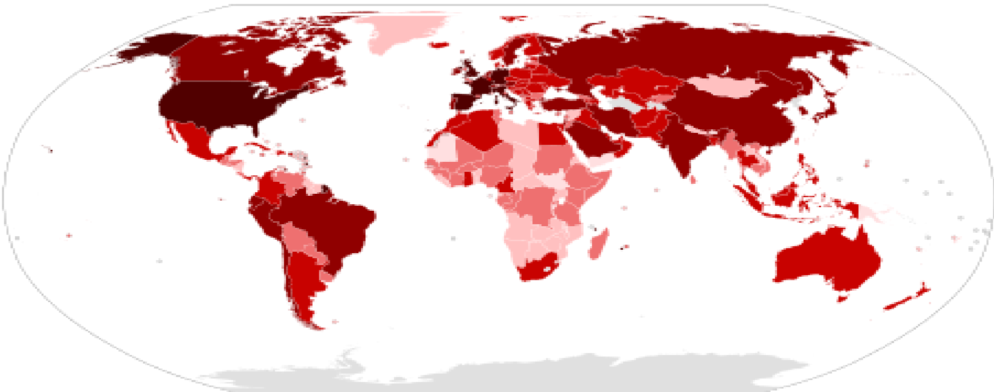
INVESTMENT INSIGHT APRIL 2020

Investment Services Department

Altruist Financial Group Limited
進邦滙理有限公司

THE THREAT AND OPPORTUNITY OF COVID-19



Last quarter market highlights

- *Due to the outbreak of COVID-19, global investment markets experienced an unprecedented freefall since the second half of February.*
- *"Extraordinary times require extraordinary actions." In the time of the worst global crisis since the World War II, all major countries worldwide implemented aggressive monetary and fiscal stimulus packages simultaneously so as to rescue the virus-hit economies.*

The U.S. and European stock markets have had the best and the worst sessions within a month in the first quarter of 2020. While the Chinese economy was still seriously suffered from the COVID-19, both the S&P 500 and STOXX Europe 600 Indexes climbed to all-time high on 19th February 2020. However, as the spread of COVID-19 intensified in the U.S. and Europe, worries of global recession were heightened, global stock markets promptly stepped into the correction zone and it was really hard to believe that the U.S. and European stock markets plunged over 30% in only 20 trading days later.

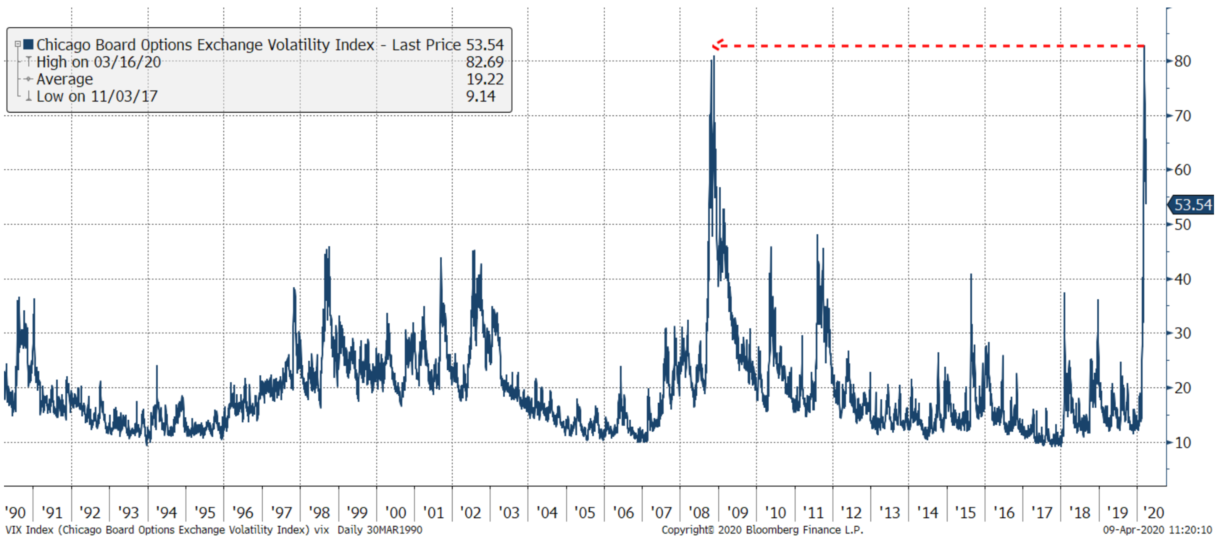
After the global outbreak of COVID-19, industrial productions have almost been paralyzed, a large number of flights were also cancelled due to worldwide travel bans, the demand of oil has already been fallen sharply. The situation deteriorated further after the OPEC and Russia failed to reach a production cut on 6th March and both parties even pledged to increase production. Slump in demand together with surge in supply caused the oil price plunged dramatically to the lowest level in 18 years.

