Investment Strategy Update

22nd April 2020

CURMI & PARTNERS

Curmi & Partners Research

- Economic data has been substantially weak across major economies as the first indications from labour markets show a dramatic increase in job losses.
- IMF's April global outlook report reiterates the consensus expectations of a deep contraction in the global economic outlook followed by a recovery in the second half of the year.
- Inflation is expected to remain weak in the short-term given the decline in energy prices and the initial signs of weakness in demand.
- Although the medium term outlook on inflation may be ambiguous, it is expected that the weakness in demand is expected to be more persistent and will overturn potentially supply side inflationary pressures.
- The north-south divide across Euro Area member states is becoming more pronounced with the southern countries, namely Italy and Spain forecasted to suffer higher job loss rates and a heavier contraction in output.
- The divergence in both the economic an fiscal impact across member states underlines the importance of effective pan-European initiatives.
- The lack of traction in discussions on a potential Euro Area Recovery Fund or sufficiently large risk-share initiatives put a greater onus on governments to increase efforts at national level.
- The ECB is expected to announce additional or more sizeable intervention programmes to protect the sustainability of public finances and to ensure market functioning, ample liquidity and easy access to credit.
- The fiscal and monetary response announced in the US is deemed to outsize the efforts introduced so far in other advanced economies which is increasing expectations of a relative economic divergence versus other major economies.
- The copious policy response and the shift in the narrative by authorities on the potential reopening of economies has been the main driver for the improvement in risk sentiment over the last few weeks.
- Credit spreads and CDS indices recovered from the end-of-March highs given the improvement in risk sentiment and the support from central banks through their corporate bond programmes.
- Risk of "fallen angels" remains a key concern while the deterioration in defaults and bankruptcies has yet to take gain momentum in distressed industries.
- Equity markets have seen a substantial bounce back despite the gross underlying economic weakness, possibly displaying signs of too optimistic expectations of a rapid economic recovery.

Economic data has been extraordinarily weak since the end of March, partially reflecting the first signs of the economic impact of the coronacrisis. Sentiment indactors and survey-based indices have weakened dramatically. Labour market data are showing a fast pace of job losses in major economies. The inflation data available so far has shown a fall in prices primarily reflecting the drop in energy prices.

However, the market narrative has shifted significantly over the last few weeks taking a more positive tone. Following the several announcements of additional policy response by governments and central banks, the number of confirmed new cases has started to slow down as the communication from official entities shifted on the planning for the re-opening of economies and the scale-back of lockdown measures.

Despite the very weak economic outlook characterized by expectations of a deep contraction in output and a high rate of unemployment, the forward-looking nature of financial markets, combined with the less negative narrative and the substantial market intervention by central banks, has pushed investors to look beyond the interim weakness and lower market risk premia following the sharp sell-off at the end of February. This improvement in risk sentiment saw risky assets rebounding significantly and rather violently from the lows in mid-to-end March.

The general expectations for the lifting of restrictive measures towards the end of Q2, followed by a rebound in economic activity in the second half of the year, have been strengthened by the shift in the guidance provided by health authorities as a number of sovereign states are due to discuss reopening plans in the next few weeks. However, the market rebound suggests potentially too optimistic expectations of a "V"-shaped type of recovery and contains many elements of what can be characterized as a bear market rally.

The event-driven nature of this crisis indicates that, while the downturn can be deeper than in previous crises, given the shock to both the supply and demand side of the economy, the damage is expected to be less long-lasting or with less permanent consequences on the economy. This contrasts with a structural crisis, such as the 2008 sub-prime crisis, which is characterized by the implosion of systemic risk factors which were built up over time.

Having said that, as the threat of the virus remains, the prolongation of containment measures poses an increasing risk of structural damage in the highly-impacted industries as well as in the spending patterns of economic players. On the flipside, a hasty reopening can result in another wave of virus infections which would deal another substantial blow to the economy and the progress achieved in combatting the spread of the virus. The result of these adverse scenarios is that the economic loss will be more difficult and more expensive to recover.

The careful balance of the reopening of the economy for the sake of survivorship of economic players while avoiding the risk of a second wave of contagion could not be more delicate.

As the risk of this "W"-shaped path to recovery is starting to creep in, the scope for another phase of market weakness is increasing and may very well materialize with the realization of substantially weaker economic conditions as the effectiveness of fiscal and monetary aid is tested.

The policy response will surely play an important role, primarily in supporting economic sentiment and also to limit the extent of permanent damage. However, investors should be aware that these coordinated initiatives will drive in an even bigger wedge between asset valuations and fundamentals.

The focus should remain on avoiding exposures in industries with challenging prospects, steering clear of weak balance sheets, monitoring the default and bankruptcy environment and assessing the potential ripple effect in financial markets, and to fight the urge of adding investment risk based on the wrong incentives.

