



Financial
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Market Insights

August 2020



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Global Economy

- **The coronavirus pandemic is accelerating** and the world has not reached the peak of the global outbreak, the chief of World Health Organization warned. As of the end of July, the pandemic has infected more than 17M people and killed more than 660K worldwide
- However, **the possibility of approving a vaccine as early as 2020 is becoming more and more real**, in light of positive data released over the past month, which indicate significant progress on a number of fronts. In addition, progress has been made in developing rapid test kits as well as drugs to treat coronavirus
- The acceleration in economic recovery, which gained momentum from mid-April to mid-June, brought activity in some developed countries to pre-crisis levels. However, **since mid-June the pace of recovery has flattened** as leading European economies stand out while the UK and US lag behind
- After rising sharply from the April low, **the price of oil has stabilized in the past month at a level above 40\$ a barrel**. Uncertainty about the global economic recovery, due to second virus wave and concerns about over-supply, prevent the price of oil from climbing further. Although it is not inconceivable that a breakthrough in the development and **approval of drugs and vaccines to treat the coronavirus will push the price of oil to 50\$ a barrel** and even higher later this year
- **Renewal of tensions between China and the US** following the mutual closure of consulates **raises fears of a further rapid deterioration in relations** between the two superpowers. China reported a turning point in economic activity with positive growth in Q2, following a contraction in Q1 for the first time since 1992. China was the first to enter the crisis and the first to emerge from it, but rising tensions will make it difficult to generate strong economic momentum, especially when domestic demand is weak



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United States

- **The coronavirus death toll in the US topped 150K** as the number of new infections stabilizes. It is becoming increasingly clear that the future economic route is closely linked to the spread of the virus and the ability to live alongside it until effective treatment is found
- **The US GDP plummeted an annualized 32.9% in Q2**, the worst performance since 1940s, as stay at home orders and social distancing in March through April, brought economic activity to a standstill
- As restrictions lifted, the initial recovery was rapid, but **a resurgence of virus cases** has led several local governments to pause or reverse reopening plans, actions that **prevent the economy from returning to pre-pandemic levels** of activity
- **Decision makers** led by the Fed understand that the crisis will last longer and are therefore **determined to support the economy in all the variety of tools** available to them. The Fed left interest rates unchanged and Fed Chairman, Jerome Powell, said the data “are pointing to a slowing in the pace of the recovery”. The Fed also stressed that interest rates would remain near Zero “until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals”
- Expanded unemployment-insurance benefits, a second round of stimulus checks, and increased Monthly benefits are three measures contained in the **Health and Economic Recovery Omnibus Emergency Solutions Act** that was passed by the House in May but **has yet to clear in the Senate**. This bill is critical as it responds to the coronavirus outbreak and its impact on the economy. The bill will enable households to survive once their one-time stimulus payments and the \$600 weekly payments expire at the end of July
- Unlike the 2008 financial crisis, **the real estate sector is the bright spot in the economy**. Already deleveraged consumers, all time low in mortgaged rates and huge inflows of cash to households, provide the real estate sector a huge amount of support



- **Eurozone suffers 40.3% annualized contraction**, greatest drop on record
- **EU leaders have agreed on an unprecedented 750B € incentive package** aimed at rescuing Europe's economy from the worst recession since World War II while strengthening ties between the 27 EU member states. The historic agreement passed unanimously, led by German Chancellor Angela Merkel and French President Macron
- **The incentive package consists of 390B € in grants and 360B € in low-interest loans**, with almost a third of the funds earmarked for the war on climate change, and together with the union 1T € budget for the next 7 years, constitutes the largest green incentive package in history. **The recovery package would be financed by joint EU debt issuance, marking a major step toward further economic integration in the bloc**
- The scope of the program, its purpose and the financing mechanism were received with sympathy among investors, who have been wishing for fiscal consolidation for years. As a result, it can be expected that the change in sentiment towards investments in Europe in general and in the Euro currency in particular, which has begun in recent months, will intensify
- The European Commission's incentive program, together with the individual member states programs and the massive 1.35T€ intervention by the ECB, are currently providing sufficient support to the economy. However, the Eurozone economy is not out of the woods yet as economic activity is still lingering well below its pre-pandemic levels and setbacks are expected due to further outbreaks of the virus



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Israel

- After an impressive recovery in May and June, **the Israeli economy experiencing a setback**, as a result of the spread of the virus, since the rapid and uncontrolled opening of the economy. The BOI has downgraded its growth forecast for 2020 to contraction of 6% and an unemployment rate of 9%. In the event of another closure, the economy is expected to shrink by 8.9%
- As part of the Financial Stability Report issued by the BOI, the crisis hit the weak populations hard, which is why the **risk to the financial systems increases**, especially with the completion of the outline for mortgage extensions
- Indeed, **W-shaped recovery is the name of the game in the local economy** as a sharp improvement in consumer confidence and in civil resilience during May was replaced by a deterioration in June and July. A similar pattern can be identified in the labor market, which showed an impressive improvement in May and June when **the unemployment rate fell from a level of over 20% to a level of only 12.3%**. However, as early as the second half of June, the rapid return of workers to the labor force was halted, and in July there was a renewed aggravation, with more and **more workers leaving the labor force again**
- **The government's slow and hesitant assistance** to businesses and households **is turning the health crisis from a liquidity crisis to a crisis of insolvency**, as more than 85K businesses are expected to go bankrupt during 2020, double the normal rate
- On the budget front, the picture is also not pleasing, when according to the latest forecast of the BOI, **the deficit in 2020 will reach 12% and the debt-to-GDP ratio is expected to jump to 75% or more**. Political disagreements currently prevent the government from holding an in-depth discussion of priorities as part of the budget formulation and as a result no difficult decisions are made, hence the Israel credit rating downgrade is inevitable



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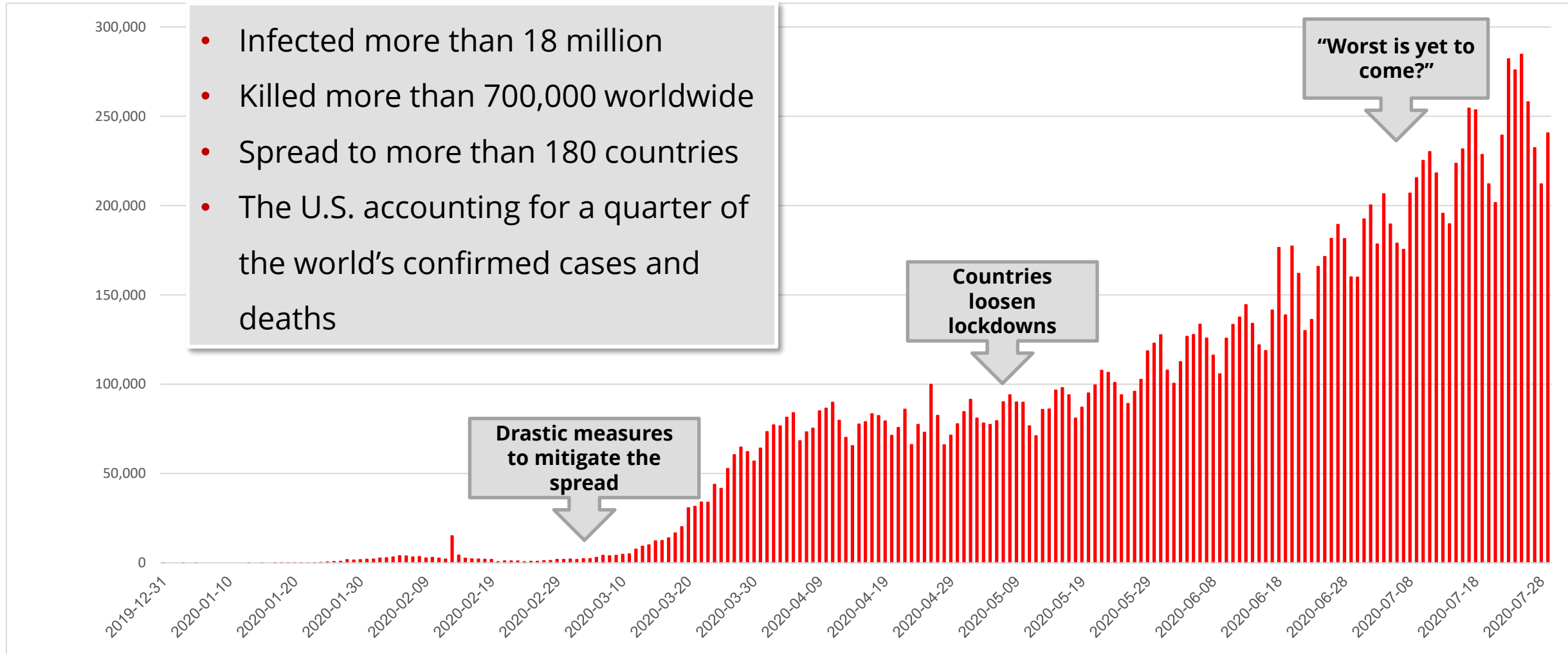
Global Economy