EXHIBIT 1: After hitting all-time high on 19th Feb, both the U.S. and European stock markets slumped over 30% within a month

Source: Bloomberg (as at 31/03/2020)

The widespread of COVID-19 and the oil price plunge led the global stock markets entering into an extremely panic and volatile condition in the second week of March. The U.S. stock markets have triggered circuit breakers several times and the VIX index (also called "Fear Index") rocketed to the highest level since the 2008 Financial Crisis due to the global massive sell-off and deleveraging activities. Almost all asset classes including gold, high graded bonds etc, were "infected", their asset prices fell sharply, and investors rushed to the U.S. dollar, the world's most liquid currency, for safety reasons.

EXHIBIT 2: The VIX index rocketed to the highest level since the 2008 Financial Crisis



Source: Bloomberg (as at 31/03/2020)

The market freefall in March was unprecedented, the global major central banks and governments have already responded quickly and implemented enormous fiscal and monetary stimulus so as to rescue the virus-hit economy. After that, we believe that the global financial markets should calm down and certain market rebounds are expected in the near term. However, it does not mean that the bearish trend has been reversed since the economic damage of the COVID-19 outbreak may be much more serious than our previous anticipation. According to the latest forecast from the International Monetary Fund, the global economy will fall 3% in 2020 and experience the worst recession since the Great Depression in 1930s. Currently, quarantine, lockdown and keeping social distancing can help to control the spread of the virus, but it is hard to put the COVID-19 pandemic to the end until we find an effective vaccine and bring human fully back to the "normal life" as in the past.

COVID-19 pandemic has already changed the world dramatically, the trend of globalization and the rise of global debt may have certain longer-term implications that investors may need to be aware of.

Globalization

The global interconnectivities facilitate the spread of the virus. In the short run, the COVID-19 pandemic would disturb global trade and travel. Global enterprises may consider reducing the complexity of the supply chain, so as to avoid sudden stops caused by unexpected events. While the globalization of physical goods tends to slow down, with the advance of technology and telecommunication, the internet brings us together in a new way. The popularity of E-learning and video conferencing surges remarkably in the past few months. It is believed that trend of globalization will not be changed but the nature may shift from physical to digital form.

Debt

Almost all global governments and central banks have launched tremendous fiscal and monetary stimulus so as to rescue the virus-hit economy. At the same time, business borrowing may also increase during the economic downturn period. As a result, the level of global debt level definitely will continue to grow and pile to all-time high which may create another debt crisis in the future.

Every coin has 2 sides. The COVID-19 crisis is a human tragedy. However, it provides an opportunity for the natural environment to recover as there is less pollution and greenhouse gas emission due to flight cancellations, factory shutdown and fewer human activities.

The global economy is entering the worst recession in recent decades. Since there are still a lot of uncertainties about the economic impacts of the virus, it is believed that the financial markets will still be in a period of high volatility in the near term even though governments and central banks worldwide have brought plenty of economic stimulus. On the other hand, the COVID-19 crisis may also bring us an investment opportunity. After the massive selloff, the investment value of some financial markets has fallen to historical low level.

Although we are still in the bear market and we do not expect the global economy will have a sharp rebound soon, it is thought that the recovery should come sooner or later. If an investor has a longer investment horizon with little liquidity requirement, it may be a good timing now to accumulate good quality equities.

Last but not least, "*Coronavirus will not overcome us*". It is just a matter of time.