MACRO

Euro Area

Economic growth expectations remained anchored on the assumption that the deep double-digit contraction will be experienced in Q2 and a pick-up in activity is expected in H2 2020. This is in line with the assumed relaxation of restrictive measures which is expected to be more gradual in the highly-infected areas.

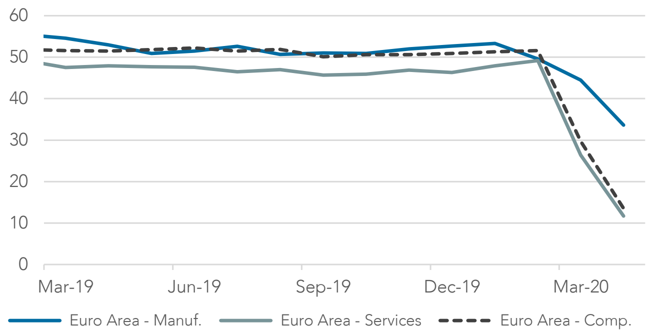
Consensus forecasts for GDP in 2020 are in the high single-digit contraction for the Euro Area. The IMF's global outlook report published in April shows an expected decline of 7.5% in 2020 followed by an expansion of 4.8% in 2021.

The extremely weak PMI data reported in April is reflective to this weakness coming in once again severely below expectations and extremely low levels.

Looking at the month-on-month changes in sectoral PMIs, the activity hit is the worst in Tourism, Media, Banks, Real Estate and Transportation – these sectors tend to have the highest labour intensity in the economy which therefore leads to different implications depending on the economic make-up of the different member states.

In fact, the expectations of a greater north-south divide in terms of economic impact is even more pronounced primarily due to the fundamentally more fragile fiscal position in the southern states, and a generally higher dependency on the more severely impacted industries, particularly in Italy and Spain.

Purchasing Managers Index



Source: Bloomberg

The fallout in terms of unemployment is also expected to be worse in the southern states as opposed to the northern countries, especially Germany. This is primarily due to (a) a higher reliance on industries that have been severely impacted by the virus and which are more cyclical in nature, (b) a relatively more vulnerable position in terms of economic fundamentals and labour market conditions and (c) a higher labour market sensitivity to economic growth given the role of labour-intensive sectors in such economies.

According to the IMF report, Euro Area unemployment is expected to reach 10.4% in 2020, with the lowest impact seen in Germany at 3.9% while Italy and Spain are expected to see unemployment rates soaring to 14.7% and 20.8% respectively.

This divergence further underpins the importance of the establishment of effective pan-European measures for the more effective allocation of financial aid across member states.

The European Council has endorsed three main initiatives in April which include:

a) the provision of a precautionary credit line to member states via the ESM under standardized terms;

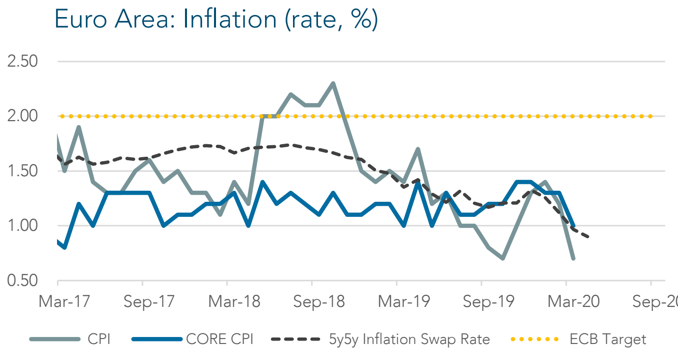
b) a European employment insurance scheme to mitigate job losses in specific situations due to the coronavirus;

c) a pan-European guarantee fund administered by the EIB to provide financing to corporates and parastatal entities in member states;

While these measures are certainly a step in the right direction they are deemed to fall short of demonstrating a strong commitment by member states to deploy assistance especially in the worst hit economies, both in terms of size and structure.

The much hoped-for discussion around the scope of the European Recovery Fund has also been rather disappointing so far as the rather controversial requirements of an elevated degree of risk-sharing and the mutualization of debt remain the main hurdles.

It was noted in our earlier update that supply and demand shock of the coronavirus as well as the oil crisis were on balance expected to weaken inflation pressures in the near term. March inflation data already indicates such weakness with the headline estimate coming in at 0.7% year-on-year down from 1.2% in February.



Source: US Bureau of Economic Statistics, Bloomberg

Core CPI increased by 1% in March down from 1.2% in February. Market-implied inflation expectations as indicated by the 5y-5y swap rates have likewise declined to 0.9% as at 20th April.

Energy price deflation dropped to -4.5% from -0.3% and services costs increased at a slower pace of 1.3% from 1.6%. Food prices on the other hand increased at a faster pace of 2.4% from 2.1% while non-energy industrial goods were flat at 0.5% percent.