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Coronavirus Meter

Global Cases Added Per Day





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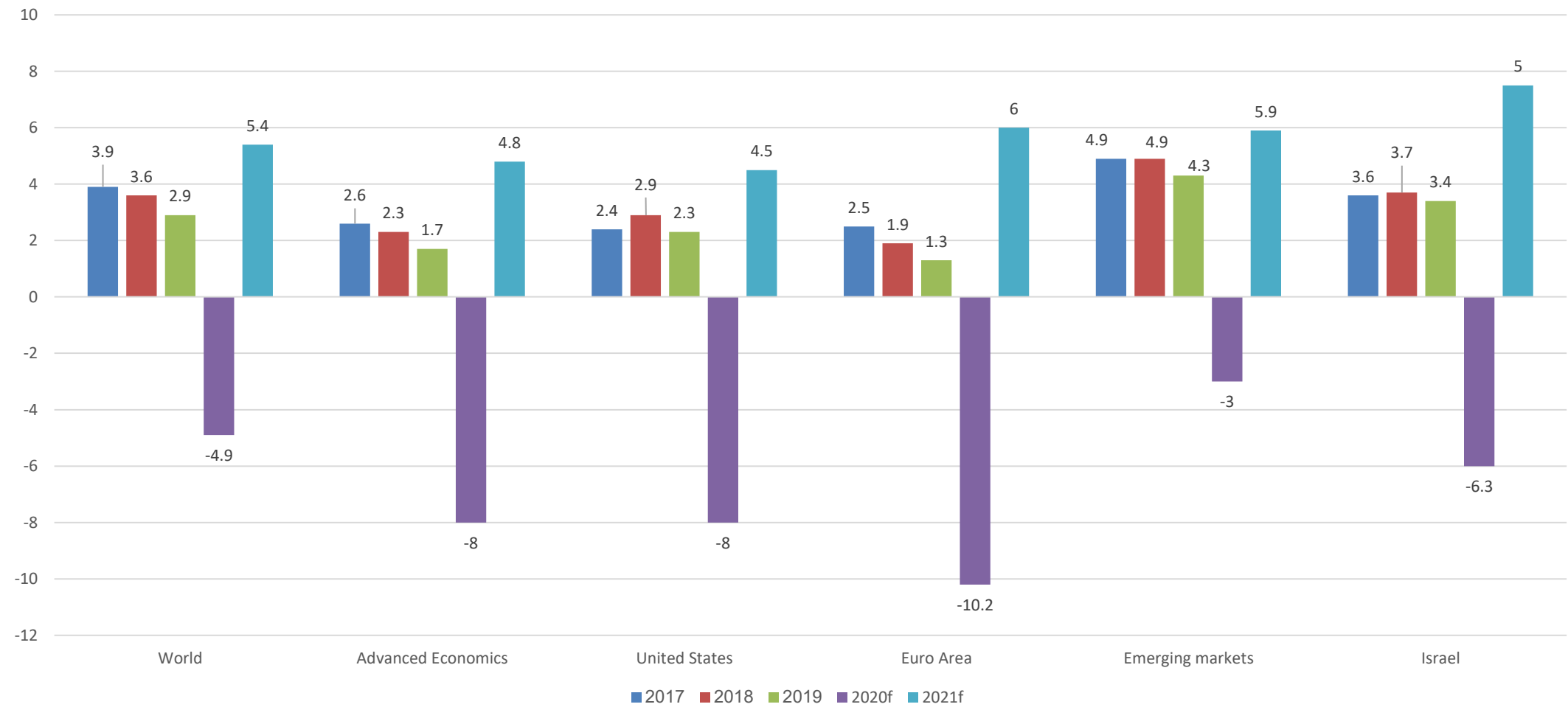
Stimulus Tracker

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 (%)

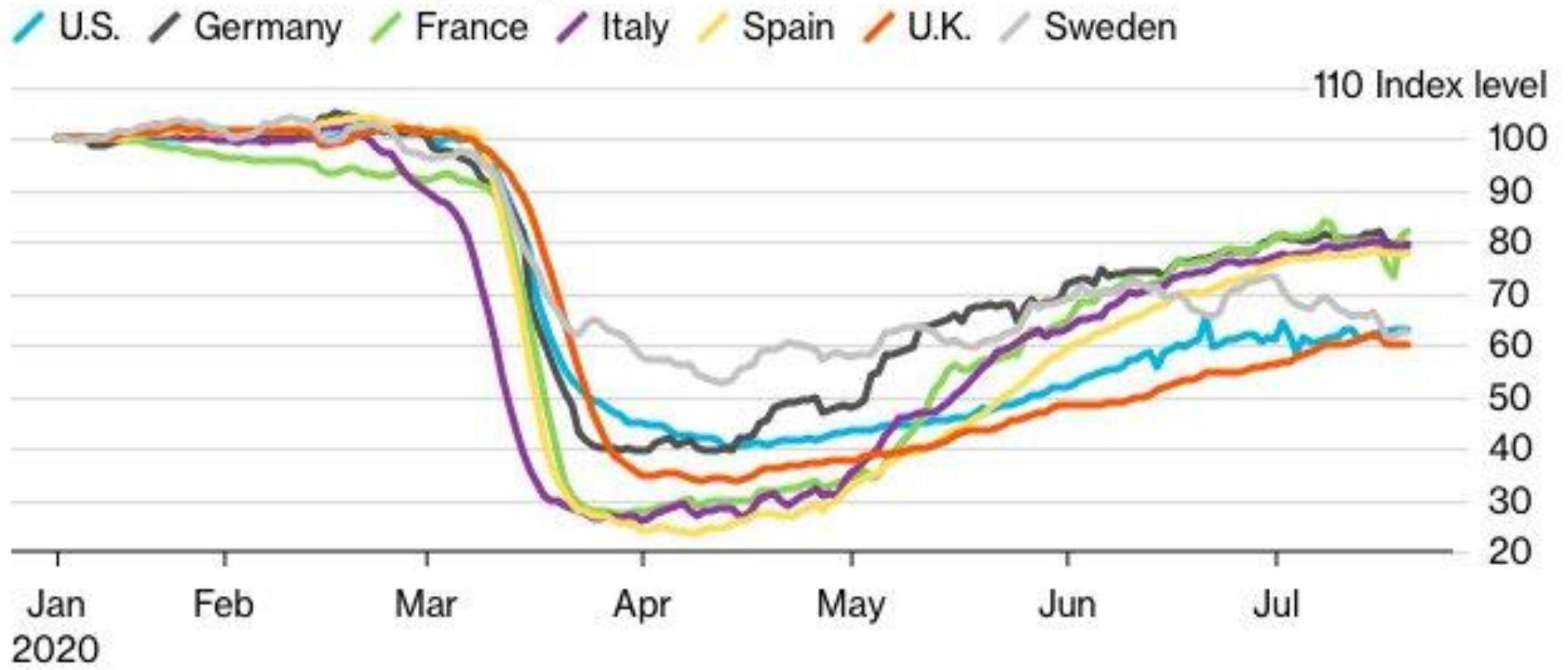




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Europe takes the Lead in Economic Recovery.....