TABLE 1: Global Stock Markets Performance

	2020 Q1 Return		2019 Full year Return	
Indexes	**Local Currency**	**USD**	**Local Currency**	**USD**
S&P 500	-19.60%	-19.60%	31.48%	31.47%
Nasdaq Composite	-13.91%	-13.91%	36.74%	36.74%
STOXX Europe 600	-25.59%	-26.98%	27.75%	25.26%
DAX	-25.01%	-26.61%	25.48%	22.95%
CAC 40	-26.15%	-27.85%	30.45%	27.91%
Nikkei 225	-19.29%	-18.45%	20.69%	22.37%
Hong Kong Hang Seng	-15.88%	-15.47%	13.01%	13.64%
Hang Seng China Enterprises	-14.08%	-13.67%	14.50%	15.13%
Shanghai Stock Exchange Composite	-9.83%	-11.34%	25.30%	23.76%
Shanghai Shenzhen CSI 300	-10.02%	-11.53%	39.19%	37.48%
Singapore Straits Times	-22.58%	-26.90%	9.38%	10.88%
Korea KOSPI	-20.16%	-24.17%	8.38%	4.46%
Taiwan TWSE	-18.87%	-19.79%	28.79%	31.50%
India SENSEX	-28.35%	-32.29%	15.66%	13.17%
Indonesia JCI	-24.25%	-37.82%	4.17%	8.71%
Thailand SET	-27.95%	-34.06%	4.26%	13.26%
Russia RTS	-34.30%	-34.30%	56.46%	56.46%
Brazil IBOV	-36.86%	-51.24%	31.58%	26.91%
S&P Pan Arab Composite	-23.34%	-23.34%	12.42%	12.42%
MSCI World	-20.93%	-20.93%	28.44%	28.44%

Source: Bloomberg (as at 31/03/2020)

TABLE 2: Major Currencies Performance (In terms of USD)

	Change in 2020 Q1	Change in 2019
Currencies	**In terms of USD**	
Euro	-1.62%	-2.22%
British Pound	-6.31%	3.94%
Japanese Yen	0.99%	0.99%
Hong Kong Dollar	0.52%	0.52%
Chinese Renminbi (CNY)	-1.68%	-1.22%
Australian Dollar	-12.68%	-0.40%
New Zealand Dollar	-11.63%	0.31%
Singapore Dollar	-5.35%	1.26%
South Korean Won	-5.11%	-3.49%
Taiwanese Dollar	-0.67%	2.25%
Indian Rupee	-5.51%	-2.25%
Indonesian Rupiah	-14.98%	3.78%
Thai Baht	-8.63%	8.61%
Russian Ruble	-20.95%	12.46%
Brazilian Real	-22.58%	-3.87%

Source: Bloomberg (as at 31/03/2020)

Review Highlights and outlook around the globe

United States

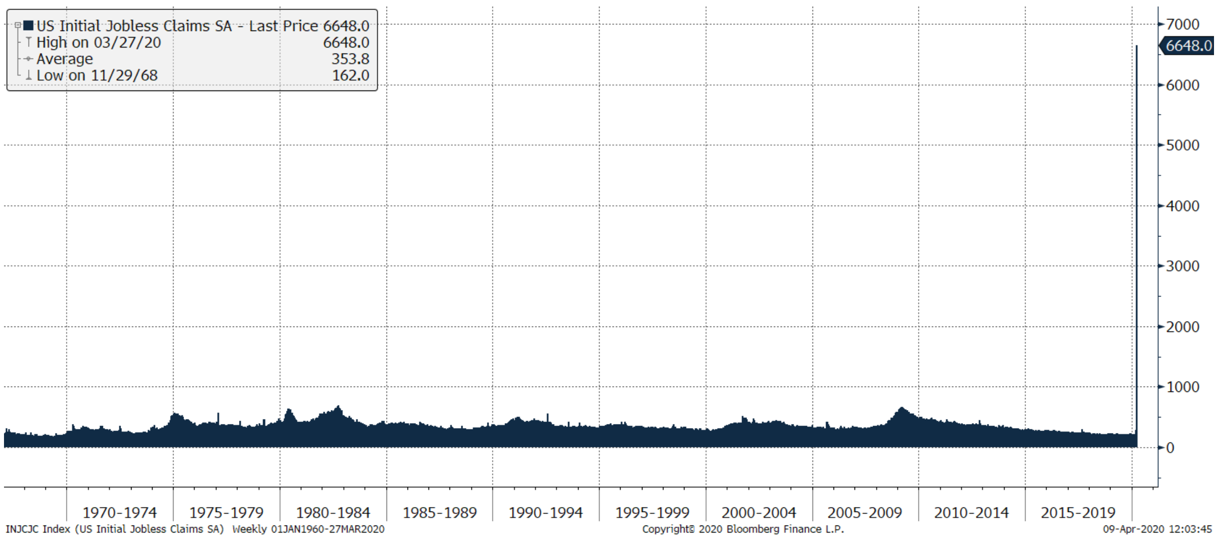
- All the recent released economic data turned to a downward trend due to the COVID-19 pandemic. The March ISM Manufacturing PMI fell to 49.1 from 50.1 in February, reflected a contraction in the manufacturing sectors. New orders for manufactured goods slumped in March, the ISM's new-orders index fell 7.6 points to 42.2% — the lowest level since the end of the 2007-2009 Great Recession.

