REVIEW AND ECONOMIC OUTLOOK

If a month ago, the world seemed unstable, now the situation looks plain unsustainable. As activity in the world began to pick up, the number of confirmed coronavirus infections exceeded 10 Mio. with the USA leading in absolute numbers. As if this were not dramatic enough, protests have been shaking the world for the past month, again, hitting the US particularly hard. Financial markets, however, still do not seem to be synchronised with the actual events: major indexes are around the levels they were a month ago, S&P 500 non-commercial futures positions have risen since the beginning of June, and even some of the fundamentals appear to pick up. Central banks and governments have thus far succeeded in supporting the economies. But how long will they be able to keep the cash flowing? And what will happen when the major layoffs, expected in the end of this year, start?

TACTICAL ASSET ALLOCATION

Liquidity	Overweight
Bonds	Neutral
Equities	Underweight
Alternative Investments	Neutral

MACROECONOMICS

The US initial jobless claims numbers have been going down every week since April, and the country's PMI increased in May and is expected to have increased yet more in June. The EZ manufacturing PMI has also been increasing since April. At the same time, the IMF has decreased its projection for the global growth in 2020 from the already devastating -3% to -4.9% and the expected recovery in 2021 from 5.8% to 5.4%, while the ECB has raised expected EU unemployment in 2020 from 7.6% to 9.8%, and unemployment in the US is expected to average around 15% this year according to the CBO.

Overall, the second quarter, when the strictest lockdowns happened in most of the world, is expected to have been the worst one growth-wise in 2020: OECD expects a significant GDP drop in the second quarter relative to the first one and a significant but only partial rebound in the third quarter of 2020. Growth in the fourth quarter is only as predictable as the coronavirus situation since it depends on whether there is going to be a "second wave", even if the "first wave" is not yet over (and, in fact, might be gaining momentum in some countries).

To mitigate these prospects, central banks and governments keep discussing, introducing, and prolonging massive support packages. In the US, there is serious talk of a second round of stimulus payments, and the FED has introduced restrictions for the banks' dividend payments and share buybacks to keep the industry resilient. Meanwhile, the EU heads of state have so far failed to agree on the details of the proposed 750bn euro stimulus plan, even though they understand that a compromise must be reached soon. Additionally, the ECB expanded its Pandemic Emergency Purchase Programme. The main question is what awaits the business and the consumers as stimulus programmes cease? The time to repay the debts will come sooner or later.

FIXED INCOME

In June, Fixed Income was mainly driven by risk sentiment. Yield levels, credit spreads, and yield curves followed equities. The higher the equities, the higher the long-term rates with steeper yield curves and tighter spreads.

Short and intermediate rates are well anchored as the FED policy is not going to change anytime soon. Powell made it clear: «we're not even thinking about thinking about raising rates». The longer end is very much depending on sentiment which is mainly driven by the FED bazooka. If equities are to trade sideways or weaker, the 2-10y UST curve is expected to stay in a narrow range of around 50 bps.

In credit markets as well all depends on the FED. On June 15, they started to buy individual corporate bonds, which had already been anticipated. In June, credit spreads widened from their highs at the beginning of the month. Finally, they closed flat for the month as a resurgence of Covid-19 cases worldwide dampened hopes for the V-shape scenario.

In Europe, the European leaders' summit on July 17-18 will be under the spotlight. If they agree on the EUR 750bn recovery fund, a new instrument which would allow the commission to borrow directly would be created.

In general, we are constructive for credit but think that most of the spread-recovery is complete. Primary market activity will remain high even though the summer is coming.

EQUITIES

Global equity markets trended slightly upward in June. They were driven by the hope of progress in pandemic control and further measures to normalise the public life, as well as by the anxiety of a resurgence of the contagion. The US was a relative loser in this situation since the pandemic is still far from being controlled there. The opposite was true for the EZ, where low case numbers and a planned EU reconstruction fund to support member states created some optimism. However, the best performers were the Emerging Markets that benefited from the weak USD. In terms of sectors, the cyclicals were in demand, especially technology.