Daily Activity Indices

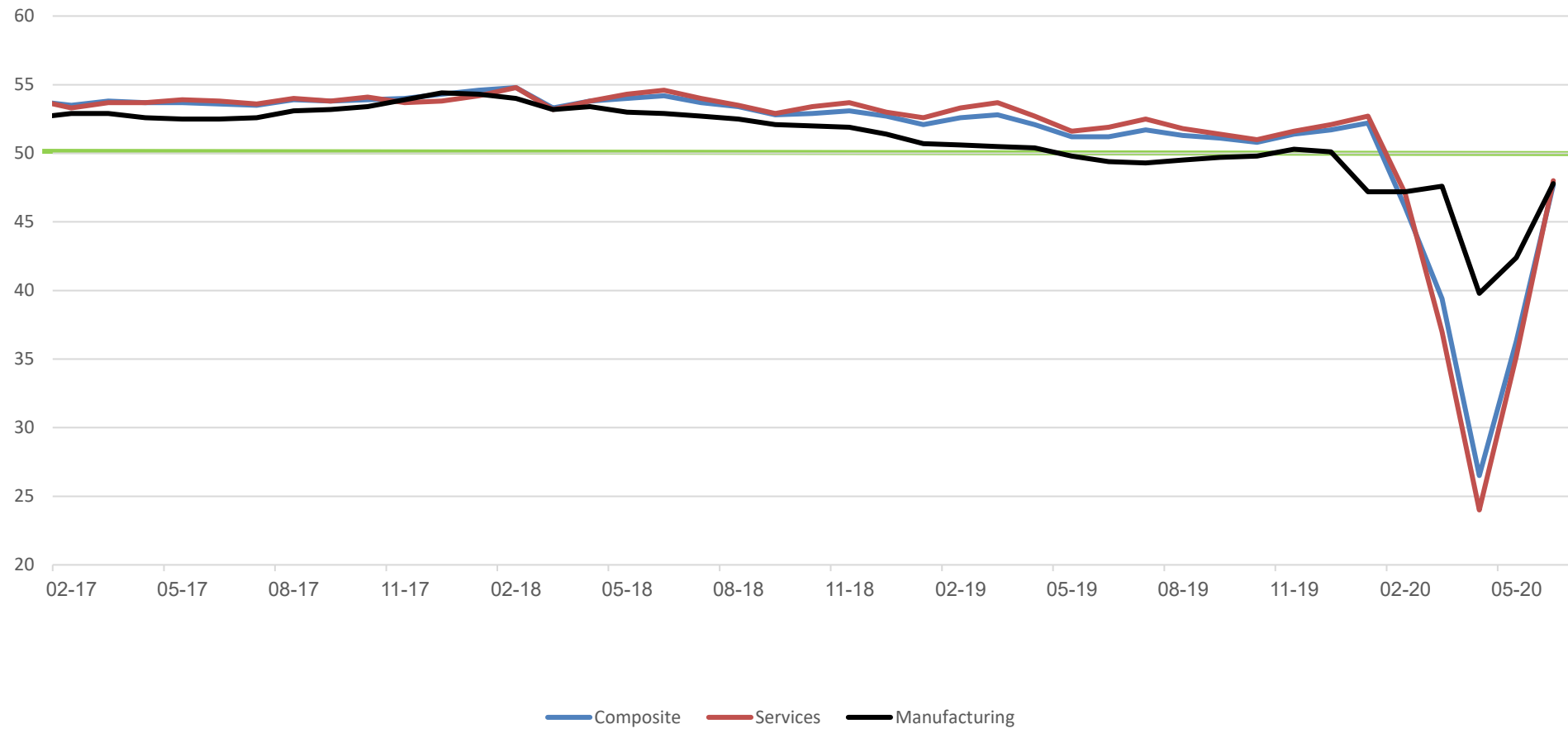




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V Shape Recovery?

Global PMI





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US Economy



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Core Economic Indicator

Economic Indicator	Latest Figure	Reference Period
Growth Rate	-32.9%	Q2-2020
Unemployment Rate	11.1%	June -2020
Inflation Rate (Core PCE, YoY)	0.9%	June -2020
Central Bank Interest Rate	0%-0.25%	July -2020
10 Years Yield	0.53%	July-2020
Ratio of Surplus in Current Account to GDP	-2.13%	Q1-2020
Ratio of Public Debt to GDP	107.82%	January- 2020



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Economic Indicators are Better than Expected