- At the same time, the ISM Non-Manufacturing PMI also fell to 52.5 in March from 57.3 in the previous month. Although it beat the market forecasts of 44, it was still the weakest expansion in the services sector since August 2016 and the largest monthly drop since September of 1997.

- The University of Michigan's consumer sentiment for the U.S. was revised down to 89.1 in March from 101 in February. It was the lowest reading since October 2016 and the fourth largest one-month decline in nearly a half century. Both current conditions (from 114.8 to 103.7) and consumer expectations (from 92.1 to 79.7) fell sharply.

- According to the Bureau of Labor Statistics, the unemployment rate rose to 4.4% in March, up from a 50-year low of 3.5% in February as the U.S. lost 701,000 jobs. The official monthly jobs report was compiled by using data collected before 14th March, it is believed that the job reports in the coming months would be horrible as the initial jobless claims in the last two weeks of March soared to record high.

EXHIBIT 3: The initial jobless claims soar to record high in the last 2 weeks of March

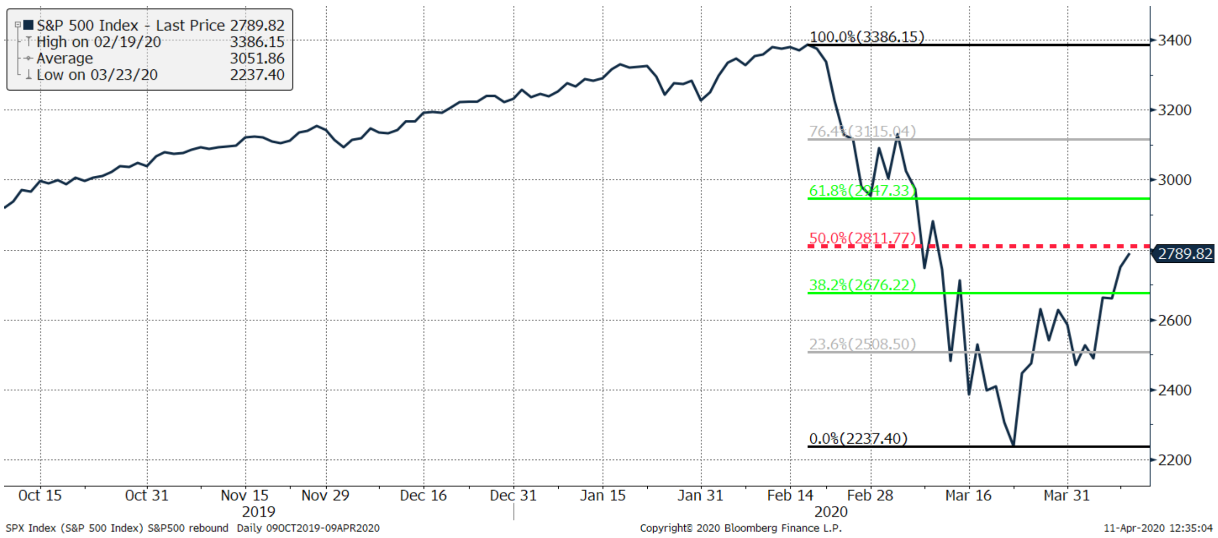


Source: Bloomberg (as at 31/03/2020)

- The U.S. economy was sliding, more than 1/4 of the U.S. economy has been grounded to a halt in recent weeks as the COVID-19 pandemic shuttered nonessential businesses and generated millions of layoffs and furloughs across the country. Some economists even predicted that the unemployment rate will jump to 15% while the GDP will fall at an annualized rate of 30% in the second quarter. To encounter the upcoming economic harshness, the U.S. Congress passed a historic $2 trillion stimulus package, the Federal Reserve also cut the interest rate to zero and promised to purchase an unlimited amount of Treasury and mortgage-backed securities in order to support the fragile financial market.

- The U.S. stock market was very volatile recently. While the S&P 500 took only a month to fall 30% since 19th Feb, it also rebounded quickly. As of 9th April, the S&P 500 has almost recovered 50% of the loss from the lowest point on 23rd March. It is thought that the rally was mainly contributed by the massive fiscal and monetary stimulus and the optimistic expectation of the slowdown of COVID-19 crisis in the U.S. Do we see the light at the end of the tunnel? In our point of view, it seems that the rally may not be sustainable as the global economy is entering into recession, corporate earnings may fall, we expect the market volatility will continue in the near term and we should be cautious in the period of chaos.

