

Monthly Pulse – Monday, 3rd May 2021

Economic Outlook

Vaccination programs are progressing steadily across the globe: over 7.5% of the world population have received at least one dose. More and more countries are lifting mobility restrictions. However, as India is going through a devastating wave of infections, we are reminded that the greatest risks are still coming from the pandemic-related developments, and from how effective the vaccines are against new COVID-19 strains, since lack of effect would mean new lockdowns, prolonged travel restrictions and a slower economic recovery.

Tactical Asset Allocation

Liquidity	Neutral
Bonds	Underweight
Equities	Neutral
Alternative Investments	Overweight

Macroeconomics

EU GDP figures showed that the output of the currency union contracted by 0.6% in the first quarter of 2021 relative to the previous quarter. Meanwhile, the US GDP grew 1.6% over the same period. This reflects the difference of approaches to the pandemic handling: while the EU prolongs lockdowns to contain the pandemic, the US rapidly distributes the vaccine, and gradually eases restrictions.

Similar patterns can be traced out in the PMI data, although the more recent estimates, April flash PMIs, suggest that business activity is expanding in both regions. The Indexes showed a steady expansion in both Manufacturing and Service activity in the US (60.6 and 63.1, respectively) and a strong expansion in Manufacturing, accompanied by a modest expansion in Services, in Eurozone (63.3 and 50.3, respectively). This, together with the accelerating vaccination pace and the massive pent-up demand, gives a reason to expect a significant growth return in the second quarter.

As CPIs are starting to pick up, 2.6% year on year in the US in March and 1.6% (preliminary) year on year in the EU in April, inflation concerns become more relevant. The Bank of Canada was the first major central bank to start tapering. However, Fed and ECB are maintaining the accommodative stance, as the unemployment levels are still elevated and the increase in price growth rate is likely to be temporary.

Fixed Income

US 10-year Treasury yields traded in the range of 1.5%-1.7% in April, briefly exceeding 1.7% before retreating and finishing the month just over 1.63%. We expect the yields to continue to fluctuate in this range in the upcoming weeks. By the end of the year, US 10-year yields are likely to exceed 2%.

Credit spreads are around their lowest levels in over a decade. High yield still remains a more attractive option for investors, than investment grade, but valuations are becoming high, and the belief that HY will keep delivering good results is waning. The main risk currently is the possibility of a sustained spike in inflation which would push government bond yields rapidly up, similar to what happened in February.

We keep our duration short and are overweight credit risk especially in Emerging Markets.

Equities

Aside from the lagging energy sector, overall, April was a positive month for equities, supported by stellar earnings, strong macroeconomic data, and an accommodative stance by major central banks. Investors have not reacted strongly to the possibility of tax increases in the US nor to the newly proposed infrastructure and social spending plans that together add up to \$4.1T, not knowing to what extent the plans will be implemented.

Equity Indicators

Valuation	Neutral
Momentum	Neutral
Seasonality	Neutral
Macro-Economics	Positive

While the supporting factors that pushed equity markets in April should continue into May, valuations are still quite elevated, although justified by the earnings in some sectors, and substantial risks remain: corporate and capital gains tax hikes in the US, new COVID-19 strains, and the possibility of early tapering as a reaction to rising inflation would all pose a threat to equities. This is why investors are quite divided in their view on whether they should “sell in May and go away” or stay put and believe that there is more room for stocks to grow in the upcoming weeks. VIX, which represents the expected volatility of the US stock market, is somewhat elevated, but is still around its lowest levels in over a year.

This might mean that investors are not expecting a market correction but are willing to pay for some insurance against one.

We keep a neutral stance on equities as markets are driven by vaccination speed, recovery, and central banks' actions.

Alternative Investments

Despite the waning momentum towards the end of the month, there is still upside potential for gold within the next weeks both on the technical and fundamental sides. In March, the metal bounced off the \$1675 level twice, but did not break below it. The second time, propelled gold up to end April around \$1770 per ounce resulting in over 3% monthly gain. At the same time, such factors as growing demand from

Central Banks and Asian consumers, rising inflation, and dollar weakness support gold from the fundamental perspective.

EURUSD steadily grew over the past month from 1.17 to 1.21 in the end of April. The trend is likely to continue: the currency pair can reach 1.22-1.23 due to an improving growth outlook in Europe.

After a choppy, but overall positive April, oil price is expected to pick up in May: demand growth, according to OPEC+, will be steady in 2021 as travel resumes. Currently, the upside potential from reopening economies outweighs the risk of the spread of the new COVID-19 variants to countries with lagging vaccinations.

We are neutral on Gold, overweight on commodities. We also prefer private markets to hedge funds.