EQUITY INDICATORS

Valuation	Negative
Momentum	Attractive
Seasonality	Neutral
Macro	Negative

The stock markets have been recovering since the end of March. While at the beginning, the defensive sectors and the growth style performed significantly better than the cyclically sensitive sectors and the value style, the advantages in the first half of June were with the latter. We attribute this not so much to the fundamental factors as to the fact that investors had to compensate for the now significant deviations from their strategic positions. In this respect, we are sceptical about the permanence of the change in favourites. The cyclical as well as the value-sensitive sectors require an acceleration of economic activity for a sustained outperformance. Although analysts believe this to happen in the coming quarters, a buoyant recovery is not expected.

The extremely expansive monetary and fiscal policy shows how great the economic policy impulses must be to generate growth. Moreover, these measures will not be without side effects. So far, the positive effects of the expansive economic policy have outweighed the negative ones. However, undesirable developments will become apparent sooner or later. For example, the purchase of securities by central banks means that default risks are no longer adequately priced and market adjustments are delayed or prevented. In the past, a healthy recovery usually manifested itself in significantly rising bond yields. This phenomenon has so far failed to materialise, which suggests that investors are sceptical. As a result, we do not see much potential for outperformance. We believe that downside risks will predominate for the coming weeks and months, in particular, if the earnings season reporting is poor and the second stimulus check fails to appear after the end of July.

ALTERNATIVES

Over the past six months, safe havens clearly outperformed procyclical currencies. In view of the deep economic shocks in the first two quarters, this is not surprising. In addition to the CHF and JPY, the USD was in great demand as the world's leading currency for stretches of the economic slump. Compared to mid-May however, the Greenback has lost ground and over the next months we expect it to weaken further during any potential recovery. On the one hand, the political and economic risks in the US have increased, which is partly due to persistently high levels of new infections. On the other hand, since the beginning of the crisis, the interest rate advantage to many currency regions has melted away, and the FED will keep interest rates low. This will increasingly call into question the still high valuation of the USD.

The OPEC+ agreed in June to an extension of the production cuts of 9.7 Mio. barrels per day. This measure should be maintained at least until end of July. The confidence of market participants in the pricing power of OPEC+ was strengthened by this decision, so that the crude oil prices rose to over USD 40 per barrel. At this price level, US shale oil production is also likely to recover with a time lag. Whether the price increase will prove sustainable will also depend on demand and the economic recovery.

With 10y US real yields threatening to break lower, gold might correspondingly break higher from its range. However, the surprisingly positive correlation to the equity markets could lead to a price correction as we experienced in March.

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

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MARKET OVERVIEW AS OF WEDNESDAY, 01 JULY 2020, 2:22 PM

FIXED INCOME

	Rate	Δ 1m	Δ 3m	Δ ytd
USD Overnight	0.08	0.02	-0.05	-1.46
USD 1y Swap	0.26	-0.03	-0.39	-1.51
USD 3y Swap	0.23	-0.03	-0.22	-1.46
USD 5y Swap	0.33	-0.03	-0.18	-1.40
USD 10y Swap	0.66	0.01	-0.02	-1.24
EUR Overnight	-0.46	-0.01	-0.02	-0.01
EUR 1y Swap	-0.35	-0.10	-0.05	-0.03
EUR 3y Swap	-0.38	-0.07	-0.08	-0.14
EUR 5y Swap	-0.34	-0.06	-0.10	-0.22
EUR 10y Swap	-0.15	-0.05	-0.11	-0.36
CDX Xover 5y	5.18%	0.03%	-2.17%	2.39%
iTraxx Xover 5y	3.82%	-0.31%	-2.23%	1.75%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD Aggregate 1-3y	0.1%	0.9%	2.7%	2.7%
USD Aggregate 3-5y	0.2%	1.8%	4.6%	4.6%
USD Aggregate 5-7y	0.6%	3.7%	6.5%	6.5%
USD Aggregate 7-10y	1.4%	5.6%	8.0%	8.0%
EUR Overnight	0.0%	-0.1%	-0.2%	-0.2%
EUR Aggregate 1-3y	0.3%	0.7%	-0.3%	-0.3%
EUR Aggregate 3-5y	0.6%	1.7%	-0.1%	-0.1%
EUR Aggregate 5-7y	1.1%	2.7%	0.4%	0.4%
EUR Aggregate 7-10y	1.4%	3.0%	1.1%	1.1%
US Corp. HY	0.7%	§	-3.8%	-3.8%
EUR HY	1.6%	11.2%	-5.4%	-5.4%