<u>EXHIBIT 4: The S&P 500 has almost recovered 50% of the loss from the lowest point on 23rd March</u>



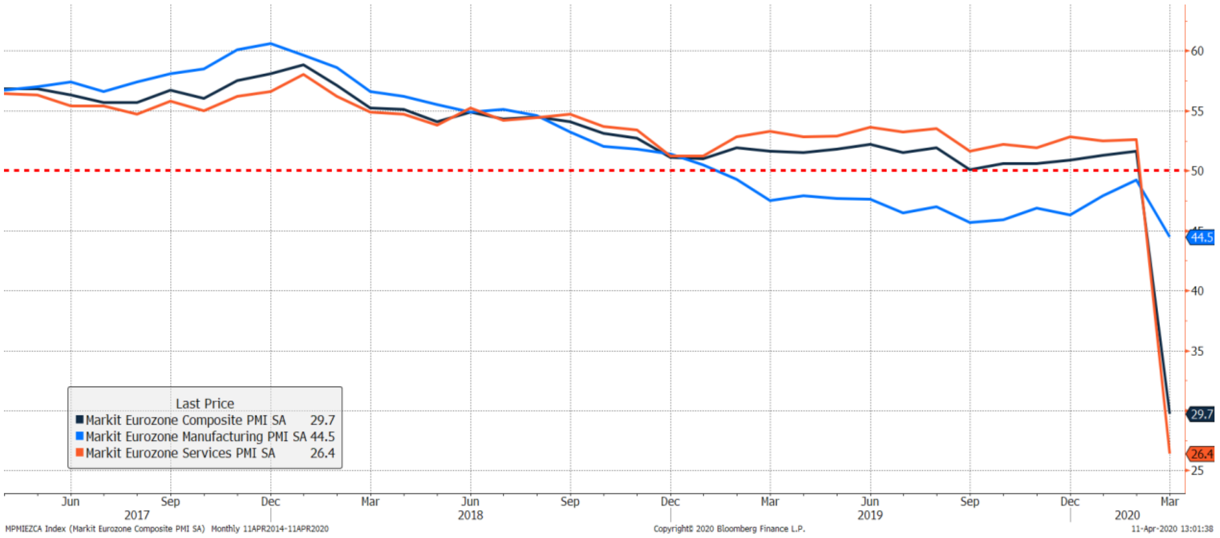
Source: Bloomberg (as at 31/03/2020)

Europe

- The consumer confidence indicator in the Euro Area was confirmed at -11.6 in March 2020 from -6.6 in the previous month. The 5-point decline was the largest on record, led by the expectations of the deterioration of the general economic situation.

- Europe is in the eye of the storm of the COVID-19 pandemic, Governments across Europe step up efforts to contain the rapid spread of Covid-19, both manufacturing and services activities have almost grounded to a halt due to the lockdown measures in the region. The IHS Markit Eurozone PMI Composite Output Index recorded its biggest ever single monthly fall in March to hit a survey record low of 29.7.

EXHIBIT 5: The Euro zone is sinking into the biggest economic crisis in its history



Source: Bloomberg (as at 31/03/2020)

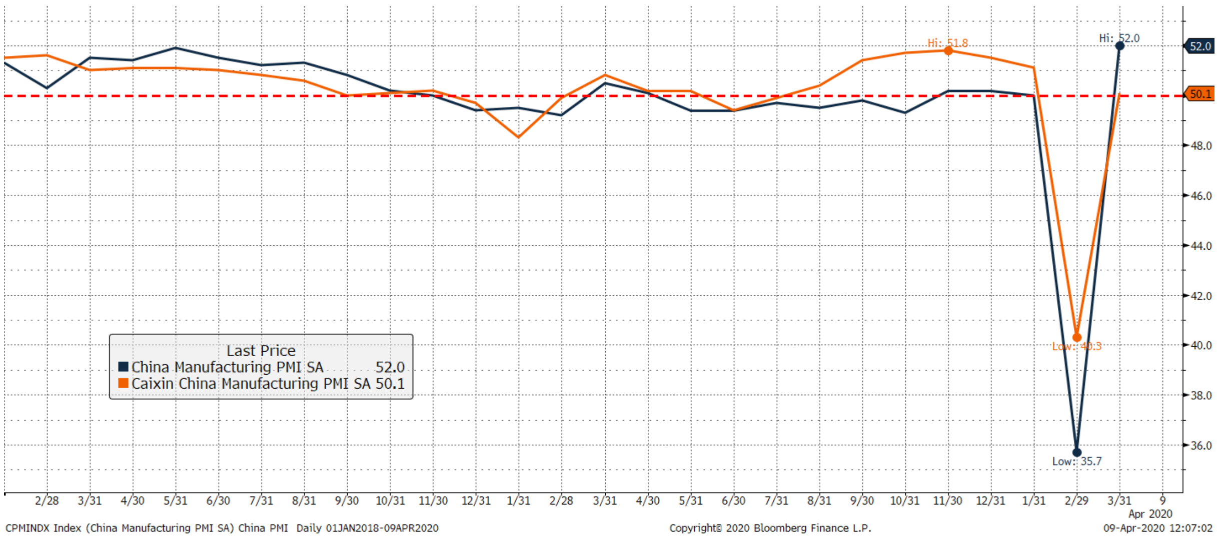
- The European Central Bank ("ECB") announced to launch an €750 billion emergency private and public bond purchase scheme dubbed Pandemic Emergency Purchase Programme ("PEPP") on 19th March. The programme will continue at least until the end of this year and will end only when the "crisis phase" is over. Greek debt and non-financial commercial papers will be included in the bond-buying program for the first time. In addition, the Eurogroup finance ministers also agreed on a near €500 billion package to help offset the economic impact of the COVID-19 on 9th April which included €100 billion to subsidize wages and $200 billion to raise lending to companies.