Citi Economic Surprise

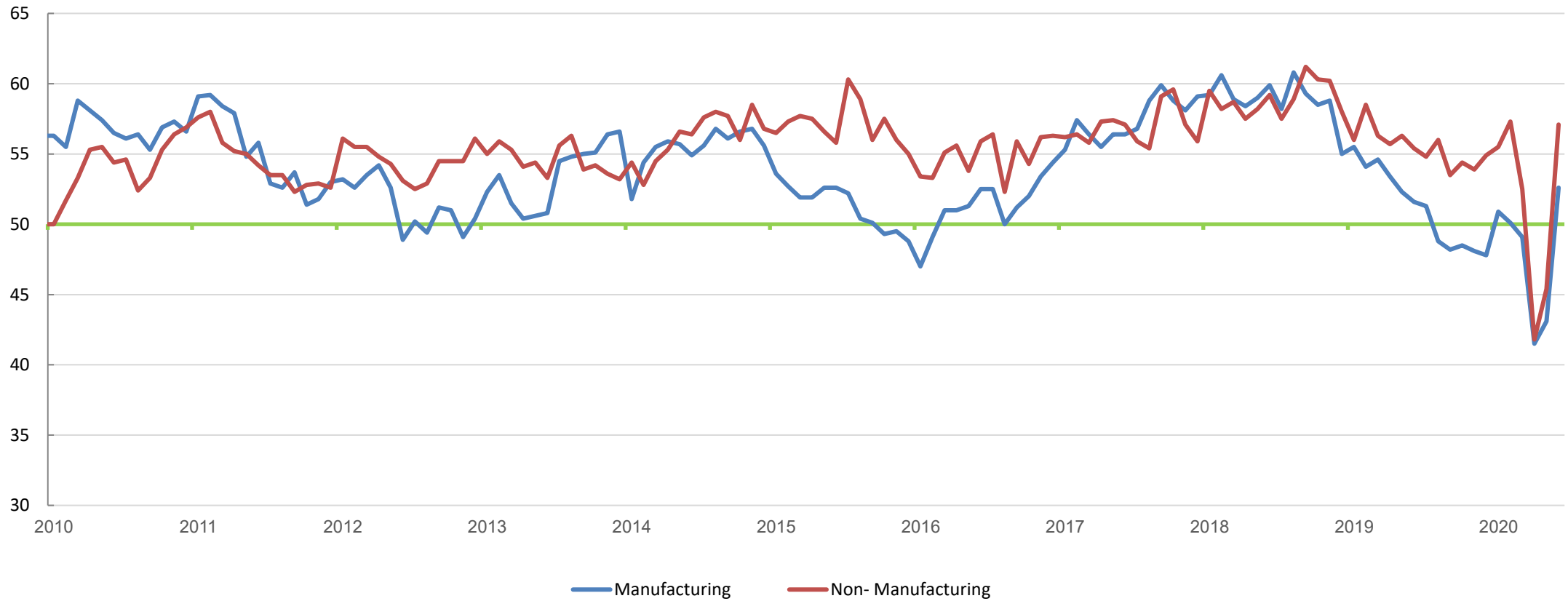




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Sharp Recovery

ISM





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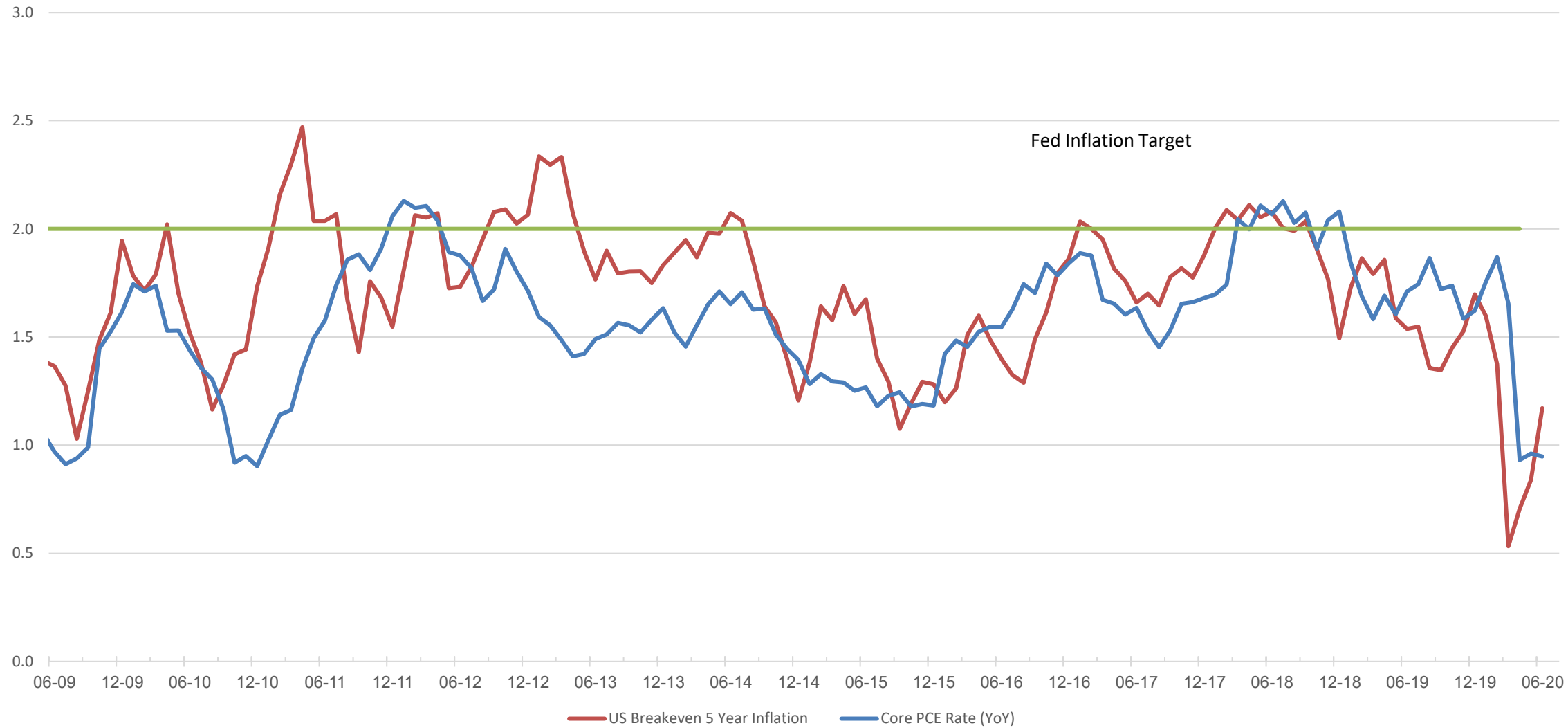
The Road for Labor Market Recovery is Long...

Unemployment Rate





Low Inflation for Now





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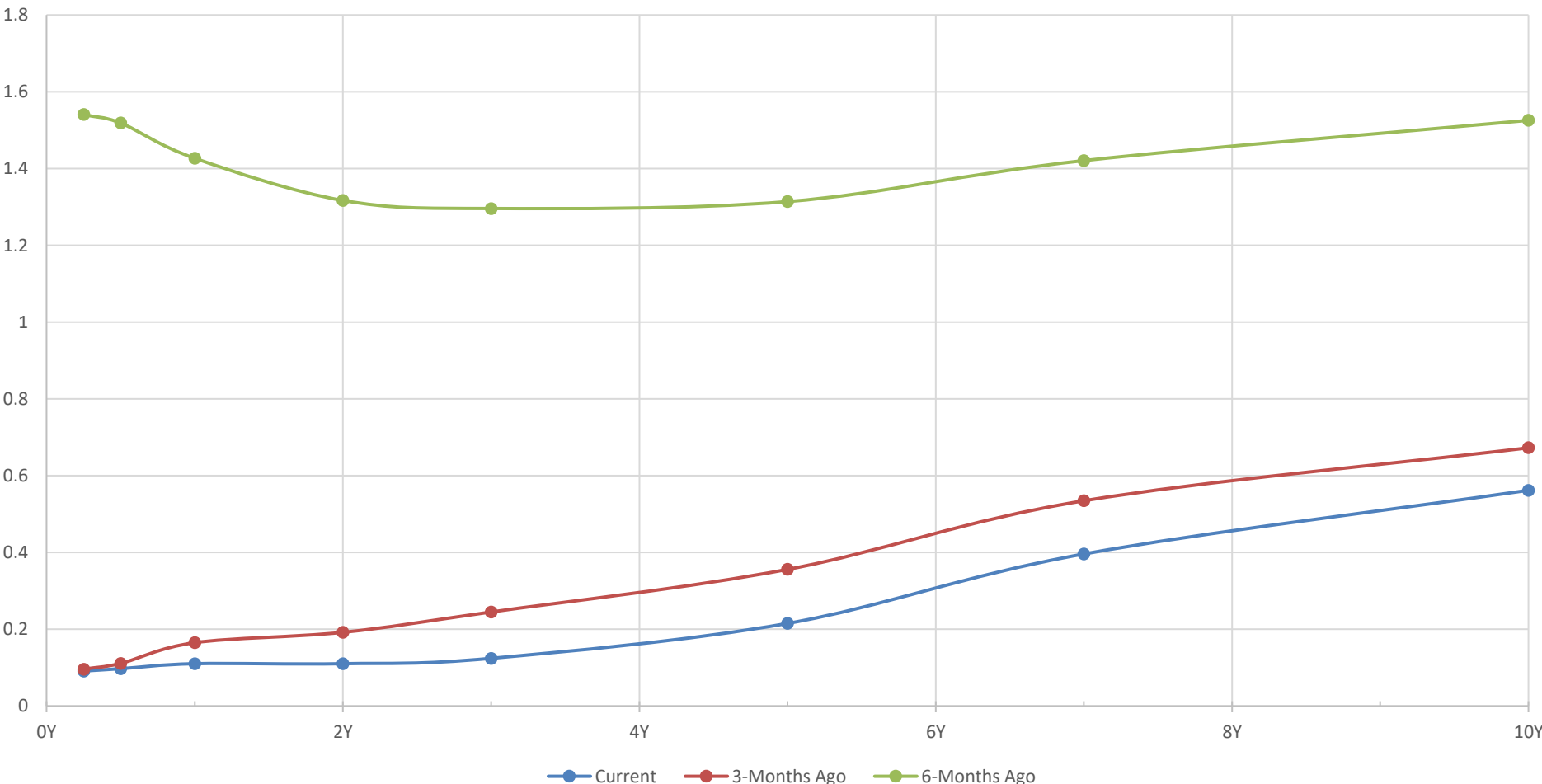
Yields are Stabilizing at Lowest Levels Ever

