clarus capital

SWITZERLAND TOP 50 INDEPENDENT ASSET MANAGERS 2021

Monthly Pulse – Wednesday, 6th October 2021

Economic Outlook

Pandemic-related fears, while still very much under the spotlight, have somewhat abated, and signals of stimulus reduction are coming from central banks across the world, which prompted bond yields to start climbing again. At the same time, growth momentum has decelerated, as the base effect is normalizing. All this accompanied by regulatory uncertainty and market risks in China makes investors uneasy.

Tactical Asset Allocation

Liquidity	Neutral
Bonds	Underweight
Equities	Neutral
Alternative Investments	Overweight

Macroeconomics

At the press conference following the September FOMC meeting, Fed Chair Jerome Powell indicated, that a gradual reduction of the current USD 120 billion monthly bond purchases is likely to begin soon and conclude in the middle of 2022, "as long as recovery remains on track". So far, inflation in the US has been on track: CPI grew 5.3% year-on-year in August - just below the July reading. Price growth is expected to have stayed at the same level in September and the elevated levels might even last into early 2022, according to Powell. The US employment report for September is released in the beginning of October, and as long as it is does not bring significant negative surprises, tapering is likely to begin after the November FOMC meeting. At the same time, Powell emphasized, that the beginning of tapering of asset purchases does not indicate Fed's readiness to raise interest rates as well. For that, "a different and more stringent test is needed". For now, the near-zero-rates have been left unchanged, but the dot plot suggests, that hiking can begin next year, after tapering has been concluded.

The ECB, after their September meeting, announced a "recalibration" - or a slowdown - in asset purchases, but did not go so far as to call it tapering. Thus, the pace of bond buying is reduced, but no plan to terminate it has yet been indicated. Further moves are expected to be signaled after the December meeting. Just like its overseas counterpart, the ECB has not suggested any interest rates hikes yet. In fact, according to an ECB policymaker Pablo Hernandez, a hike does not appear likely even in 2023.

While analysts' opinions on how temporary the inflationary pressures will prove diverge, both Fed and ECB maintain their view, that they will ease next year despite so far being more persistent than anticipated. Thus, the median FOMC inflation projection is 4.2% in 2021 and 2.2% in 2022, and the ECB is not expecting to hit its medium-term average target of 2% until 2025.

Fixed Income

After US rates unexpectedly dropped in Q2, 10yr US Treasuries traded in a narrow range between 1.20 and 1.40 until the September FOMC meeting. This sideway move was supported by an ongoing spread of the Delta-variant, combined with economic data showing a slowdown of the recovery momentum. Although inflation figures stay high above 5%, breakeven yields (10yr) are around 2.40, suggesting the bond market is still in the "transitory" camp.

But just after September's FOMC meeting, yields started to rise again with 10yr breaking through 1.50, as investors reacted to the prospect of tighter monetary policy with tapering starting in December. With energy prices on the rise and supply chain issues not solved, it looks like the market is reassessing inflation expectations.

Although the upcoming tapering in the US is not tightening, the market accepted that the economy is strong enough to get less support. We think that this change in sentiment was reflected in the move of the UST10yr from 1.30 to 1.50.

We remain cautious on duration and prefer to overweight credit. But the low-rate environment, combined with the spread compression, limits the potential for Fixed Income.

We still prefer the BB-area, as it is one of the few places you can get an extra yield. The economy is still doing fine with corporate earnings on a solid basis which is supportive for credit spreads. In general, we still consider the rate risk higher than the risk of wider spreads.

Equities

For the first time in a while, the equity markets were dominated by heightened uncertainty last month. The main topics included the global economic slowdown, the upcoming reversal of monetary policy easing by the FED, the energy price trend, and developments in China's real estate sector. The consequence was a more than 4.5% loss on the major indices. Japan bucked the trend, with hopes of political reforms by the soon to be elected new government causing the market to advance sharply.

Equity Indicators

Valuation	Neutral
Momentum	Neutral
Seasonality	Neutral
Macro-Economics	Positive

Among the sectors, energy profited from the oil price trend and financial services from the higher yields and steeper yield curves.

