

## Monthly Pulse – Monday, 1 March 2021

### Economic Outlook

New infections and deaths from COVID-19 have been steadily falling in the world for several consecutive weeks. Vaccination programs are being expanded and extended to the countries in need. A huge new stimulus bill in the US is right on the doorstep. And yet, the markets are uneasy. An overheating economy brings as much uncertainty and fear to investors as a lagging one.

#### Tactical Asset Allocation

Liquidity	Neutral
Bonds	Underweight
Equities	Neutral
Alternative Investments	Overweight

#### Macroeconomics

Preliminary February PMI data showed that the Eurozone is experiencing a strong expansion in manufacturing activity (flash PMI is 57.7) and a contraction in services activity (44.7). The US meanwhile is experiencing an expansion both in services (58.9) and in manufacturing (58.5). However, manufacturing input prices rose significantly due to the shortage of some components like semiconductors. This gives a cause for concern about an increase in CPI and thus a possibility of premature tapering signals by the central banks.

The ECB has indicated that, on the contrary, it is willing to increase bond purchases, if the rates curve steepens too much. The Fed's Jay Powell, in his speech in the end of February, insisted that the US economy is still weakened and needs a large support. He emphasized that for now, too much stimulus carries smaller risks than too little. This push for the stimulus also contributed to the rise in inflation expectations.

#### Fixed Income

Anticipation of a rise in inflation due to economic recovery gave a push to 10-year US Treasury note yields, which briefly exceeded 1.55% before retreating and finishing February at 1.42%. We believe that there is still room for bond yields to grow further in the next 2-3 months. There have been no signs of the Fed's readiness to control of the long-term rates, so it is likely that 10-year US Treasury notes will rise to 1.60%-1.70% in the upcoming months.

Emerging markets and high-yield-rated companies are particularly vulnerable to rising interest rates, especially now, when credit spreads are around their lowest levels in a year.

### Equities

Rising bond yields are currently a concern for investors since they lead to rising borrowing costs amid the still weak global economy. Besides, rising bond yields - or falling bond prices - make stocks less cheap relative to bonds, undermining the mantra that investors have been repeating over the course of the past-year rally. Thus, the downside risk for equities is increasing, as they are growing relatively more expensive.

Notably, stocks that flourished throughout the worst of the pandemic, are now lagging, while the more cyclical companies tend show more resilience. So, Nasdaq composite ended February in red, and S&P 500 ended the month only marginally positive, while S&P 600, Euro Stoxx 50, and MSCI Europe Small Cap all showed a more solid performance.

#### Equity Indicators

Valuation	Neutral
Momentum	Neutral
Seasonality	Neutral
Macro-Economics	Positive

### Alternative Investments

In February, gold once again exhibited an atypical positive correlation with equity markets and ended the month at \$1735. Fundamentally, gold prices might receive an upward pressure from the new American stimulus bill, similarly to what happened in 2020. However, technical analysis suggests that in March gold price will at best move sideways, likely between \$1650 and \$1800.

Having gained almost 20% in February, oil price stopped at \$63.18 for WTI Crude and \$66.68 for Brent Crude. The unusually low temperatures in Texas forced oil supply normalization to speed up. So, when US oil producers reacted weaker than expected, Barclays revised its 2021 oil price forecast \$7 higher: \$62 for Brent and \$58 for WTI.

USD appreciated driven by increased US Treasury rates and inflation expectations, and EUR/USD finished the month at 1.21, only briefly breaking above 1.22. March is expected to be quite volatile for the currency pair. The interest rate differential for now is working against the EUR, but the expansive monetary and fiscal policy in the US should provide a strong upside potential.