10YR Treasury Yield to Maturity





US Treasury Yield Curve

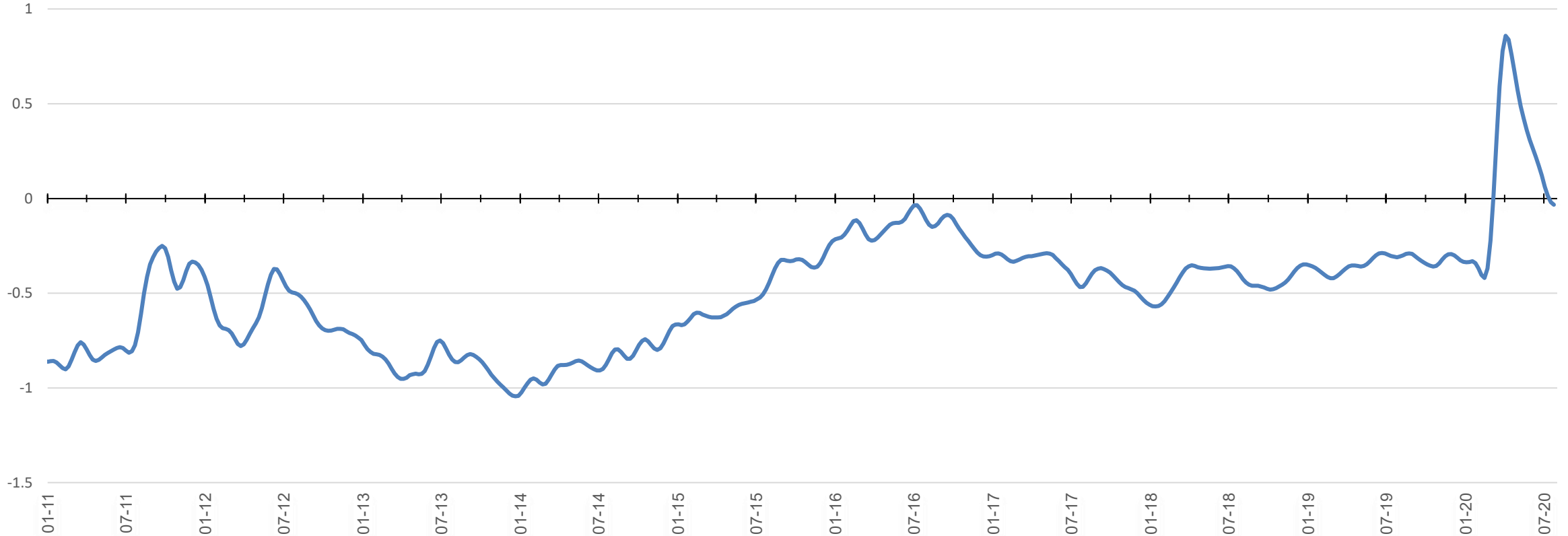




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The Monetary Conditions are No Longer Tight

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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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	-40.3%	Q2-2020
Unemployment Rate	7.8%	June-2020
Inflation Rate (Core, YoY)	1.2%	July-2020
Central Bank Interest Rate	0.00%	July-2020
10 Years Yield (Germany)	-0.52%	July-2020
Ratio of Surplus in Current Account to GDP	2.83%	Q1-2020
Ratio of Public Debt to GDP	86.30%	Q1-2020



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The Economy is Improving Much Faster than Predicted

Citi Economic Surprise

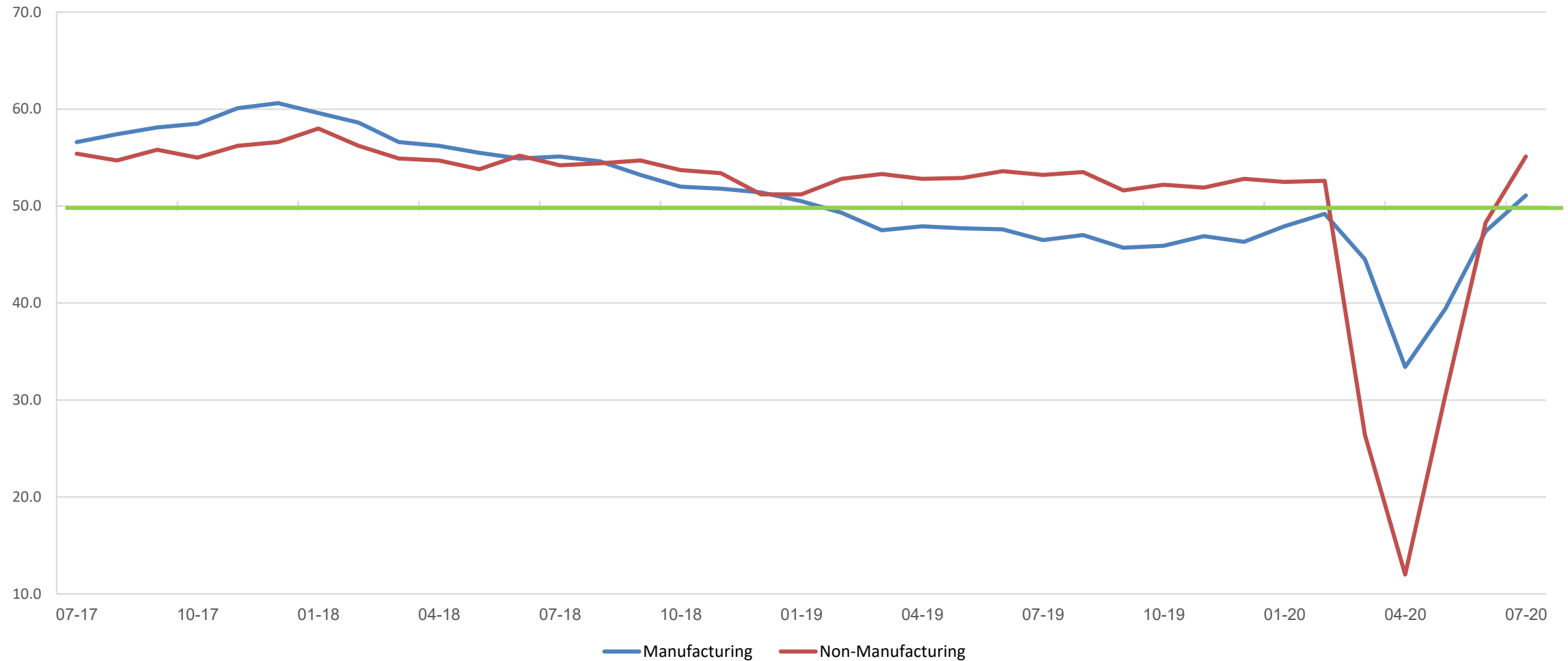




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The Business Sector is Back on Track

Manufacturing and Non-Manufacturing PMI





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Zero Inflation

CPI and Core CPI (YoY)