The earnings reporting season for Q3 is likely to be more suspenseful than the preceding ones. While financial analysts' optimism is at a long-term high, the economy is now dominated by negative surprises. This could be an indication that analysts' expectations were too high. An average rise in earning of a good 28% YoY is forecast for the S&P 500. However, production and supply shortages have persisted, which is likely to have an impact on companies' costs and hence on past earnings and outlook. The consensus among analysts is mostly positive for companies, but the price reactions are likely to be more dampened due to the high expectations.

Equities are in our opinion still the favored asset class to due rising company earnings and the lack of alternatives. However, we are cautious until the next FED meeting in November and stay neutral as we expect more volatility ahead of us.

Alternative Investments

Third quarter saw a lot of volatility in oil prices, driven by the spread of the Delta variant of Covid-19, but the price recovered in September: WTI crude closed around USD 75 per barrel and Brent crude around USD 78 per barrel. Due to a faster than expected oil demand recovery after yet another wave of Covid-19 and hits to production by the hurricane in the US, analysts are revising their year-end price targets higher. Thus, Goldman Sachs now expects Brent to hit USD 90 by the end of the year, high above the earlier target of USD 80. Inventories are at unusually low levels both in the US and in Europe, so supply shortage should keep oil prices elevated in the coming months.

EURUSD oscillated in the third quarter and ended September below 1.16, driven by a hawkish shift in Fed's position. 10-year US Treasury yield broke higher - above 1.50% - in the end of September, which made dollar more attractive and weighted on the currency pair.

In the third quarter, gold price was quite volatile, several times trying to break higher but failing to stabilise above USD 1800 per ounce. In September, it was in a downward trend and ended the month at USD 1756, as retail sales data in the US came out unexpectedly positive and the Fed signalled the upcoming tapering. Gold might receive a boost if inflation fears in the US become more substantiated or tapering is delayed. However, if tapering is on track and inflation - which already appears to be at or past its peak - proves transitory, gold has a further downside potential, since real interest rates are unlikely to fall lower in the current environment, tapering is about to begin in major economies, and USD is strengthening in light of the more hawkish Fed's position.

Commodities in general should continue to do well in the current environment and hedge funds and private markets offer an attractive risk-return combination, thus we continue to overweight alternative investments in our portfolios.

clarus capital

Market Overview as of Wednesday, 06 October 2021, 3:23 PM

Fixed Income

	Rate	Δ 1m	Δ 3m	Δ ytd		Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Overnight	0.07	0.00	-0.01	-0.01	USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD 1y Swap	0.17	0.02	0.00	-0.02	USD Aggregate 1-3y	-0.1%	0.0%	0.1%	0.1%
USD 3y Swap	0.67	0.14	0.14	0.43	USD Aggregate 3-5y	-0.3%	-0.1%	0.1%	-0.7%
USD 5y Swap	1.07	0.19	0.19	0.64	USD Aggregate 5-7y	-0.6%	-0.3%	0.9%	-1.7%
USD 10y Swap	1.53	0.19	0.20	0.61	USD Aggregate 7-10y	-1.1%	-0.8%	1.7%	-2.6%
EUR Overnight	-0.48	0.00	0.00	0.01	EUR Overnight	0.0%	-0.1%	-0.2%	-0.4%
EUR 1y Swap	-0.50	0.01	0.00	0.03	EUR Aggregate 1-3y	-0.1%	-0.1%	-0.2%	-0.3%
EUR 3y Swap	-0.34	0.08	0.07	0.16	EUR Aggregate 3-5y	-0.3%	-0.1%	-0.1%	-0.3%
EUR 5y Swap	-0.17	0.14	0.12	0.28	EUR Aggregate 5-7y	-0.8%	-0.3%	-0.3%	-0.9%
EUR 10y Swap	0.19	0.19	0.14	0.45	EUR Aggregate 7-10y	-1.3%	-0.6%	-0.6%	-2.0%
CDX Xover 5y	3.08%	0.34%	0.35%	0.15%	US Corp. HY	-0.3%	0.4%	3.0%	4.4%
iTraxx Xover 5y	2.66%	0.40%	0.33%	0.23%	EUR HY	-0.4%	0.3%	1.3%	3.1%