Historically, a disruption in activity has led to a drop in inflation for several months. Given the severity of the current situation, the impact on inflation is expected to be deeper and possibly more persistent.

While the medium-term impact on inflation is expected to be the net result of supply-driven inflationary effects (possibly due to the limitation in supply, increase in bankruptcies and industry concentration which could lead to increased prices) and disinflationary pressures from waning demand, it is expected that the demand shock and decline in spending will outweigh the potential inflationary impact from the supply side, primarily because the latter is more likely to be localised occurrences.

The expansionary monetary and fiscal measures, although inflationary in nature, are already implicit in the general output expectations. If proven to be successful, such measures would be expected to limit the supply shock, which could lead to a potential undershooting in inflation compared to baseline estimates. This is mainly because the weakness in demand is expected to persist for longer due to the delay in the pass-through effect from an eventual re-strengthening in labour market conditions.

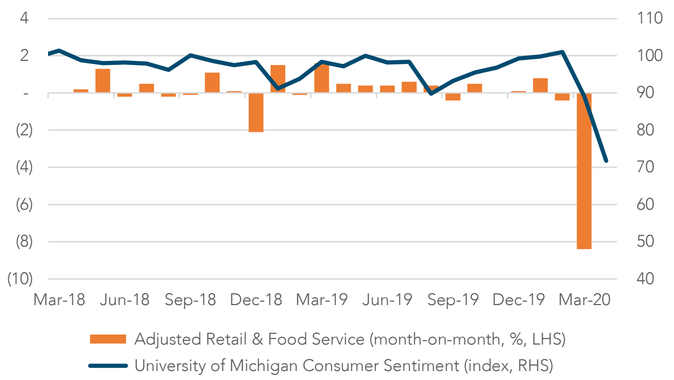
United States

US economic activity has been impacted by the decline in global demand, the oil crisis and its impact on US energy sector and related industries, as well as the restrictive measures put in place to curb the spread of the virus which is slowing internal consumer demand.

The impact on consumer spending is expected to be severe as it has already been confirmed by a number of high frequency activity indicators including, air travel, movie theatre tickets and restaurant dining which practically came to a halt towards mid-March. Retail sales have also shown the biggest decline on record dropping by 8.7% month-on-month in March.

The University of Michigan's consumer sentiment index also came in at a substantially depressed level of 71.8 in April. This the lowest reading since December 2011 reflecting a significant decline in current economic conditions.

US Retail Sales & Consumer Sentiment



Source: US Census Bureau, St. Louis Fed Research

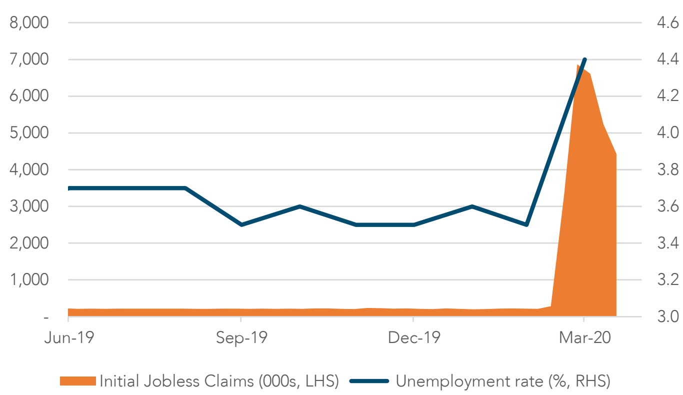
Weak consumer spending, investment and foreign trade are expected to weigh significantly on economic growth. However, it is notable that the level of discretionary fiscal spending announced so far, the assistance to states as well as the level of guarantees are considered to be large in magnitude and have been announced relatively early on with the onset of the crisis.

Moreover, the number of programmes launched by the Federal Reserve to intervene in a number of markets and to directly impact specific parts of the financial system and to ensure the smooth provision of credit has been very material and the positive impact has already been seen in US credit spreads as well as the improving financing conditions.

Despite the downside risk factors and the expectations of a similar deep downturn in economic output and employment, given the relatively stronger economic starting position as well as the coordination of the fiscal and monetary measures which outpace the policy response in other areas, namely the Euro Area, it is expected that both the extent of economic contraction as well as the speed of recovery will result in an economic outperformance versus other advanced economies.

This is reflected in the IMF April global outlook report which forecasts US GDP to contract by 5.9% in 2020 and recover by 4.7% in 2021.

US Unemployment Rate & Initial Jobless Claims



Source: US Department of Labor

Nevertheless, the impact on unemployment is expected to be quite severe, mainly due to the generally more flexible employment conditions and the relatively higher cyclicality in the unemployment rate.

