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SWITZERLAND TOP 50 INDEPENDENT ASSET MANAGERS 2021

Monthly Pulse – Tuesday, 3rd August 2021

Economic Outlook

The highly contagious Delta variant of COVID-19 is spreading across the globe, and new infection numbers are rising even in countries with the highest vaccination rates. This threatens the recovery yet again: in particular, China is already introducing strict measures of virus containment. However, this time could actually be different, as the most vulnerable parts of population have been largely vaccinated even in countries with lower vaccination rates, and in major advanced economies most adults have received at least one shot.

Tactical Asset Allocation

Liquidity	Neutral
Bonds	Underweight
Equities	Neutral
Alternative Investments	Overweight

Macroeconomics

Preliminary estimation showed that US GDP growth in the 2nd quarter of 2021 was below investors' expectations: 6.5% annualized instead of 8.5%. Over the same period, EU GDP grew 2% (or around 8.2% annualized) and beat expectations by 0.5 p.p.. Underestimation of European growth and overestimation of the US growth reflects the fact that Europe was slower in vaccine distribution and thus had to endure lockdowns and pandemic-related restrictions longer. Therefore, it is currently at an earlier stage of recovery than the US and has more growth potential in the coming months. Nevertheless, growth rebound in both regions is undeniably strong. A potential danger to the current recovery pace is coming from the spread of Delta variant of COVID-19.

To ensure that economies sustainably recover, most major central banks for now continue their expansive monetary policies, although many have already at least started talking about tapering. As a result of an 18-month strategy review, the ECB changed its inflation objective to the 2% medium-term average, instead of the previous target of just under 2%. This means, that the central bank will now be tolerant of temporary inflation overshoots. This decision appears timely in light of July estimates of the year-on-year CPI growth of 2.2% (0.2 p.p. above analysts' expectations and the target). This approach resembles but falls short of the more ambitious Fed's policy shift last summer, according to which the US central bank is actively pursuing short-term inflation overshoots to achieve the average inflation rate of 2%. The ECB's policy change removes the pressure from the central bank to tighten its stance now that inflation is accelerating, but the economic environment is far from robust. For now, the bank maintains its "persistently accommodative" stance. This makes its position somewhat more dovish than that of the Fed, which has already started the tapering discussion but has not yet begone the actual tightening. The Fed officials have suggested that tightening will be possible after observing stable strengthening of the labor market for a couple of months.

Fixed Income

US 10-year treasuries yields puzzled investors throughout July: after two substantial falls in the first half of the month, they traded around 1.25% in the second half and ended the month at 1.24%, down over 20 basis points relative to the beginning of the month. The rationale for such an investors' behavior could be that in the beginning of the year 10-year US Treasury yields rose too quickly and too far for the current state of the economy. Thus, the new danger to the global recovery coming from the Delta variant is now weighting on yields on the one hand, and acceptance of elevated inflation as a temporary phenomenon drags them down on the other hand.

Now, from the fundamental perspective, the only apparent way for the yields to go is up, unless delta variant brings significant slowdown of global economic activity and expected inflation drastically falls and stays low, both of which are at this point unlikely. However, technical analysis suggests a potential for a further yield decrease both in the medium and in the short term. Amid this uncertainty, we stick with underweighting fixed income in our portfolios, keeping duration short and being more aggressive rating-wise.

Equities

July was quite a roller-coaster for the markets. Positive surprises brought by the earnings season and the signals of the continued monetary support by the Fed and the ECB helped propel equities to all-time highs and end the month overall in green. However, the spread of Delta variant and the unexpected and strict tightening of the regulatory environment in China spooked the nervous markets and made the July trajectory rather choppy. Energy sector was hit the hardest by these developments.

Performance diverged by regions as well. So, the clear underperformer was China due to the regulatory tightening actions, this time in education sector. Other emerging markets lagged as well, while advanced economies overall outperformed. Such a constellation is likely to continue for the time being, as there is space for more regulatory intervention in other sectors in China on the one hand and a strong growth potential in Europe and US on the other hand.

Equity Indicators

Valuation	Expensive
Momentum	Neutral
Seasonality	Negative
Macro-Economics	Positive

Investors are looking forward to hearing any news on the timing of tapering from the Fed at the Jackson Hole Federal Reserve Conference and after the mid-September FOMC meeting. Steady improvements in the labor market might allow the central bank to be more aggressive and to start withdrawing the monetary support. For now, we keep the neutral positioning in equities as we see both upside and downside potential equally likely in the coming weeks.

Alternative Investments

EURUSD currency pair was volatile in July, oscillating between 1.17 and 1.19, and ended the month at 1.1871. Positive surprises in economic data from in the EU contributed to strengthening of EUR relative to USD. From the technical perspective, the downside potential is more likely than the upside, and the interest rates differential is favouring USD rather than EUR. However, further positive surprises in the Euro area can strengthen the currency further.

Gold oscillated in July in the range between 1760 and 1830 and ended the month in green, up around 2%, driven by real yields and weaker USD. It showed some positive correlation with equity markets and the risk-on environment, and thus provided a poorer hedge for risky assets than in the past. In the coming weeks, dovish Fed and Delta variant uncertainty can support gold further up. However, if the price breaks significantly below 1800, this would be a strong bearish sign.