EQUITY

	Price	P/E	D. Yield	FCF yield
MSCI World	6,511	23.0	2.2%	5.4%
S&P 500	3,100	24.9	1.9%	4.7%
NASDAQ	10,157	30.3	0.9%	3.4%
Euro Stoxx 50	3,190	19.4	3.1%	6.8%
SMI	10,020	18.9	3.2%	7.9%
FTSE 100	6,103	18.3	3.9%	8.6%
DAX	12,127	18.9	2.9%	4.1%
MSCI Asia Pacific	158	17.3	2.5%	5.2%
FTSE China A50	14,325	11.0	2.9%	7.6%
MSCI Emerging Market	995	15.8	2.6%	6.2%
PH Semiconductor	1,996	23.3	1.7%	4.3%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	1.9%	24.1%	-5.8%	-5.8%
S&P 500	1.5%	25.5%	-4.0%	-4.0%
NASDAQ	5.8%	35.7%	16.3%	16.3%
Euro Stoxx 50	3.6%	19.0%	-14.8%	-14.8%
SMI	1.9%	9.3%	-5.6%	-5.6%
FTSE 100	-1.0%	11.9%	-19.1%	-19.1%
DAX	4.7%	27.1%	-8.5%	-8.5%
MSCI Asia Pacific	3.0%	17.8%	-7.5%	-7.5%
FTSE China A50	5.3%	13.8%	-0.4%	-0.4%
MSCI Emerging Market	4.6%	20.3%	-10.7%	-10.7%
PH Semiconductor	8.3%	39.8%	7.9%	7.9%

COMMODITY

	Price	FCST 20	FCST 21	Δ Future
Gold	1,794	1670	1690	-1.3%
Silver	18.56	16.8	17	-11.2%
Platinum	838	822	844.38	-13.0%
Palladium	1,940	2075	2075	-23.4%
Crude Oil	39.57	35.2	43	-2.5%
Brent Oil	41.53	39.2	47.12	1.7%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	3.2%	13.7%	17.8%	17.8%
Silver	-2.1%	32.0%	2.2%	2.2%
Platinum	-7.1%	16.6%	-15.3%	-15.3%
Palladium	-2.4%	-8.8%	2.3%	2.3%
Crude Oil	10.6%	39.8%	-32.1%	-32.1%
Brent Oil	8.1%	28.0%	-33.5%	-33.5%

FOREIGN EXCHANGE

	Price	FCST 20	FCST 21	Δ Spot
EUR/USD	1.1202	1.1400	1.1700	4.3%
GBP/USD	1.2383	1.2700	1.3100	5.6%
USD/CHF	0.9489	0.9600	0.9500	0.1%
USD/JPY	107.41	107.00	107	-0.4%
EUR/CHF	1.0630	1.0800	1.1200	5.2%
USD/RUB	71.19	70.00	67.55	-5.2%
EUR/RUB	79.73	77.50	80.30	0.7%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	0.6%	2.5%	-0.1%	-0.2%
GBP/USD	-0.7%	-0.1%	-6.5%	-6.6%
USD/CHF	1.3%	2.0%	1.9%	1.8%
USD/JPY	0.2%	-0.3%	1.2%	1.1%
EUR/CHF	0.6%	-0.6%	2.1%	2.1%
USD/RUB	-2.9%	10.2%	-12.9%	-12.9%
EUR/RUB	-3.3%	8.0%	-12.9%	-12.6%

Source: Clarus Capital Group, Bloomberg

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IMPRESSUM

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