Weakness in labour market is already evidenced in the historic record increase in jobless claims of over 22 million workers over the last four weeks. This marks the largest four-week aggregate in any of the previous economic crises. March unemployment rate which only partially reflects the job loss data published so far has soared to 4.4% up from 3.5% in February.

IMF April forecasts suggest that unemployment will reach 10.5% in 2020 and then improve to 7.4% in 2021.

US headline inflation is likely to be significantly lower due to the drop in oil prices while core inflation is only expected to decline moderately mainly due to the expectations of higher resilience in housing prices and health care.

While weak demand and high unemployment have historically led to a decline inflation, the implications of the virus shock on both supply and demand create a more ambiguous outlook for inflation given the make-up of the US economy. The near-term outlook is for inflation to decline given the immediate and pronounced decline in consumer demand in impacted industries.

Having said that the medium-term outlook for inflation will depend on the extent of production disruptions and other supply side factors including weakening competition, increased bankruptcies and the trajectory of wage growth. Moreover, the sizeable expansion in the monetary bases and the sharp increase in fiscal deficit can support a higher inflation environment. The 5y-5y inflation swap rate has declined from 2% at the start of the year to 1.68% at the end of March and has now regained some ground reaching 1.76%.

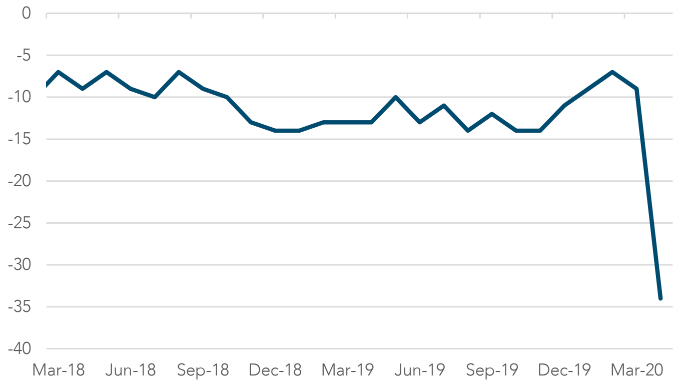
United Kingdom

The UK economy, placed in a relatively weaker position at the start of the year, was dealt a substantial blow with the outbreak of the virus and the imposition of restrictive measures to combat the contagion.

Similar to the outlook of other advanced economies, the expected contraction in GDP is expect to far outsize the drop experienced in the great financial crisis ("GFC"). This is primarily due to the expectation that household spending is expected to be severely impacted, alongside business investment, which is typically unusual in crisis environments. According to the IMF April forecasts, GDP is expected to contract by 6.5% in 2020 and rebound by 4% in 2021.

Consumer activity indicators came to a sharp drop in the beginning of March coinciding with the imposition of lockdown measures. The unprecedented level of measures to support household income will likely improve saving rates in the short term which will serve as a solid base to boost consumption when the crisis abates.

UK GFK Consumer Confidence



Source: Bloomberg

The GFK Consumer Confidence index reported on 23rd April captured a considerable fall coming it at –34 points, just above the low of –39 seen in July 2008. This is reflective of the clear disruption in the consumers' assessment of their financial situation and their perception of the economy.

Business investment is likewise expected to remain weak. Brexit negotiations are expected to be prolonged further with the December 2020 deadline expected to be extended well into 2021. The CBI manufacturing business optimism index saw the sharpest fall to all-time low levels reflecting a sharp drop expected in output and orders for the second quarter.

External demand is expected to weaken, however the slump in imports is expected to be greater potentially resulting in a net positive trade balance for 2020.

The degree of measures introduced by the British government to sustain employment retention and the support for furloughed workers is expected to limit the sensitivity of job losses to the decline in economic activity compared to previous crises. This should allow productivity to bounce back faster when the economy starts to recover. Having said that, the extent of the economic downturn combined with the fall in hours worked will likely result in a protracted decline in household income despite the government support. The forecasted trajectory in the unemployment rate by the IMF is 4.8% in 2020 and 4.4% in 2021.

As for UK inflation, the drop in energy prices is likewise expected to have a substantial impact on lowering headline inflation in the near term. The decline in household spending is expected to weaken inflation further and is expected to be more persistent than inflationary pressures due to supply shocks. However, the supply side shocks are expected to ease when lockdown measures are lifted.

Hence, the inflation outlook for the medium-term is for a general decline in inflation. Additionally, the weakness in Sterling in March is not expected to support inflation much this time compared to previous instances when inflation was boosted by the depreciation in the currency. This is mainly because (a) the decline has already started to recover and (b) given the substantial drop in demand, the potential increases in imported prices are expected to be absorbed in margins of producers and retailers.