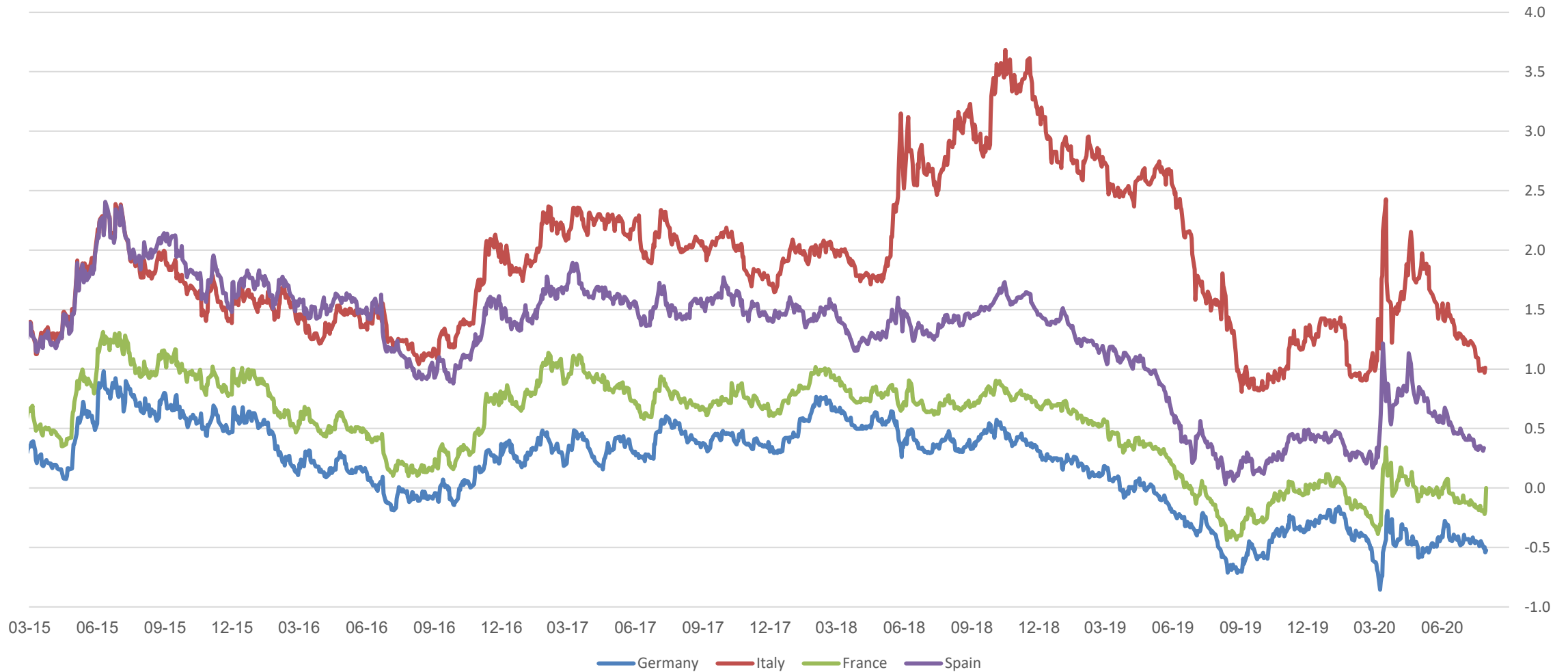




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Fiscal Consolidation = Yield Convergence

° 10YR Government Bond Yield °

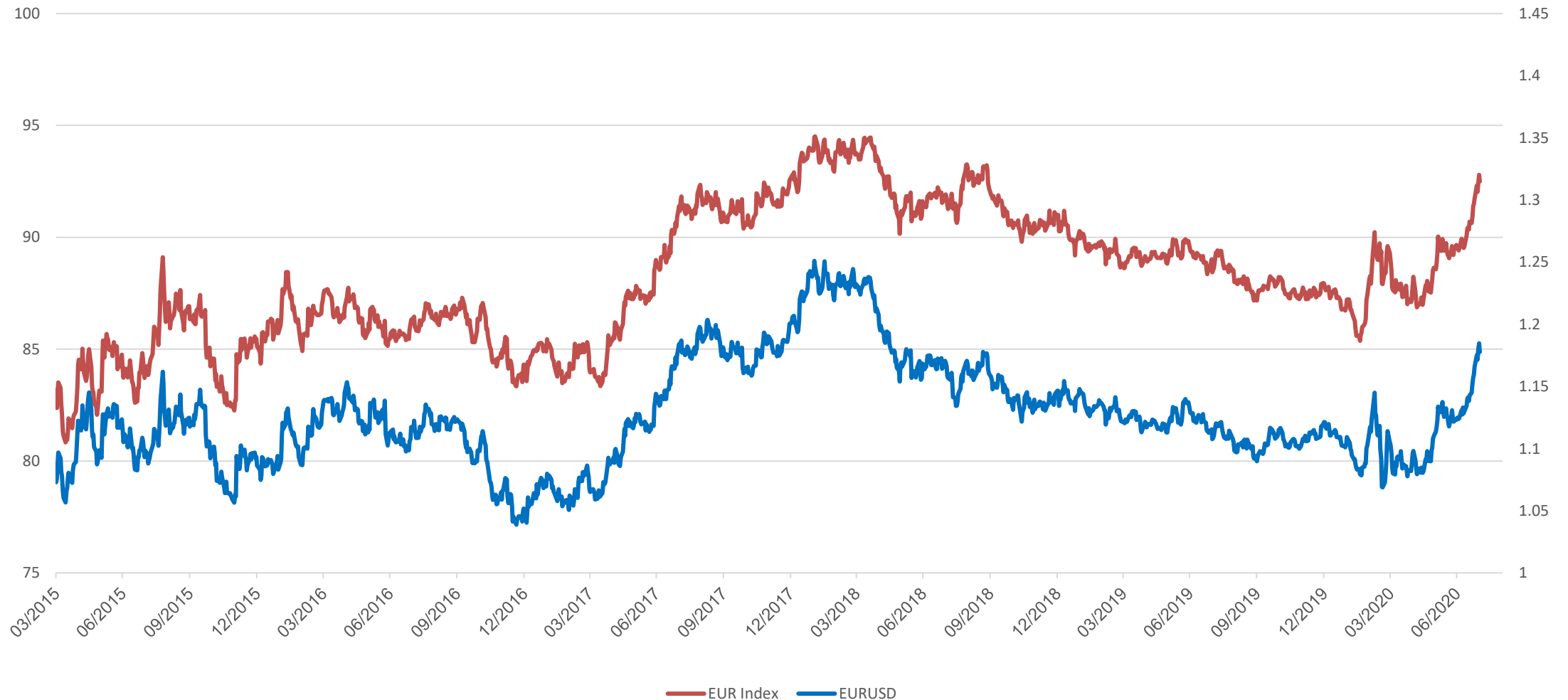




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The Euro is Gaining Momentum

EUR Index (Left) EURUSD (Right)