- Before the outbreak of COVID-19, the European economy was lack of growth and the ECB has already re-launched its Quantitative Easing program in November 2019. After the spread of the virus, most of the European countries have experienced lockdowns to various degrees and almost all economic activities in the region have been halted. Like the U.S. and other major economies, the European Union and ECB launched a huge fiscal and monetary stimulus. However, many countries in the Euro zone like Italy, Spain, etc. are already highly-indebted. The combination of more debt and weak growth may cause further economic divergence among the Euro zone countries.

Asia

- Both the official and Caixin Manufacturing PMI rebounded from the record low level in March and returned to expansion zone. However, the readings did not signal a stabilization in economic activity as the biggest problem facing China's economy in the second quarter is the slumping foreign demand.

<u>**EXHIBI 6: Both the official and Caixin Manufacturing PMI rebounded from record low level in March**</u>



Source: Bloomberg (as at 31/03/2020)

- Profits earned by China's industrial firms plunged 38.3% year-on-year to CNY 0.41 trillion in January-February 2020. This was the steepest decline in industrial profits in a decade as the economy battled with the COVID-19 epidemic. Profits at state-owned industrial firms slumped 32.9% while those at private-sector tumbled 36.6%.

- In Japan, the au Jibun Bank Japan Composite PMI fell to record low at 36.2 in March 2020 due to the COVID-19 outbreak. The service sector shrank at the steepest pace in the survey history due to plummeting tourism, business event cancellations and supply-chain disruption. In addition, factory activity contracted the most since April 2009, as businesses halted production amid the restriction in the movement of people and goods.

- The COVID-19 pandemic hurts every economy in Asia. Although almost all Asian stock markets fell to recent-year low, as the impact of COVID-19 and pace of recovery may vary from country to country, their investment attractiveness are not the same across the board. Those developing countries in South East Asia seems to be more vulnerable as their financial positions are relatively weak. For example, Indonesia which is the largest economy in Asean, its local currency, Indonesian Rupiah has depreciated around 15% against the USD since the beginning of the year which was the worst performing Asian currency. Thailand, the second-largest economy in Asean, will likely contract by 4.8%

this year according to the latest forecast from the Asian Development Bank as the country suffered from the slump in tourism. Not surprisingly, the MSCI Asean Index fell to the lowest level since 2009.