Equity

	Price	P/E	D. Yield	FCF yield		Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	9,083	19.4	1.9%	5.1%	MSCI World	-4.7%	-0.5%	5.7%	13.4%
S&P 500	4,346	21.4	1.4%	3.3%	S&P 500	-4.2%	0.1%	6.7%	15.7%
NASDAQ	14,674	27.7	0.7%	3.0%	NASDAQ	-6.3%	-0.8%	8.1%	13.9%
Euro Stoxx 50	4,002	16.0	2.9%	14.8%	Euro Stoxx 50	-5.8%	-1.3%	0.8%	12.6%
SMI	11,503	18.1	2.8%	6.1%	SMI	-7.5%	-3.9%	2.9%	7.5%
FTSE 100	6,995	12.2	4.2%	10.5%	FTSE 100	-2.7%	-1.5%	2.5%	8.3%
DAX	14,947	14.5	2.7%	8.8%	DAX	-6.2%	-3.6%	-1.7%	9.0%
MSCI Asia Pacific	193	14.9	2.5%	6.8%	MSCI Asia Pacific	-6.8%	-6.6%	-7.1%	-3.7%
FTSE China A50	15,486	13.0	2.5%	12.9%	FTSE China A50	2.4%	-11.9%	-11.5%	-12.5%
MSCI Emerging Market	1,237	2.9	2.8%	6.5%	MSCI Emerging Market	-6.6%	-8.2%	-8.2%	-4.2%
PH Semiconductor	3,227	19.4	1.3%	3.9%	PH Semiconductor	-5.9%	-2.4%	-1.2%	15.4%

Commodity

	Price	FCST 21	FCST 22	Δ Future		Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	1,757	1779.5	1718.75	-0.3%	Gold	-4.1%	-2.1%	0.9%	-7.3%
Silver	22.41	25.15	22.87	1.7%	Silver	-9.7%	-14.5%	-11.6%	-15.9%
Platinum	962	1088.38	1152.5	1.3%	Platinum	-6.1%	-11.6%	-22.9%	-11.8%
Palladium	1,864	2539.49	2448.75	7.8%	Palladium	-22.9%	-33.4%	-30.6%	-23.7%
Crude Oil	78.12	66.25	67.25	-2.9%	Crude Oil	13.1%	10.9%	34.3%	63.3%
Brent Oil	81.87	69	68.25	-5.2%	Brent Oil	14.3%	13.8%	34.2%	61.3%

Foreign Exchange

	Price	FCST 21	FCST 22	Δ Spot		Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	1.1544	1.18	1.18	2.2%	EUR/USD	-2.8%	-2.3%	-2.6%	-5.6%
GBP/USD	1.3575	1.38	1.43	5.2%	GBP/USD	-1.9%	-1.5%	-1.8%	-0.6%
USD/CHF	0.9289	0.92	0.93	0.1%	USD/CHF	-1.5%	-0.4%	0.4%	-4.7%
USD/JPY	111.39	111	112	0.5%	USD/JPY	-1.4%	-0.7%	-1.4%	-7.3%
EUR/CHF	1.0723	1.09	1.12	4.4%	EUR/CHF	1.3%	1.9%	3.1%	0.9%
USD/RUB	72.39	72.02	70	-3.4%	USD/RUB	0.8%	2.9%	6.7%	2.8%
EUR/RUB	83.57	84.95	84.35	0.9%	EUR/RUB	3.7%	5.2%	9.5%	8.5%

Source: Clarus Capital Group, Bloomberg

Special Topics

China

Although we like the BB-sector we still avoid touching China as the current situation in Evergrande doesn't look very promising. The company has been in trouble for some time. Bonds have been trading at highly distressed levels for a while.

Is it a "Lehman moment"? No. But we shouldn't underestimate the implications for weaker, red-labelled developers and the whole sector that depends on it.

A restructuring is imminent with USD-bond holders most likely forced to accept large haircuts.