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Israel Economy



Core Economic Indicator

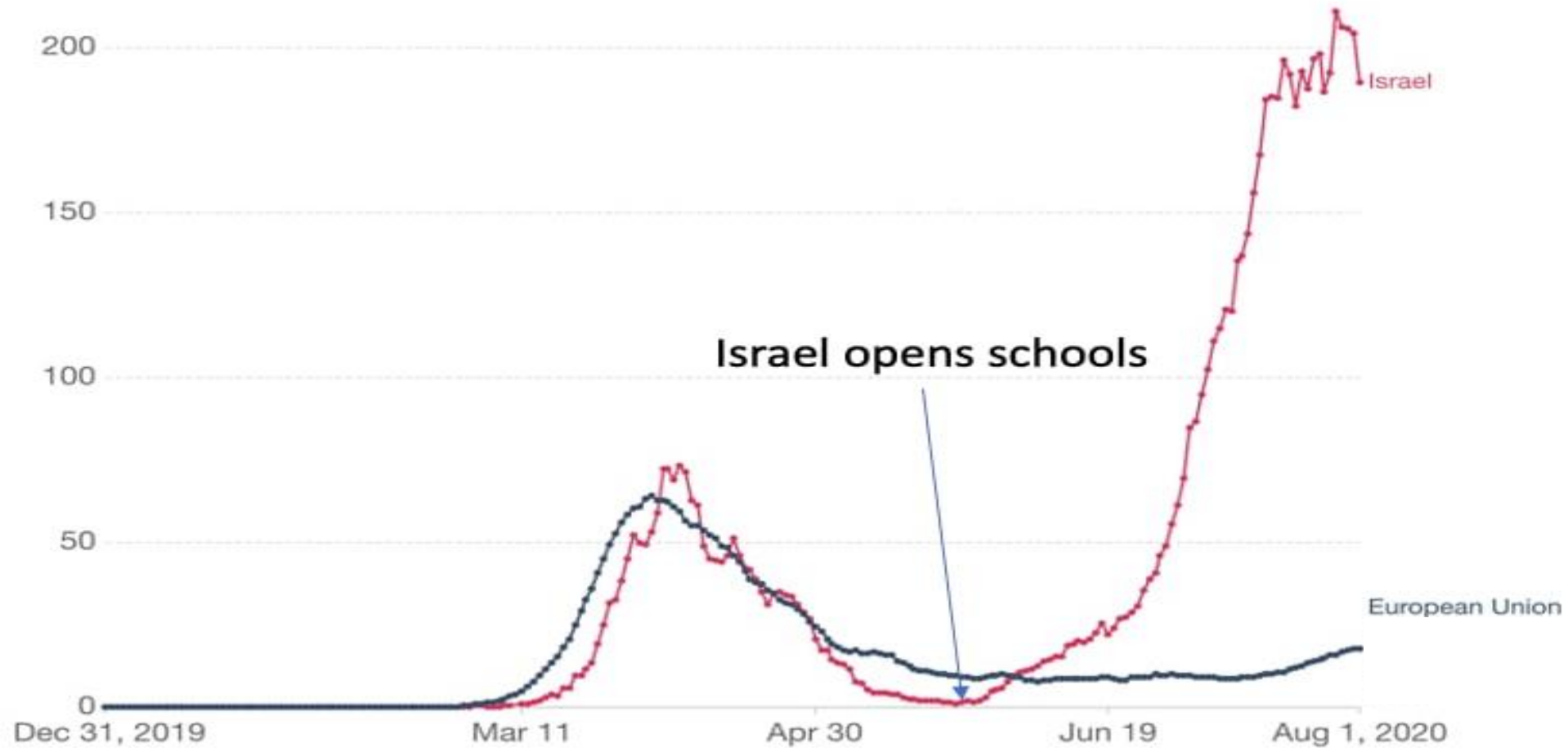
Economic Indicator	Latest Figure	Reference Period
Growth Rate	-6.9%	Q1-2020
Unemployment Rate	12.3%	June-2020
Inflation Rate (YoY)	-1.1%	June-2020
Central Bank Interest Rate	0.1%	August-2020
10 Years Yield	0.65%	July-2020
Ratio of Surplus in Current Account to GDP	3.57%	Q1-2020
Ratio of Public Debt to GDP	61%	Q4-2017



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Confronting with a Second Outbreak

Daily New Confirmed COVID-19 Cases Per Million People

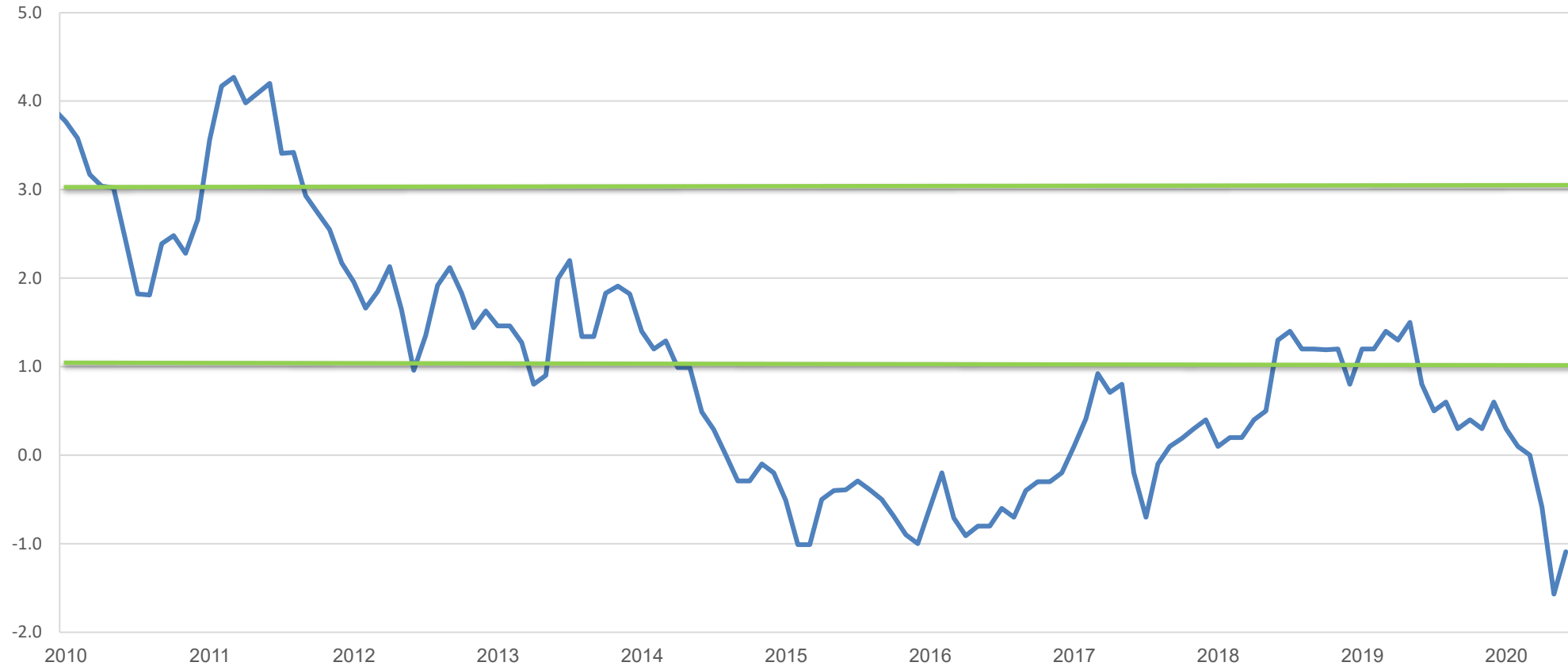




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The Lowest Inflation Since 2004

CPI (YoY)





