



MONTHLY PULSE

FRIDAY, 03 JANUARY 2020

REVIEW AND OUTLOOK

The year 2019 closed as a remarkable year. The fears at the end of 2018 were not self-fulfilling. The economy still went strong and the FED started a new quantitative easing program. Despite of 3 interest rate hikes expected, we had 3 interest rates cut in 2019. **Almost all asset classes were positive** with equity markets 30% up. A balanced mandate was up 15% in USD and 13% in EUR, whereas yield mandates performed 11% in USD and 10% in EUR.

Most of the central banks followed the FED and cut their interest rates. A remarkable example however is the Swedish central bank that started as a first central bank with negative interest rates and is now slowly back in positive territory. Not only were markets driven by better fundamental data and support of the central banks, but also the trading war between China and the US – at the year-end there was even a slight hope for a first agreement of a phase one deal.

Fixed Income Markets also did well. 17 Trillion of the fixed income markets are now yielding negatively. The 100y maturity **Austrian bond is clearly the best example as it performed 40% since the beginning of the year** – even better than equity markets. Also, credit spreads tightened further in this risk-on environment. We see higher yields only should further economic growth be realized or higher inflation. Both scenarios should be under control. **We still prefer higher duration in bonds, but overall a neutral allocation to bonds.** We also prefer credit risk as the economic data should be supportive.

Equity markets were driven rather by a price/earnings expansion than higher earnings growth. The leading indicators such as Purchasing Manager Indices or the interest

rate curves started to normalize again. An inverse interest rate curve normally correlates with a recession. **The presidential election will define together with Brexit and trading wars the geopolitical environment.** As probability increased that Elizabeth Warren might be the democratic candidate, equity markets reacted sharply. Especially the health care, banks and technology sectors increased significantly. However, earnings growth must pick up, otherwise we will see a bad awakening. **For equities we stay neutral** although it is difficult to find an interesting alternative to equities. Equities are more liquid than the fixed income markets, although more volatile.

In 2019 **trading ranges for major currencies were the narrowest since Bretton Woods system broke up in 1973.** Looking back, extreme low volatility occurred in 1996, 2007 and 2014 each period was followed by an explosion in price swings. Overall, **we expect this year a weaker USD despite the relative interest rate differential.** On the other hand, the slowly brightening of the global economy argues in favour of cyclical currencies such as the EUR. However, the continuing weak growth in the EZ remains a burden.

Gold has had quite of a journey upwards and retrospective the FED and the US-China trade war have been the two major forces in driving the gold direction last year. We expect **January and February to be positive for gold due to Lunar New Year period and seasonal patterns.** However, as things stand, there are a couple of reasons to not expect gold to overshoot: the FED is not seen cutting rates anytime soon, global economy is seeing some green shots amid the economic slowdown and trade negotiations have reached a temporary ceasefire.

TACTICAL ASSET ALLOCATION*

Liquidity	Neutral
Bonds	Neutral
Equities	Neutral
Alternative Investments	Neutral

EQUITY INDICATORS*

Valuation	Underweight
Momentum	Attractive
Seasonality	Attractive
Macro	Neutral

*no changes to previous month

Should you require further information or advise, please do not hesitate to contact your Clarus Capital relationship manager.

MARKET OVERVIEW AS OF FRIDAY, 03 JANUARY 2020, 12:11 PM

FIXED INCOME

	Rate	Δ 1m	Δ 3m	Δ ytd		Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Overnight	1.54	0.00	-0.28	-0.84	USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD 1y Swap	1.73	0.04	0.08	-0.03	USD Aggregate 1-3y	0.1%	0.2%	1.3%	0.0%
USD 3y Swap	1.60	0.11	0.25	-0.06	USD Aggregate 3-5y	0.0%	0.1%	1.7%	0.0%
USD 5y Swap	1.63	0.13	0.31	-0.09	USD Aggregate 5-7y	0.0%	0.0%	1.8%	0.1%
USD 10y Swap	1.78	0.16	0.34	-0.10	USD Aggregate 7-10y	-0.4%	-0.8%	2.5%	0.2%
EUR Overnight	-0.45	0.00	0.01	-0.09	EUR Overnight	0.0%	-0.1%	-0.2%	0.0%
EUR 1y Swap	-0.33	0.02	0.11	-0.01	EUR Aggregate 1-3y	0.0%	-0.3%	-0.3%	0.0%
EUR 3y Swap	-0.28	0.03	0.19	-0.04	EUR Aggregate 3-5y	-0.1%	-0.7%	-0.3%	0.1%
EUR 5y Swap	-0.18	0.05	0.24	-0.07	EUR Aggregate 5-7y	-0.2%	-1.2%	-0.1%	0.2%
EUR 10y Swap	0.11	0.06	0.28	-0.10	EUR Aggregate 7-10y	-0.4%	-2.1%	-0.2%	0.3%
CDX Xover 5y	2.75%	-0.57%	-0.93%	-0.05%	US Corp. HY	2.3%	3.3%	3.8%	0.1%
iTraxx Xover 5y	2.10%	-0.19%	-0.43%	0.03%	EUR HY	1.2%	2.2%	2.5%	0.1%