RATES

Euro

While the ECB's deposit facility rate has been maintained at –0.50% and is expected remain at current levels for the time being, a greater level of commitment is expected by the ECB in the form of an increase in the size of its purchase programmes as well as the potential widening of eligible criteria for securities to fall under the scope of these programmes.

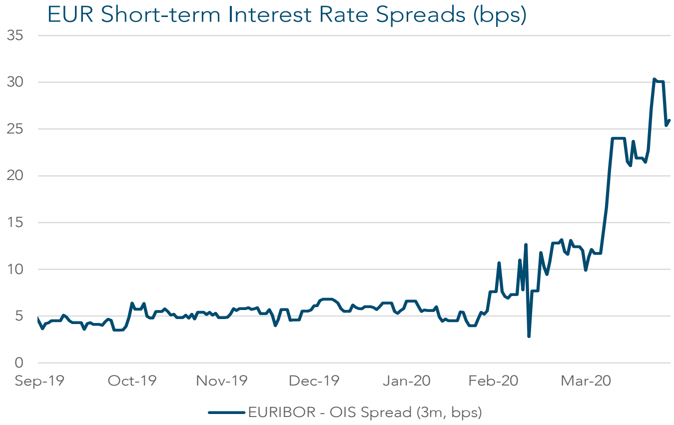
Sovereign bond spreads across member states have diverged due to asymmetric regional economic and budgetary concerns which is sustained by the more pronounced north-south divide in economic expectations.

While the pan-European measures announced so far are only expected to have a marginal impact on national economies, the failure to achieve a comprehensive pan-European solution will result in a greater need for governments to do more at a national level which can lead to a severely adverse fiscal position in certain countries.

Moreover, for the first time in a relatively long while, we have seen tension building in the Euro short-term funding space most notable reflected in the sharp increase in Euribor-OIS spreads. This is a rather unusual and alarming development, given the "fixed-rate full-allotment" regime adopted by the ECB since the GFC, which can be giving the first signals of weakness in the access for Euro liquidity and short-term financing.

This can also be partially due to the wave of downgrades in bonds which would reduce the pool of eligible collateral and the extent to which European banks can obtain liquidity through the central bank's refinancing operations. In view of this, the ECB has already announced the extension of eligibility criteria for such refinancing mechanisms but it is yet unclear whether this will be sufficient.

EUR Short-term Interest Rate Spreads (bps)



Source: Bloomberg

These developments are placing more pressure on the ECB to act and announce additional measures so as to safeguard the sustainability of public debt financing and to ensure easy access to credit and liquidity in this period of stress.

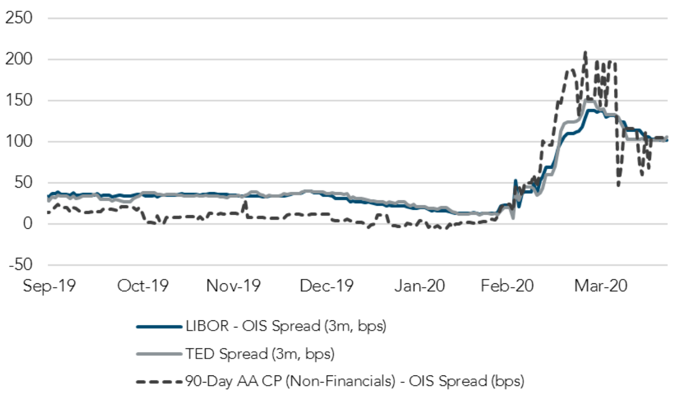
At this stage, it is noted that positive cyclical improvements, any advancements on joint European measures and a strong signal by the ECB would be better suited to support a convergence in country spreads.

US Dollar

Short term interest rates are expected to remain at current low levels for the time being as the Fed target rate is expected to be kept unchanged at 0% - 0.25%. Moreover the Fed will likely err towards keeping rates low probably beyond the first signs of stabilisation in order to sustain the recovery and allow employment to regain the ground lost reflecting a greater propensity by the Fed to tolerate a period where inflation overshoots its target.

Stress in USD short-term funding has been met by significant Fed stimulus primarily through the newly introduced purchasing programmes as well as its presence

USD Short-term funding – Interest Rate Spreads (bps)



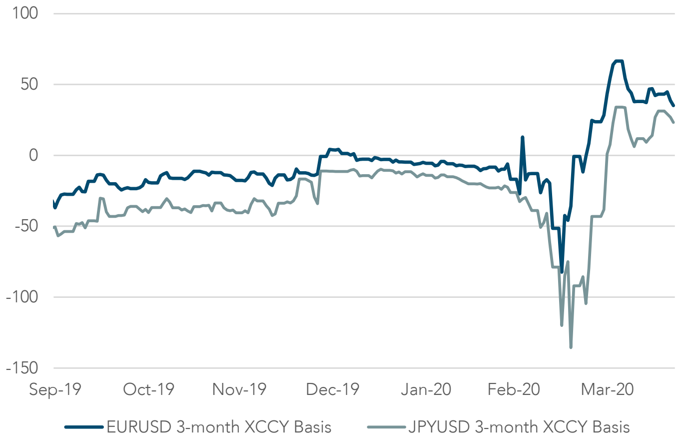
Source: Bloomberg

in offering liquidity in the repo markets.

