ARIA | CAPITAL

INVESTMENT INSIGHT

A weekly look inside the investment world.

> ***Abnormally good or abnormally bad conditions do not last forever.***
> *Benjamin Graham*

Friday, 29 May 2020

In this week's Investment Insight

A new generation
While we have seen unprecedented levels of Monetary and Fiscal intervention globally, in Europe support has not yet incorporated a move toward joint funding…until now. The European Commission's "Next Generation EU" plan may herald a historic EU turning point. We have seen investors react enthusiastically this week, with European equities performing strongly. In this week's *Inside Track* we look at it from a multi-asset investor's perspective.

Disenfranchised
The average US worker must now work 126 hours to buy a single share of S&P 500 index. In 1980 it was 20. Is this just an interesting statistic or is it symbolic of something more fundamental such as the disenfranchisement of the US workforce? In *Pic of the Week* we take a look.

Newswire
Some interesting nuggets from this week's newswires.

Market view
A visual snapshot of recent market performance.

The Inside Track: The beginning of the end

JPMorgan's Thushka Maharaj, Executive Director of Global Strategist Multi-Asset Solutions, believes that the "Next Generation EU" plan unveiled by the European Commission could be a real game changer for Europe.

The plan is impressive: a temporary fund backed by future EU budgetary resources with funds disbursed as grants, not loans, frontloaded in the next few years and allocated based on need and not size. The proposal, publicly endorsed by German Chancellor Angela Merkel and French President Emanuel Macron, allows the EU to finance this fund by borrowing in markets, with the debt expected to be repaid through future EU budget revenues.

While important details have yet to be defined, this proposal could provide a model for debt mutualisation and eventually pave the way for European fiscal integration. The new funding structure could emerge as a key feature of a new EU financial architecture. We see the Franco-German proposal as a clear step toward the creation of a euro-wide safe asset and expanded fiscal capacity.

We were positively surprised by the proposal for a few reasons:

- The proposal was proactive (it was unveiled amid no specific market-related stress) and it appears aimed at tackling the anti-euro sentiment building in southern countries – especially Italy.

- The proposed amount of EUR 500 billion is greater than the initial amount discussed (EUR 300 billion).

- It suggested a focus on grants, not loans.

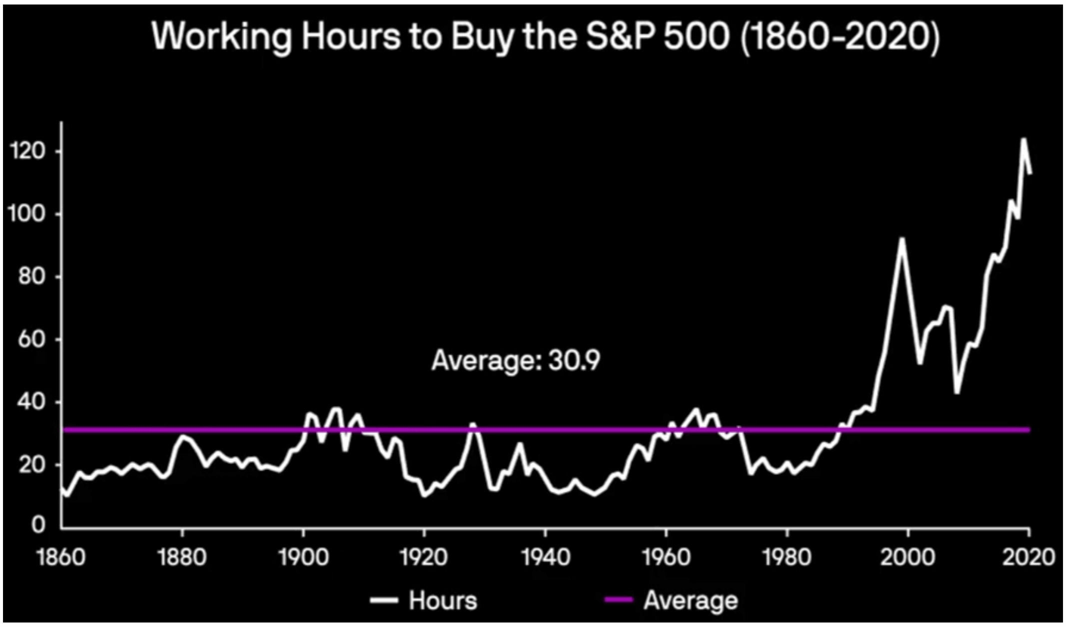
- It proposed allocating financial resources to the most affected sectors and the most vulnerable countries (based on need and independent of a country's size).