The property sector is an important part of the Chinese economy (directly 14% of GDP, indirectly 25%), therefore we don't expect any policy mistake. Yes, default rates will increase as they separate the wheat from the chaff now, but we don't think they pose the risk of a disorderly restructuring of an important part of the economy. Potential Government support would target only the threat to financial, economic, and social stability but not to the company itself.

We are more concerned about the impact of slowing growth in the most important part of the Chinese economy combined with an energy crunch which will hurt commodity prices and the risk premium for China.

We remain cautious on China HY and would only buy solid, green-labelled developers and SOEs when it comes to price distortions because of market liquidity issues.

However, tighter rules in some sectors as well as the Evergrande situation have shed some light on the second biggest capital market. From a portfolio perspective, Chinese investments should not be neglected, but they should be chosen very carefully. Therefore, we recommend investing into China with active funds as uncertainties will only increase in the near future.

Germany

What is to follow after the long period of Merkel's reign is still undecided. If you look into the election campaigns, it seems that housing affordability has become a major topic.

However, there are significant differences between how the parties plan to solve the problem. While the conservatives (Christian Democrats, CDU/CSU) and liberals (FDP) are in favour of market mechanisms and more construction activities, the Social Democrats (SPD) and the Green party (Grüne) advocate for tighter regulation. The Left party (Linke) does not only want (much) tighter regulation but supports expropriation and socialization.

After the CDU/CSU was comfortable in the lead at the beginning of the year, over the past few weeks the social democrats have taken the lead in the polls and won the election, now making a left-wing coalition (SPD-Grüne-Linke) possible. As such a coalition would unite parties advocating tighter rental market controls and market interventions culminating in expropriations, we think a left-wing coalition should be seen as a risk for the sector. However, this is rather a tail risk, since such a coalition has only a tiny majority in the parliament and there would be significant conflict potential in many policy areas.

Next weeks will show how the coalitions are going to be formed, but it will not be an easy start into the new era. For the European Union, this will only strengthen the France-Italy axis and therefore be accommodative for the markets.

Disclaimer

This document has been prepared by Clarus Capital Group AG ("Clarus Capital"). This document and the information contained herein are provided solely for information and marketing purposes. It is not to be regarded as investment research, sales prospectus, an offer or a solicitation of an offer to enter in any investment activity or contractual relation. Please note that Clarus Capital retains the right to change the range of services, the products and the prices at any time without notice and that all information and opinions contained herein are subject to change.

This document is not a complete statement of the markets and developments referred to herein. Past performance and forecasts are not a reliable indicator of future performance. Investment decisions should always be taken in a portfolio context and make allowance for your personal situation and consequent risk appetite and risk tolerance. This document and the products and services described herein are generic in nature and do not consider specific investment objectives, financial situation or particular needs of any specific recipient. Investors should note that security values may fluctuate, and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Individual client accounts may vary. Investing in any security involves certain risks called non-diversifiable risk. These risks may include market risk, interest-rate risk, inflation risk, and event risk. These risks are in addition to any specific, or diversifiable, risks associated with particular investment styles or strategies.

Clarus Capital does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon, either in general or with reference to specific client's circumstances and needs. Recipients should obtain independent legal and tax advice on the implications of the products and services in the respective jurisdiction before investing. Certain services and products are subject to legal provisions and cannot be offered world-wide on an unrestricted basis. In particular, this document is not intended for distribution in jurisdictions where its distribution by Clarus Capital would be restricted. Clarus Capital specifically prohibits the redistribution of this document in whole or in part without the written permission of Clarus Capital and Clarus Capital accepts no liability whatsoever for the actions of third parties in this respect. Neither Clarus Capital nor any of its partners, employees or finders accepts any liability for any loss or damage arising out of the use of all or any part of this document. Source of all information is Clarus Capital unless otherwise stated. Clarus Capital makes no representation or warranty relating to any information herein which is derived from independent sources. Please consult your client advisor if you have any questions.

Impressum

Published by Clarus Capital Group AG, Gutenbergstrasse 10, CH-8002 Zurich,
research@claruscapital.ch, www.claruscapital.ch