The general improvement in risk sentiment in financial markets was also driven by the Fed's decision to include recently downgraded corporate bonds from investment grade to junk status and to allow the possibility to purchase exchange-traded funds ("ETFs") which invest in sub-investment grade bonds.

This shift in risk sentiment driven by the Fed has also contributed to easing demand for dollar which, combined with the introduction of swap lines with foreign central banks, has completely reverse the relative funding pressure seen in the EURUSD and JPYUSD cross-currency basis.

USD Cross-Currency Basis (spread, bps)



Source: Bloomberg

Sterling

In view of the virus threat, the BOE has cut the bank rate down to 0.1% in March 2020 and announced additional monetary stimulus by increasing its purchase programme by £200bn.

The introduction of these measures has helped to support the Gilt market and countered the sharp rise in benchmark yields in March signalling the BOE's ability to support sovereign yields despite the potentially long-lasting effects on public finances.

The BOE has also been particularly active in facilitating the financing requirements of the government expenditure in the beginning of April. Gilt yields have decreased with the yield curve shifting lower in March and continued to flatten in April.

The BOE policy rate is expected to remain at current levels for the time being and monetary stance is expected to remain ultra accommodative going into the economic recovery in order to sustain the rebound.

CREDIT

During recent weeks there was an overall improvement in both the USD and EUR corporate debt markets. This has been primarily evidenced by the pull-back in credit spreads and credit default swap spreads following the sharp widening seen towards mid-March.

This is partly due to the new monetary policy measures introduced by both the Fed and the ECB which have contributed significantly to stabilising markets and providing some comfort to investors. Specifically, both central banks are running corporate bond purchase programmes aimed at buying corporate bonds which meet a number of eligibility criteria including credit ratings.

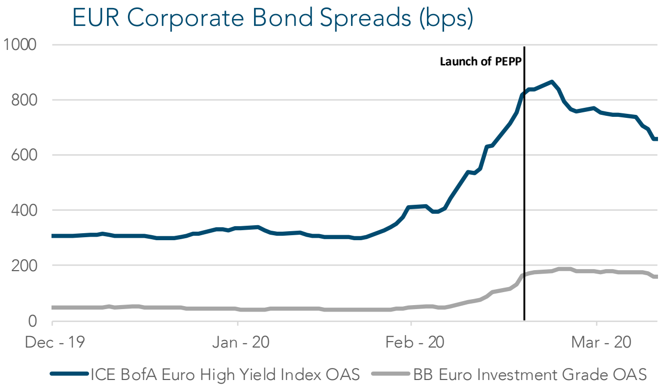
The corporate bond purchase programme launched by the ECB had already been active, but the targeted size of purchases have been substantially increased in the wake of the coronacrisis with the launch of the Pandemic Emergency Purchase Programme (the "PEPP").

Similarly, the FED has launched two programmes targeted to purchase corporate bonds in the primary market (the "PMCFF") and the secondary market (the "SMCFF"). These programmes have been recently revised to include also "fallen angels" - in other words, bonds which have been recently downgraded to sub-investment grade.

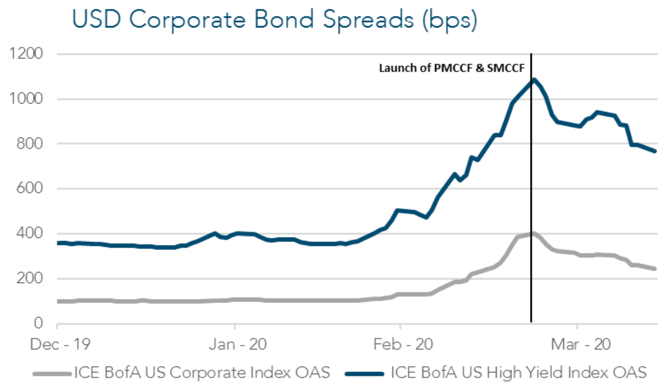
So far, any major market disruptions have been avoided. Apart from a short period of substantially low market liquidity and limited market activity, the situation in credit markets has been held relatively stable. Moreover the resilience in the primary market has been rather notable. Although the calendar for new deals has been rather dry, the first transactions taking place in the corporate space have attracted significant interest so far, at least in the investment grade space.

