate (YoY)	-0.8%	October-2020
Central Bank Interest Rate	0.10%	November-2020
10 Years Yield	0.79%	November-2020
Ratio of Surplus in Current Account to GDP	3.51%	Q2-2020
Ratio of Public Debt to GDP	61.00%	Q4-2017

Financial Immunities

Continuing Deflation

CPI (YoY)



Financial Immunities

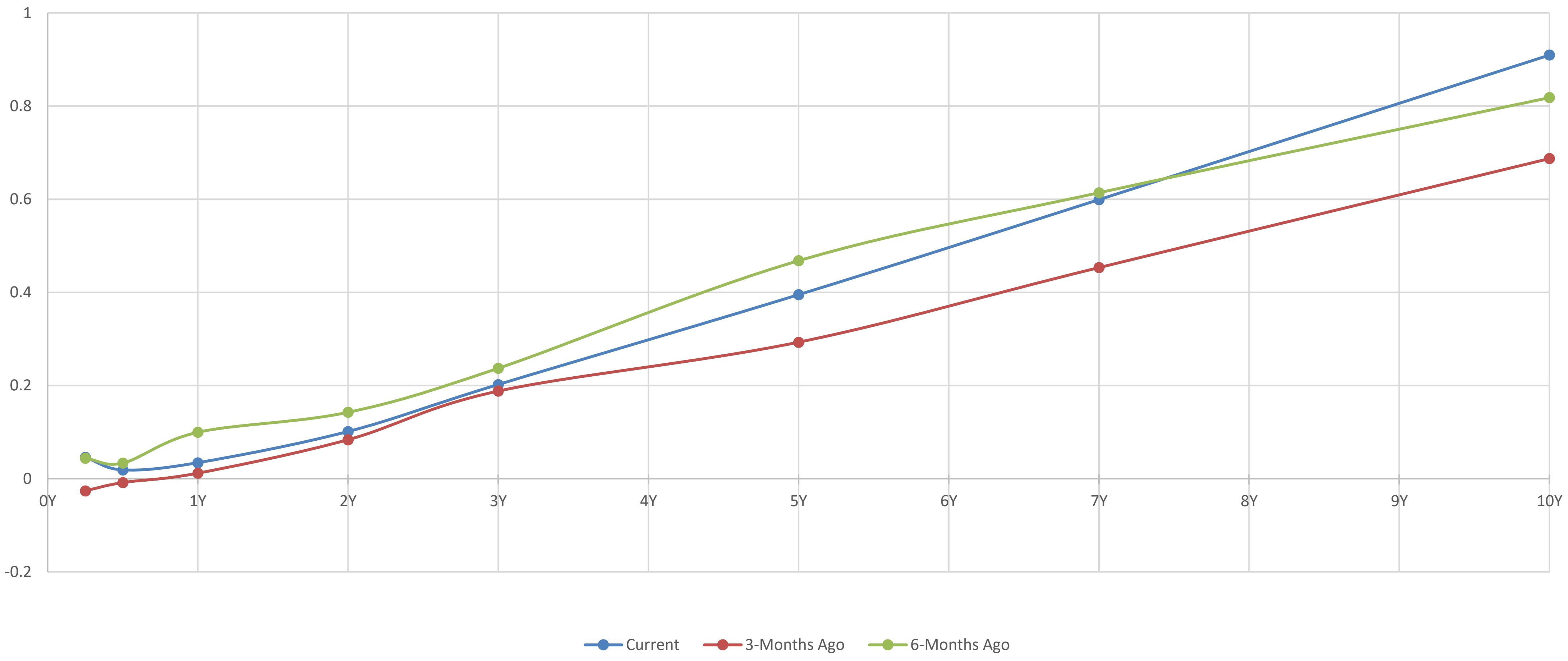
All Time Low Courtesy of the BOI

10YR Government Bond Yield

Financial Immunities

The Yield Curve is Getting Steeper

Government Bond Yield Curve



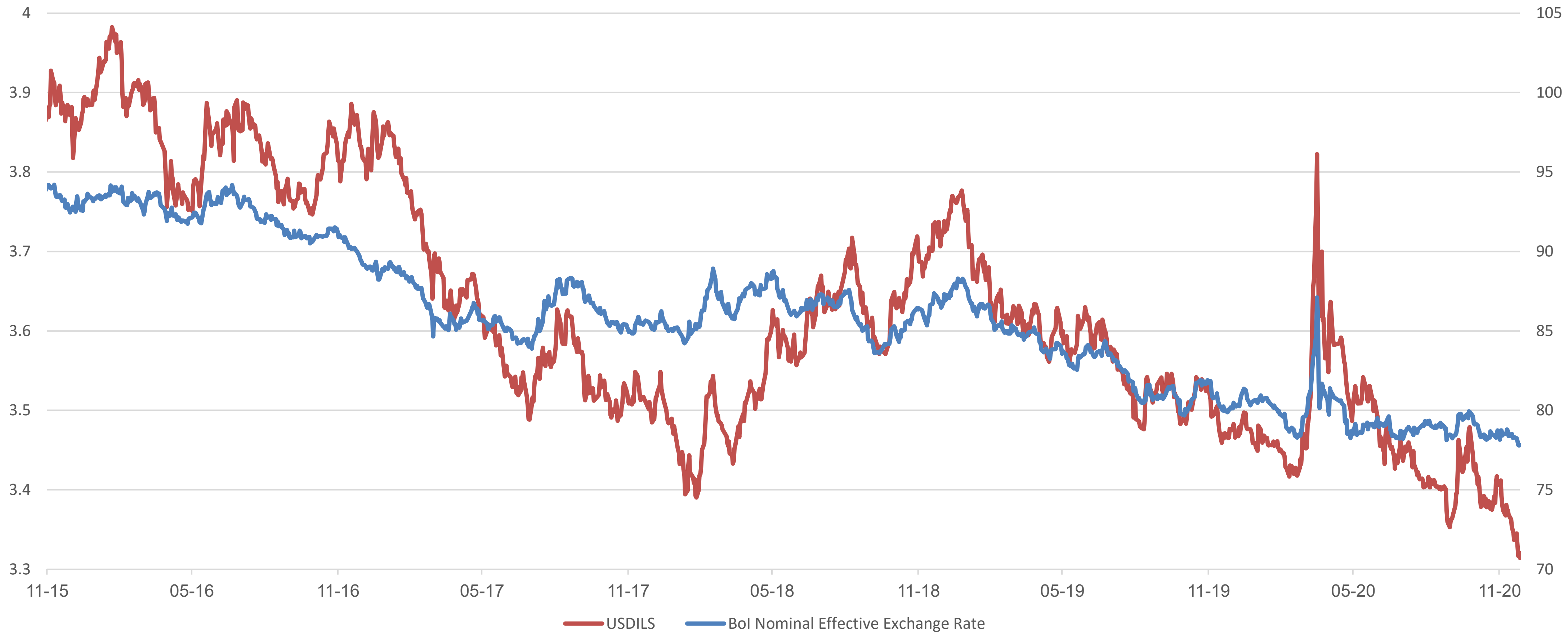
Financial Immunities

The Hedging Cost Continue to Shrink

USDILS 1YR Forward Premium

The Shekel is Close to All Time High

USDILS (Left) BOI Nominal Effective Rate (Right)



Financial Immunities

Index Summary

Date	31/10/2020	30/11/2020	Change
USDILS	3.4059	3.3072	**2.90%-**
EURILS	3.9638	3.945	**0.47%-**
GBPILS	4.4133	4.4067	**0.15%-**
EURUSD	1.1647	1.1927	**2.40%**
GBPUSD	1.2947	1.3323	**2.90%**
USDJPY	104.66	104.31	**0.33%-**
DXY	94.038	91.869	**2.31%-**
USDILS BOI Nominal Effective Rate	78.51786	77.67613	**1.07%-**

Date	31/10/2020	30/11/2020	Change
TA-125	1,374	1,513	**10.13%**
S&P 500	3,270	3,622	**10.75%**
DAX	11,556	13,291	**15.01%**
FTSE	5,577	6,266	**12.35%**
HANG SENG	24,107	26,341	**9.27%**
NIKKEI 225	22,977	26,434	**15.04%**
GOLD	1,879	1,777	**5.42%-**
Crude OIL WTI	35.79	45.34	**26.68%**
CRB	467.71	484.39	**3.57%**

Financial Immunities

CONNECTING THE RIGHT DOTS

CREATING THE RIGHT PICTURE

T 972-8-9369800 W www.immunities.co.il M info@immunities.co.il