EQUITY

	Price	P/E	D. Yield	FCF yield		Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	6,961	17.3	2.4%	4.1%	MSCI World	5.1%	11.8%	8.2%	0.7%
S&P 500	3,258	18.7	1.9%	3.8%	S&P 500	5.3%	11.9%	8.7%	0.8%
NASDAQ	8,872	23.1	1.0%	3.8%	NASDAQ	7.5%	16.2%	12.9%	1.6%
Euro Stoxx 50	3,749	14.5	3.5%	6.6%	Euro Stoxx 50	3.8%	9.7%	5.9%	0.1%
SMI	10,595	16.7	3.2%	3.9%	SMI	1.0%	5.1%	7.0%	-0.2%
FTSE 100	7,558	13.4	4.5%	7.0%	FTSE 100	5.6%	6.8%	-0.7%	0.2%
DAX	13,141	14.0	3.2%	2.3%	DAX	1.2%	10.2%	4.2%	-0.8%
MSCI Asia Pacific	172	14.7	2.7%	4.1%	MSCI Asia Pacific	4.6%	10.6%	6.3%	0.7%
FTSE China A50	14,460	10.2	3.1%	8.7%	FTSE China A50	5.8%	6.6%	4.6%	0.5%
MSCI Emerging Market	1,128	13.3	2.9%	5.1%	MSCI Emerging Market	8.7%	13.7%	6.5%	1.2%
PH Semiconductor	1,888	21.5	1.6%	4.2%	PH Semiconductor	13.3%	22.1%	28.4%	2.1%

COMMODITY

	Price	FCST 19	FCST 20	Δ Future		Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	1,552	1387	1,500	-1.3%	Gold	5.0%	3.0%	9.2%	1.9%
Silver	18.27	16.2	17	-11.2%	Silver	5.9%	2.6%	17.4%	1.9%
Platinum	999	864	900	-13.0%	Platinum	8.9%	11.0%	17.1%	2.2%
Palladium	1,934	1502	1,575	-23.4%	Palladium	6.0%	19.2%	24.4%	1.3%
Crude Oil	63.69	57.0	56	-2.5%	Crude Oil	13.7%	22.7%	12.0%	4.3%
Brent Oil	69.08	64.0	60	1.7%	Brent Oil	14.9%	22.8%	10.5%	4.7%

FOREIGN EXCHANGE

	Price	FCST 19	FCST 20	Δ Spot		Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	1.1131	1.1100	1.1500	3.3%	EUR/USD	0.4%	1.3%	-1.3%	-0.9%
GBP/USD	1.3068	1.2900	1.3500	3.3%	GBP/USD	0.5%	5.6%	3.9%	-1.5%
USD/CHF	0.9739	0.9900	0.9700	-0.4%	USD/CHF	1.3%	2.5%	1.3%	-0.8%
USD/JPY	108.10	108.00	106	-2.0%	USD/JPY	0.4%	-1.2%	-0.2%	0.4%
EUR/CHF	1.0841	1.1000	1.1200	3.3%	EUR/CHF	0.9%	1.1%	2.7%	0.1%
USD/RUB	62.04	64.10	64.00	3.1%	USD/RUB	3.4%	5.0%	2.1%	-0.1%
EUR/RUB	69.06	71.10	73.60	6.4%	EUR/RUB	2.9%	3.7%	3.5%	0.9%

Source: Clarus Capital Group, Bloomberg



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IMPRESSUM

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