The planned fiscal policy measures indicated by governments in different degrees and formats are also providing hope that substantial efforts will be in place to support economies and corporates. In this respect, it is relevant to note that the reality of the economic fallout is indeed still unfolding. Whilst acknowledging the stabilisation, we generally prefer to remain cautious as we still expect that the deterioration in default scenario is yet to gather pace.

Issuers are expected to provide some visibility in terms of their assessment of the impact from the coronavirus situation in coming weeks. Any announcements on liquidity and balance sheet damage will be particularly important on a issuer-specific basis. Specifically, we consider the turmoil in the oil market as a major downside risk which may revert the improvement in sentiment



Source: Bloomberg, Curmi & Partners



Source: Bloomberg, Curmi & Partners

achieved so far.

The risk of fallen angels is expected to remain an important factor to monitor in the current months. Our assessment is that the lower investment grade cohort remains relatively vulnerable for the time being and while specific opportunities may become relatively attractive, we prefer to remain underexposed in this segment for the time being.

Our preference remains to avoid specific industries and issuers where their operations and business viability have been severely disrupted. Moreover, we maintain our skew towards higher quality rated bonds and continue to take advantage of the relatively wider spreads to add exposure in robust profiles in investment grade space.

The high yield space remains relatively vulnerable for the time being. While spreads have somewhat stabilised, the possibility of a deterioration in default rates can have spill-over effects in the broader credit market. The dispersion in spreads has also widened substantially suggesting greater scope for adding value through careful issuer selection.

EQUITY

In our last update we covered the possibility of equities falling to new lows. Our assessment was that, despite the sharp drawdown, there was more scope for additional bad news that needed to be priced in while the economic backdrop remains highly uncertain. This was not the case, with investors reacting positively to unprecedented policy support announced by central banks and governments.

The old Wall Street adage that investors should never fight the Fed couldn't have been more appropriate. Currently, we are of the view that risks remain elevated with a high risk of disappointment that could lead to another phase of weakness in equity markets.

Following the rebound, investors seem to be pricing in a strong economic recovery in the second half of 2020. Whilst this may be correct, we think that a lot will depend on how fast the job losses, especially in the US, can be recovered and how long it will take for economies to come back to some form of normality. The situation remains very uncertain, but investors seem rather comfortable with the level of support announced so far which has boosted risk sentiment and lead to increased valuation levels.

This positive spin was confirmed by the key indicators we had identified in our previous updates namely, the shape of the yield curve, the level of volatility, financial conditions and the demand for dollar. All of these factors have "turned green" over the last few weeks with the exception of the demand for dollar.

While the downside risks remain very much prevalent in the current situation, we acknowledge the general improvement in market conditions as well as the important signal by the Fed to take on risk which is deeper down corporate balance sheets.

Given that the effect of monetary and fiscal measures on valuations is expected to be persistent, we have increased our overall exposure to the asset class while retaining an underweight position nonetheless.

Our key preference remains for quality stocks with a strong balance sheet and cash position, a robust business model and the ability to continue generating free cash flows.

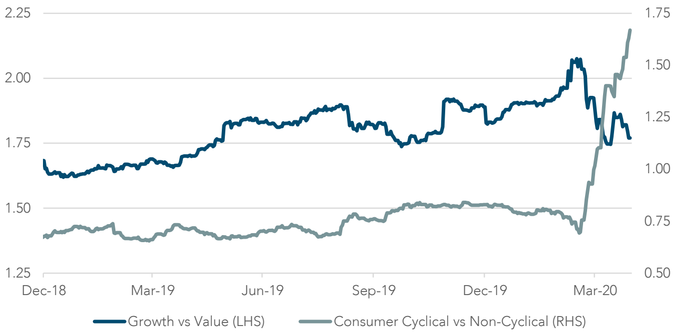
We have re-established and marginally increased our exposure to US equities given that, the expected economic divergence combined with a substantially higher degree of stimulus, is expected to support a corresponding outperformance in US equities versus other developed markets. Specifically, we increased the exposure by adding core positions in tech companies which are generally characterised as growth stocks. The rationale underpinning this investment basis is the strong expectation that such profiles will continue to attract a valuation premium in an environment characterised by scarcity in growth.

Secondly, the interest rate and inflation outlook, which have now been revised substantially lower in the US, is expect to support valuation levels of such stocks. Lastly, the proven business viability under these stress conditions and the generally robust balance sheet position give us the comfort to retain such equity exposure in view of the potential weakness in equity markets should downside risks come to the fore.

Conversely, we prefer to retain non-cyclical equity exposure in European stocks given the general preference to low-beta quality stocks and the underlying expectation that a fragmented response to the crisis is expected to be a main drag on the economic recovery. To this end we prefer to maintain positive sector tilts towards consumer staples, insurance, real estate as well as health care.