EXHIBIT 7: The MSCI Asean Index fell to the lowest level since 2009

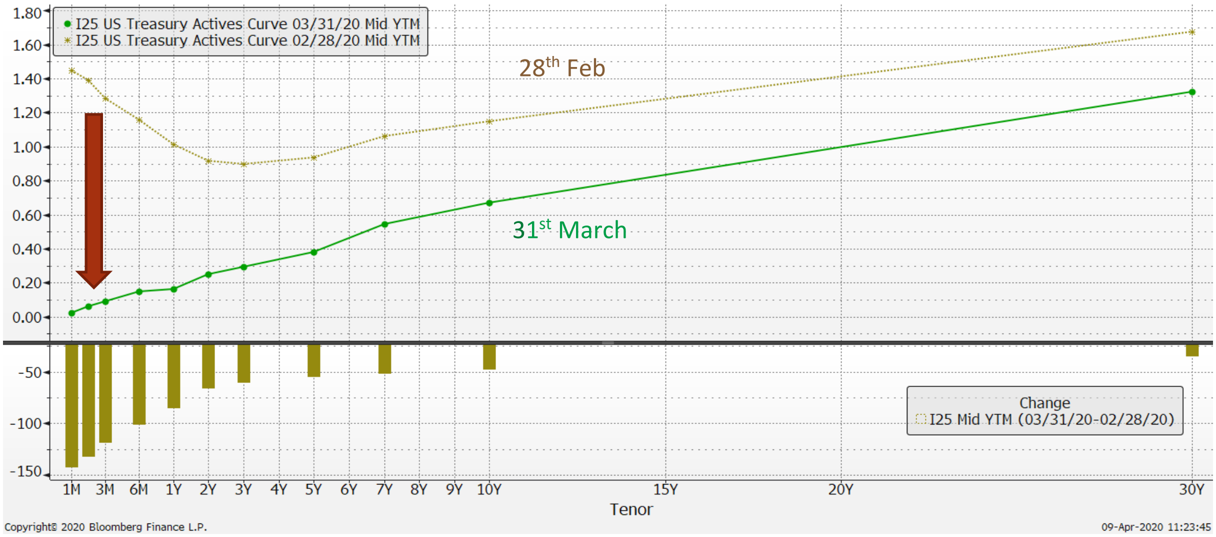
Source: Bloomberg (as at 31/03/2020)

Fixed Income

- The U.S. Treasury yields fell to historical low in the first quarter. Due to the COVID-19 pandemic and the slump of oil price, the threat of global recession is increasing. While the stock markets crashed, money was rushed into the U.S. Treasury for safety reasons. At one point, the 10 -year and 30-year treasury yields have been dropped to the record low of 0.3137% and 0.6987% respectively.

- The yields of short-term treasury bills, which move in step with the federal funds rate, have also fallen dramatically since the federal funds rate has been cut to zero. Skyrocketing demand for the short-term debt has even sent the yield of 1-month, 3-month and 6-month treasury bills to negative zone. On the whole, the yield spread between the short and long dated treasury bond was widened while the U.S. yield curve was steepened.

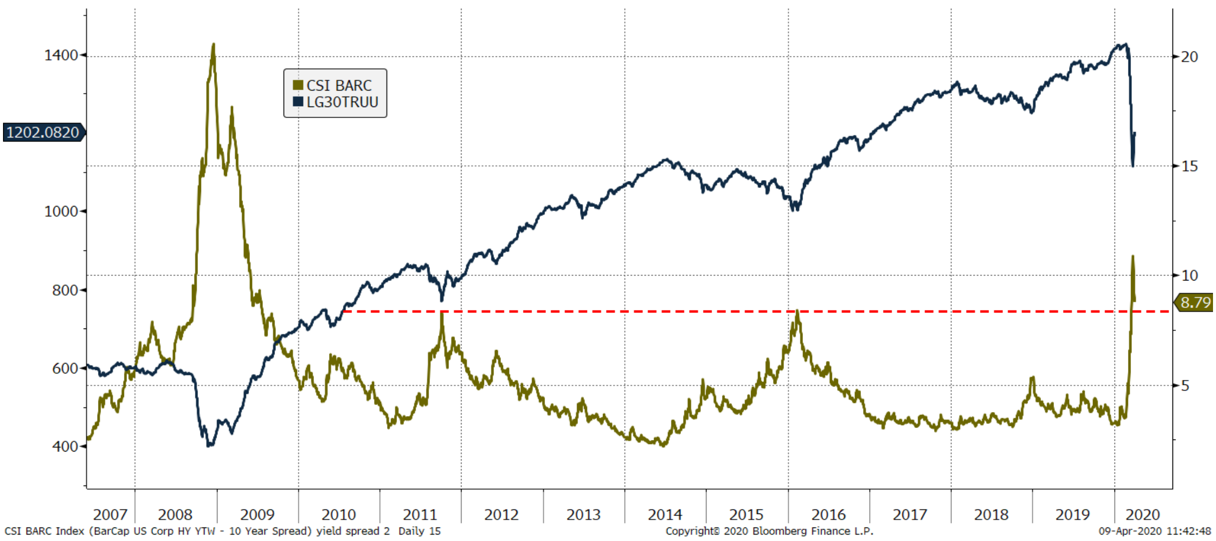
EXHIBIT 8: Yield spread between the short and long dated treasuries widened while the yield curve steepened



Source: Bloomberg (as at 31/03/2020)

- The Barclays Global High Yield Bond Index climbed to historical high on 21st February, however, it dropped over 20% only one month later. People worried the risk of global recession may lead to a high corporate default rate in the future. Also, the massive deleveraging activities also speeded up the plunge of high yield bonds. The yield spread between the US. Treasury and US high Yield debt rocketed to over 1,000 basis point which was the widest since the 2008 financial crisis.