European assets have been volatile for the last few years. This is partly a function of the equity market's dependence on global sentiment. But the volatility mostly reflects the fragility of Europe's institutional framework, which has dragged on economic growth, persisted as a headwind for the euro, helped to keep core bond yields low and the yield curve flat and, finally, weighed on equities.

European equities have lagged other cyclical markets in recent weeks but are now exhibiting high short-term beta to global equities. We expect that if a cyclical rotation in equity markets builds momentum, European equities will likely benefit strongly.

Pic of the Week: Disenfranchised

Since the early 1990's it has taken the average US worker more than 30 hours of labour to earn enough to buy a single share of the S&P500. That compares to well under 20 hours for much of the preceding 120 years. While this is to some extent of symbolic significance only, it does point to the real fact that asset prices have inflated far more than the purchasing power of average workers has increased over the last thirty years. With the current raft of money printing serving to further engorge financial asset values, currency and/or earnings debasement should only increase. This scenario plays into the growing commentary around the long-term social disruption that may be stimulated by the coronavirus experience, and it's not just an academic concept. Politicians take note!



Newswire

...on Monday
Japan considers fresh stimulus of $1 trillion.

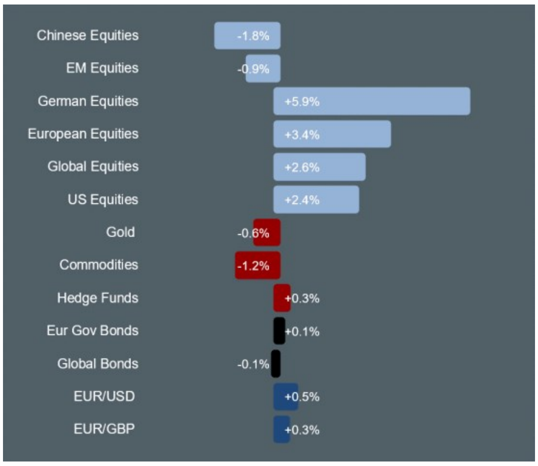
...on Tuesday
Brazil suffered its most aggressive deflation for at least 26 years according to the latest measure of consumer prices.

...on Wednesday
€750 billion recovery scheme proposed by European Commission.

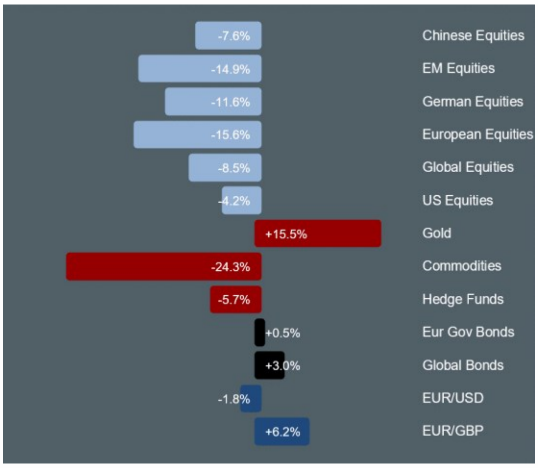
...on Thursday
Chinese parliament approves Hong Kong security bill.

Market View

Last 7 days (€)



Year to date (€)



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