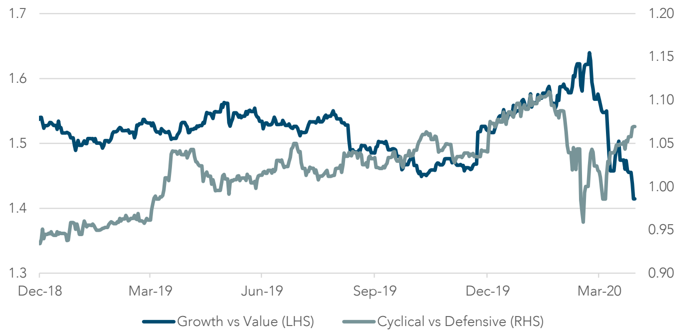
In the hopeful scenario where the virus situation abates and the pace towards recovery gains momentum, the key drivers for performance, in our view, will be to rebalance the portfolio allocation to equities and, equally important, to reassessing our positioning and equity selection in order to gain from the potential rotation in equity markets.

Europe Equities - Forward PE Premium



Source: Bloomberg, Curmi & Partners

US Equities - Forward PE Premium



Source: Bloomberg, Curmi & Partners

ASSET CLASS VIEW AND POSITIONING

Asset Class	View	Allocation	Positioning
Sovereign Bonds	Stable	N	The spread widening across Euro Area sovereigns was led by euro peripheral markets due to the asymmetric implications across regions as a result of country specific issues and fiscal position. We increased our allocation to neutral with an overall longer duration position by adding a selection of sovereign bonds based on relative value vis-a-vis economic fundamentals, the expected fallout and capacity of recovery. The market has broadly metabolised the reality that governments will emerge from the crisis with much larger national debts. However, the question around debt sustainability will be particularly relevant for the vulnerable member states especially due to the lack of traction in effective pan-European measures. Due to the increased pressure on deficit financing, a much stronger policy action is expected from the ECB. At this stage, additional central bank intervention, positive cyclical developments and/or a concerted effort on European risk sharing measures would be better suited to sustain a re-convergence in country spreads. Moreover, we prefer to retain a long duration position given the interest rate and inflation outlook in the Euro Area.
Investment Grade Corporate Bonds	Positive	O/W	Attractiveness has increased both on a relative and absolute basis given the recent widening in spreads across bond markets. Whilst we are comfortable with holding high cash balances, we continue to increase our exposure to a selection of single-A corporate bonds primarily to improve the credit quality mix within our IG corporate bond selection while entering at a yield level that is considered to be attractive in view of the substantial central bank credit support, lowering inflation expectations and preferred tilt for a longer duration exposure. Secondly, the risk of fallen angels in the BBB space remains a key risk to closely monitor in view of the challenging business conditions and general sentiment in credit markets. The existing central bank corporate purchase programmes are expected to sustain the current positive momentum in credit spreads.
High Yield Corporate Bonds	Negative to Neutral	N	A risk averse approach is warranted given the severe economic downturn and pressures across corporate sectors. At this point, and following market re-pricing our approach will remain on monitoring evolving risks on a name-by-name basis and de-risking individual exposures, were necessary. The resilience in price reaction in the more robust credit profiles gives a clear signal of the scope for dispersion across industries and issuers. The scope to remain selective in carrying high yield positions remains and is expected to add value as the market stabilises and clarity on economic and business conditions is improved.
Emerging Markets Corporate Bonds	Neutral	N	A risk averse approach is also warranted due to the global economic downturn and the pre-existing vulnerabilities across emerging countries which are exacerbated by the weakness in energy prices and commodity markets and the dollar strength. Whilst most exposures are centred on conservative financial profiles, our approach remains on monitoring evolving risks and de-risking on individual positions as required.
Equities	Negative	U/W	The grand policy response and the shift in the market narrative has led to an improvement in risk sentiment and market volatility. Given the prospects of the lifting of restrictive measures and re-opening of economies, equity markets have recovered significant grounds from the lows reached in March. However, we believe that market expectations are too optimistic about the speed and extent of a "V"-shaped type of recovery. The risk of disappointment, as the economic fallout is realised in upcoming data and guidance on future earnings, will likely bring about another phase of market weakness. Moreover the risk of a "W"-shaped type of recovery can spring a kneejerk reaction in prices. On this basis, we prefer to retain an overall underweight allocation in equities and a low beta exposure (circa 0.80) combined with an overarching factor tilt towards quality stocks and growth stocks. In terms of sector positioning, we prefer to avoid cyclical industries and retain core positions in staples, healthcare and technology. In emerging markets, we prefer to be exposed to China, as well as other Asian markets, predominantly given the initial signs of stabilisation as well as activity indications which are signalling some improvements on a long path towards normality.

N = Neutral *O/W = Overweight* *U/W = Underweight*

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