Market Overview as of Monday, 3 May 2021, 3:09 PM

Fixed Income

	Rate	Δ 1m	Δ 3m	Δ ytd		Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Overnight	0.07	-0.01	-0.01	-0.01	USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD 1y Swap	0.21	-0.01	0.03	0.02	USD Aggregate 1-3y	0.1%	0.0%	0.3%	0.0%
USD 3y Swap	0.48	-0.05	0.20	0.24	USD Aggregate 3-5y	0.3%	-0.6%	-0.2%	-0.6%
USD 5y Swap	0.95	-0.10	0.37	0.52	USD Aggregate 5-7y	0.6%	-1.7%	-1.3%	-2.2%
USD 10y Swap	1.62	-0.12	0.42	0.70	USD Aggregate 7-10y	0.8%	-2.4%	-2.2%	-3.7%
EUR Overnight	-0.48	0.00	-0.01	0.01	EUR Overnight	0.0%	-0.1%	-0.2%	-0.2%
EUR 1y Swap	-0.51	0.01	0.02	0.02	EUR Aggregate 1-3y	-0.1%	-0.1%	-0.2%	-0.2%
EUR 3y Swap	-0.41	0.06	0.09	0.10	EUR Aggregate 3-5y	-0.2%	-0.3%	-0.3%	-0.4%
EUR 5y Swap	-0.25	0.08	0.16	0.20	EUR Aggregate 5-7y	-0.5%	-0.8%	-0.6%	-1.0%
EUR 10y Swap	0.14	0.10	0.29	0.40	EUR Aggregate 7-10y	-1.0%	-1.8%	-1.8%	-2.3%
CDX Xover 5y	2.86%	-0.10%	-0.10%	-0.07%	US Corp. HY	0.9%	1.2%	7.3%	1.9%
iTraxx Xover 5y	2.49%	0.03%	0.00%	0.06%	EUR HY	0.4%	1.1%	6.2%	2.0%

Equity

	Price	P/E	D. Yield	FCF yield		Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	8 794	20.8	1.9%	5.6%	MSCI World	3.5%	7.8%	24.9%	9.8%
S&P 500	4 181	23.0	1.4%	3.1%	S&P 500	4.0%	9.2%	24.1%	11.3%
NASDAQ	13 861	28.8	0.7%	3.0%	NASDAQ	4.0%	3.4%	22.9%	7.5%
Euro Stoxx 50	4 001	18.7	2.7%	15.4%	Euro Stoxx 50	1.4%	10.8%	29.1%	12.6%
SMI	11 127	18.1	2.9%	4.2%	SMI	0.1%	3.3%	11.2%	4.0%
FTSE 100	6 970	14.1	3.8%	17.0%	FTSE 100	3.5%	7.1%	20.4%	7.9%
DAX	15 237	15.9	2.7%	10.1%	DAX	0.9%	9.4%	26.0%	11.1%
MSCI Asia Pacific	206	16.6	2.3%	4.8%	MSCI Asia Pacific	-0.1%	-2.8%	18.0%	3.2%
FTSE China A50	17 330	14.4	2.3%	11.1%	FTSE China A50	-2.2%	-7.6%	8.6%	-2.1%
MSCI Emerging Market	1 348	14.7	2.4%	5.0%	MSCI Emerging Market	0.7%	-3.2%	20.2%	4.4%
PH Semiconductor	3 109	22.8	1.2%	3.5%	PH Semiconductor	-4.0%	4.2%	35.0%	11.2%

Commodity

	Price	FCST 21	FCST 22	Δ Future		Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	1 787	1777	1700	0.3%	Gold	3.5%	-2.5%	-6.5%	-5.7%
Silver	26.59	25.5	23.41	-1.8%	Silver	6.4%	-1.4%	7.8%	0.2%
Platinum	1 217	1199.58	1262.5	0.0%	Platinum	0.7%	9.0%	37.8%	12.4%
Palladium	2 979	2513	2512.5	-11.8%	Palladium	12.2%	30.2%	29.2%	21.1%
Crude Oil	63.48	61	62	-1.2%	Crude Oil	3.3%	15.6%	59.3%	30.5%
Brent Oil	66.53	64	65	-0.9%	Brent Oil	3.2%	15.9%	58.4%	29.2%

Foreign Exchange

	Price	FCST 21	FCST 22	Δ Spot		Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	1.2044	1.22	1.23	2.1%	EUR/USD	2.0%	0.1%	2.8%	-1.4%
GBP/USD	1.3881	1.4	1.44	3.7%	GBP/USD	-0.1%	1.7%	6.3%	1.5%
USD/CHF	0.9139	0.92	0.92	0.7%	USD/CHF	2.5%	-1.6%	-0.1%	-3.1%
USD/JPY	109.35	108	108	-1.2%	USD/JPY	0.8%	-4.0%	-4.4%	-5.6%
EUR/CHF	1.1006	1.12	1.14	3.5%	EUR/CHF	0.5%	-1.7%	-2.9%	-1.8%
USD/RUB	75.21	72	70.75	-6.1%	USD/RUB	0.6%	1.2%	7.1%	-1.1%
EUR/RUB	90.62	85	85.42	-5.9%	EUR/RUB	-0.4%	0.9%	2.4%	0.0%

Source: Clarus Capital Group, Bloomberg

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