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All Time Low

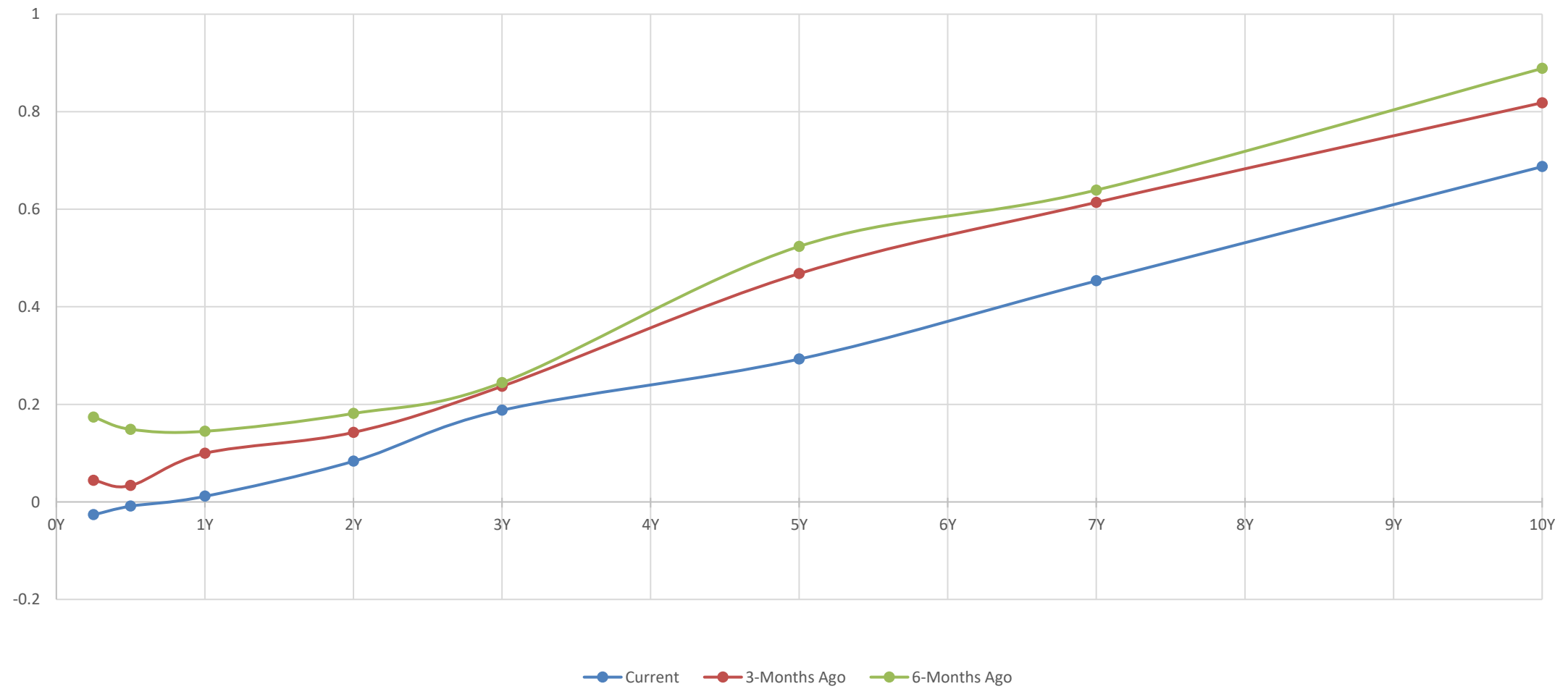
10YR Government Bond Yield





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Government Bond Yield Curve





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The Hedging Cost is Decreasing

USDILS 1YR Forward Premium

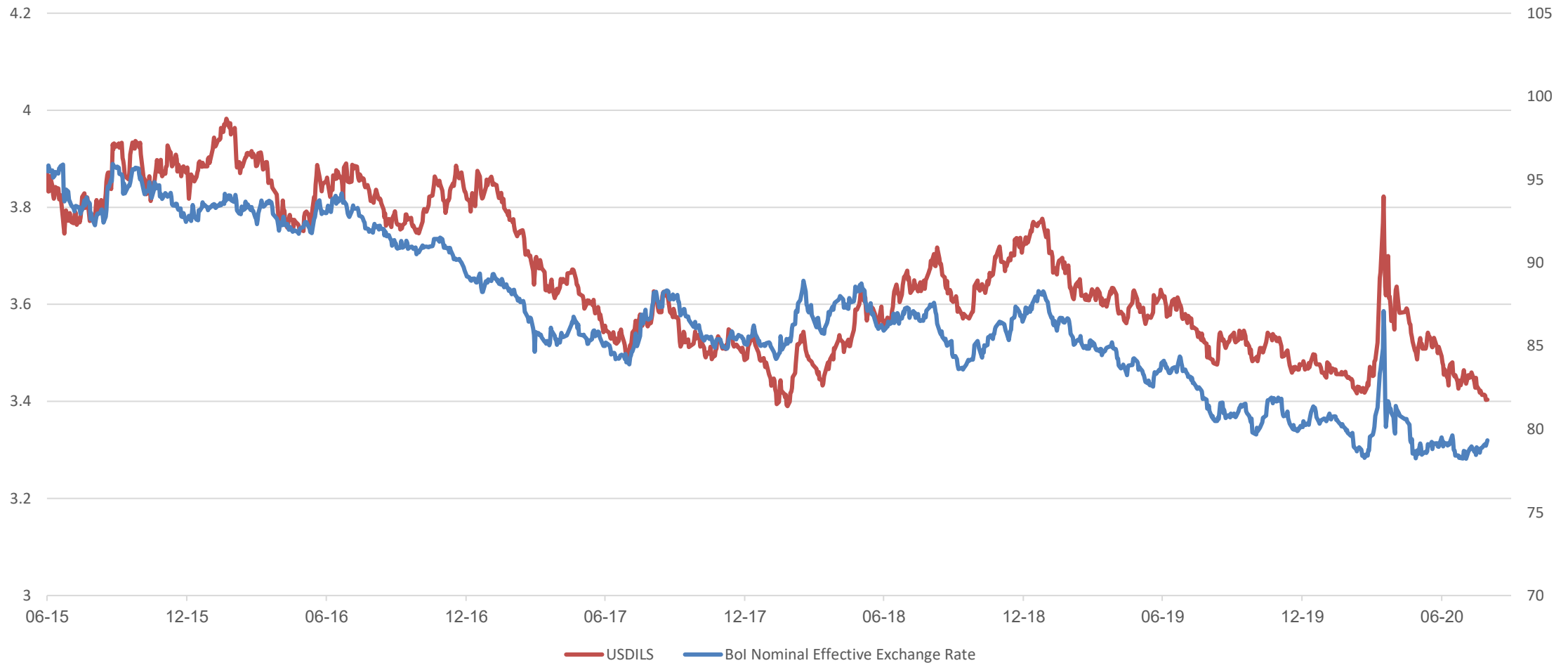




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The Shekel Decouples from the Economy

USDILS (Left) BOI Nominal Effective Rate (Right)





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Index Summary

Date	30/06/2020	31/07/2020	Change
USDILS	3.4643	3.4038	1.75%-
EURILS	3.8933	4.011	3.02%
GBPILS	4.2953	4.4542	3.70%
EURUSD	1.1234	1.1778	4.84%
GBPUSD	1.2401	1.3085	5.52%
USDJPY	107.93	105.83	1.95%-
DXY	97.391	93.349	4.15%-
USDILS BOI Nominal Effective Rate	78.69838	79.32681	0.80%

Date	30/06/2020	31/07/2020	Change
TA-125	1,325	1,381	4.22%
S&P 500	3,100	3,271	5.51%
DAX	12,311	12,313	0.02%
FTSE	6,170	5,898	4.41%-
HANG SENG	24,427	24,595	0.69%
NIKKEI 225	22,288	21,710	2.59%-
GOLD	1,781	1,976	10.94%
Crude OIL WTI	39.27	40.27	2.55%
CRB	417.74	436.46	4.48%



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CONNECTING THE RIGHT DOTS

CREATING THE RIGHT PICTURE