EXHIBIT 9: Yield spread between the US. Treasury and US high Yield debt rocketed



Source: Bloomberg (as at 31/03/2020)

- On 9th April, the Fed announced to launch an additional $2.3 trillion new loan program. It will allow the Fed to buy debt issued from non-investment grade firms as long as they were rated as investment grade on March 22nd. Besides, high yield bond ETFs are also included in the program as well. Although the new program may not stop companies from defaulting, this helps high-yield companies to manage borrowing costs easier. It is believed that Fed's new policy may help to narrow the yield spread between the high yield bond and U.S. treasury and avoid further downward pressure of high yield bond price.

Commodities

- "Cars are not on the road, planes are not in the air, factories are shut down and people work from home." Because of the COVID-19 pandemic, global oil demand is set to suffer its worst contraction on record this year. At the same time, the OPEC and Russia failed to agree oil cut in early March and both parties even threatened to increase production. Not surprisingly, oil price collapsed over 60% in the past 3 months to 18- year low.

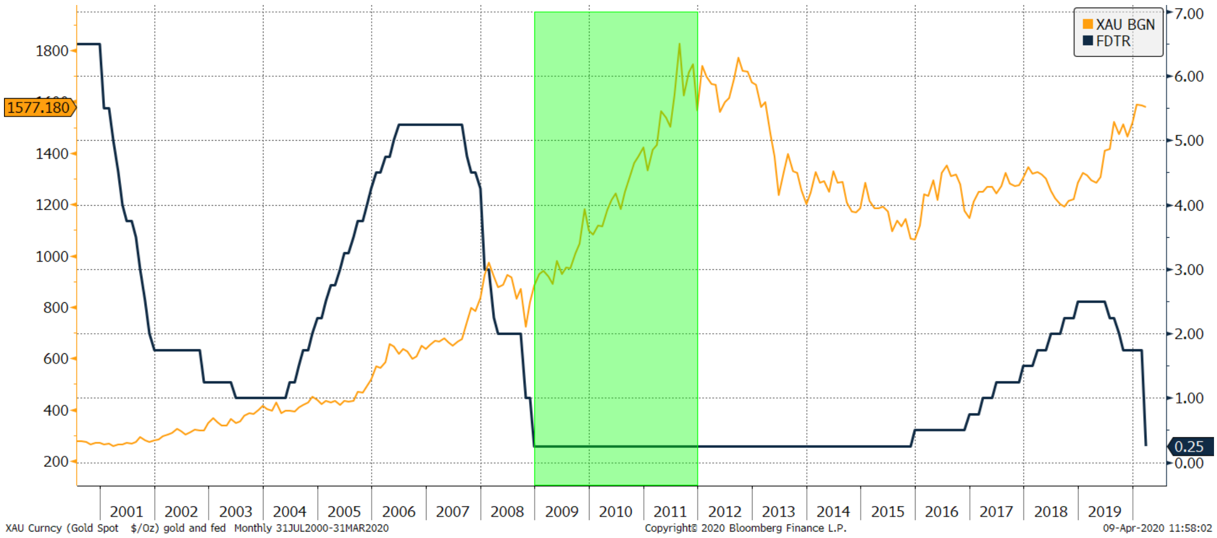
EXHIBIT 10: Oil price collapsed to 18-year low

Source: Bloomberg (as at 31/03/2020)

- Oil price may find a temporary relief as the OPEC and Russia agreed a record cut in oil production with fellow oil nations, including the United States, to curb global oil supply by 20% on 11st April. The OPEC and its alliance will reduce output by 9.7 million barrels per day ("bpd") in May and June. After that, the cuts will shrink to 7.7 million bpd for the rest of the year, and then 5.8 million bpd from January 2021 through April 2022. The 23-nation group will meet again on June 10 to determine if further action is needed.

- The first 3 months of 2020 was another positive quarter for gold, with the price rose 4% in USD term and it was the 6th consecutive quarter of price gains. Since it is believed that the central banks around the world will maintain loose monetary policies for a very long time due to the current economic and financial market uncertainties, the long-term upward trend of gold prices may go on.

EXHIBIT 11: Gold price rallied when the Fed Fund Rate fell to 0-0.25% during the period between Year 2009 and 2011



Source: Bloomberg (as at 31/03/2020)

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