## Market Overview as of Monday, 1 March 2021, 2:26 PM

### Fixed Income

	Rate	Δ 1m	Δ 3m	Δ ytd		Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Overnight	0.08	0.00	0.00	0.01	USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD 1y Swap	0.19	0.01	-0.03	0.00	USD Aggregate 1-3y	-0.1%	0.2%	0.2%	0.0%
USD 3y Swap	0.41	0.15	0.12	0.16	USD Aggregate 3-5y	-0.6%	-0.2%	-0.3%	-0.5%
USD 5y Swap	0.85	0.31	0.38	0.42	USD Aggregate 5-7y	-1.7%	-1.4%	-1.4%	-1.9%
USD 10y Swap	1.53	0.40	0.61	0.60	USD Aggregate 7-10y	-2.1%	-2.3%	-2.4%	-3.0%
EUR Overnight	-0.48	-0.01	-0.01	0.02	EUR Overnight	0.0%	-0.1%	-0.2%	-0.1%
EUR 1y Swap	-0.50	0.04	0.01	0.03	EUR Aggregate 1-3y	-0.1%	-0.2%	0.0%	-0.2%
EUR 3y Swap	-0.44	0.08	0.06	0.07	EUR Aggregate 3-5y	-0.5%	-0.4%	0.3%	-0.5%
EUR 5y Swap	-0.32	0.12	0.12	0.14	EUR Aggregate 5-7y	-0.9%	-0.8%	0.5%	-1.1%
EUR 10y Swap	0.01	0.20	0.24	0.27	EUR Aggregate 7-10y	-1.7%	-1.5%	0.3%	-2.0%
CDX Xover 5y	3.00%	-0.12%	-0.04%	0.07%	US Corp. HY	0.3%	§	6.0%	0.7%
iTraxx Xover 5y	2.56%	-0.11%	0.04%	0.13%	EUR HY	0.5%	1.6%	5.3%	1.0%

### Equity

	Price	P/E	D. Yield	FCF yield		Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	8,132	20.7	2.0%	5.8%	MSCI World	1.2%	4.8%	11.2%	1.5%
S&P 500	3,811	22.2	1.6%	3.4%	S&P 500	1.0%	4.1%	8.1%	1.5%
NASDAQ	12,909	28.4	0.8%	3.1%	NASDAQ	-2.6%	3.6%	5.0%	0.2%
Euro Stoxx 50	3,686	18.2	2.9%	16.0%	Euro Stoxx 50	4.4%	4.6%	12.5%	3.7%
SMI	10,650	17.7	3.0%	8.2%	SMI	-0.8%	1.9%	4.5%	-0.5%
FTSE 100	6,577	14.7	3.8%	18.2%	FTSE 100	1.7%	3.0%	12.2%	1.8%
DAX	13,928	15.5	2.8%	9.8%	DAX	2.2%	4.1%	7.4%	1.5%
MSCI Asia Pacific	207	18.4	2.2%	4.5%	MSCI Asia Pacific	-0.5%	8.1%	18.9%	3.3%
FTSE China A50	18,460	14.3	2.3%	8.1%	FTSE China A50	0.1%	8.3%	17.1%	4.3%
MSCI Emerging Market	1,339	15.6	2.3%	4.6%	MSCI Emerging Market	-1.6%	9.4%	19.6%	3.7%
PH Semiconductor	3,068	23.6	1.2%	3.3%	PH Semiconductor	2.3%	13.2%	33.1%	9.7%

### Commodity

	Price	FCST 20	FCST 21	Δ Future		Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	1,736	1773	1812.5	-1.3%	Gold	-6.7%	-4.3%	-11.9%	-8.4%
Silver	26.88	20.1	25.51	-11.2%	Silver	-8.5%	11.3%	-7.0%	1.5%
Platinum	1,225	876	1130.5	-13.0%	Platinum	7.5%	21.4%	26.7%	13.5%
Palladium	2,344	2154	2416	-23.4%	Palladium	4.2%	-3.7%	1.7%	-4.7%
Crude Oil	62.19	39.0	53.32	-2.5%	Crude Oil	16.4%	38.3%	39.5%	27.7%
Brent Oil	65.19	42.7	56.25	1.7%	Brent Oil	16.2%	37.4%	37.0%	25.9%

### Foreign Exchange

	Price	FCST 20	FCST 21	Δ Spot		Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	1.2045	1.1900	1.2300	2.1%	EUR/USD	-0.2%	0.0%	0.9%	-1.5%
GBP/USD	1.3912	1.3100	1.4000	0.6%	GBP/USD	1.7%	3.7%	3.9%	1.9%
USD/CHF	0.9143	0.9100	0.9000	-1.6%	USD/CHF	-1.9%	-1.5%	-0.6%	-3.2%
USD/JPY	106.72	104.00	104	-2.6%	USD/JPY	-1.6%	-2.2%	-0.7%	-3.2%
EUR/CHF	1.1013	1.0800	1.1000	-0.1%	EUR/CHF	-1.8%	-1.5%	-1.5%	-1.7%
USD/RUB	74.16	75.95	70.50	-5.1%	USD/RUB	2.7%	2.3%	-0.8%	0.3%
EUR/RUB	89.33	91.08	84.87	-5.1%	EUR/RUB	2.8%	2.2%	-1.6%	1.5%

Source: Clarus Capital Group, Bloomberg

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