Oil has dropped in mid-July as OPEC+ reached a deal to increase production amid the Delta variant uncertainty but rebounded and ended the month around $73.95 per barrel of WTI crude and $75.41 for Brent. There is further upside potential for oil as travel resumes. Political tensions between the US and Iran can also support the prices, as they make the nuclear deal between the countries less likely and thus reduce the probability of Iranian oil entering the market.

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Market Overview as of Tuesday, 3 August 2021, 3:49 PM

Fixed Income

	Rate	Δ 1m	Δ 3m	Δ ytd
USD Overnight	0.08	-0.01	0.01	0.00
USD 1y Swap	0.15	-0.03	-0.06	-0.05
USD 3y Swap	0.43	-0.12	-0.03	0.19
USD 5y Swap	0.73	-0.20	-0.19	0.30
USD 10y Swap	1.19	-0.22	-0.41	0.26
EUR Overnight	-0.49	0.01	0.00	0.01
EUR 1y Swap	-0.53	-0.02	-0.01	0.00
EUR 3y Swap	-0.47	-0.07	-0.05	0.04
EUR 5y Swap	-0.38	-0.12	-0.12	0.07
EUR 10y Swap	-0.11	-0.21	-0.25	0.16
CDX Xover 5y	2.94%	0.25%	0.09%	0.01%
iTraxx Xover 5y	2.36%	0.09%	-0.13%	-0.07%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD Aggregate 1-3y	0.2%	0.2%	0.1%	0.2%
USD Aggregate 3-5y	0.6%	0.4%	-0.2%	-0.2%
USD Aggregate 5-7y	1.1%	1.5%	-0.3%	-0.7%
USD Aggregate 7-10y	1.6%	3.0%	0.6%	-0.8%
EUR Overnight	0.0%	-0.1%	-0.2%	-0.3%
EUR Aggregate 1-3y	0.1%	0.1%	0.0%	-0.1%
EUR Aggregate 3-5y	0.5%	0.7%	0.3%	0.2%
EUR Aggregate 5-7y	1.0%	1.4%	0.6%	0.3%
EUR Aggregate 7-10y	1.7%	2.3%	0.5%	0.0%
US Corp. HY	0.2%	1.9%	3.2%	4.0%
EUR HY	0.3%	1.1%	2.2%	3.1%

Equity

	Price	P/E	D. Yield	FCF yield
MSCI World	9,239	20.2	1.8%	5.2%
S&P 500	4,387	22.1	1.4%	3.1%
NASDAQ	15,007	29.1	0.7%	2.9%
Euro Stoxx 50	4,121	17.8	2.7%	14.0%
SMI	12,169	19.3	2.7%	5.5%
FTSE 100	7,104	13.0	4.0%	10.5%
DAX	15,552	14.7	2.8%	8.7%
MSCI Asia Pacific	201	15.6	2.4%	6.3%
FTSE China A50	15,601	13.0	2.6%	18.2%
MSCI Emerging Market	1,293	13.5	2.6%	6.1%
PH Semiconductor	3,382	22.4	1.1%	3.5%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	1.1%	4.7%	13.3%	15.4%
S&P 500	0.8%	4.6%	14.5%	16.8%
NASDAQ	1.9%	8.7%	12.0%	16.4%
Euro Stoxx 50	0.9%	3.0%	14.2%	16.0%
SMI	1.7%	9.4%	12.9%	13.7%
FTSE 100	-0.3%	1.9%	9.2%	10.0%
DAX	-0.6%	2.1%	11.6%	13.4%
MSCI Asia Pacific	-2.6%	-2.4%	-5.5%	0.4%
FTSE China A50	-8.0%	-10.0%	-17.5%	-11.9%
MSCI Emerging Market	-4.6%	-3.4%	-7.1%	0.1%
PH Semiconductor	2.0%	10.0%	13.4%	21.0%

Commodity

	Price	FCST 21	FCST 22	Δ Future
Gold	1,811	1780	1740	-1.4%
Silver	25.64	25.61	24.48	-1.0%
Platinum	1,047	1198.5	1288	7.5%
Palladium	2,678	2700	2875	2.0%
Crude Oil	70.10	65.2	63.12	-2.0%
Brent Oil	71.73	67.83	66.88	-2.3%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	1.6%	1.1%	-1.1%	-4.4%
Silver	-3.2%	-5.0%	-5.0%	-3.6%
Platinum	-3.8%	-15.2%	-6.7%	-3.6%
Palladium	-4.1%	-10.3%	17.1%	9.0%
Crude Oil	-5.7%	10.2%	30.7%	45.5%
Brent Oil	-4.7%	8.3%	27.6%	40.5%

Foreign Exchange

	Price	FCST 21	FCST 22	Δ Spot
EUR/USD	1.1870	1.19	1.21	1.9%
GBP/USD	1.3901	1.4	1.43	2.8%
USD/CHF	0.9041	0.92	0.93	2.8%
USD/JPY	108.90	111	112	2.8%
EUR/CHF	1.0732	1.11	1.13	5.2%
USD/RUB	73.11	72	71.66	-2.0%
EUR/RUB	86.78	86.02	87.3	0.6%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	0.0%	-1.5%	-1.3%	-2.9%
GBP/USD	0.3%	0.0%	1.8%	1.8%
USD/CHF	2.0%	0.9%	-0.5%	-2.1%
USD/JPY	1.8%	0.2%	-3.6%	-5.1%
EUR/CHF	2.0%	2.4%	0.8%	0.8%
USD/RUB	0.5%	2.9%	3.9%	1.8%
EUR/RUB	0.4%	4.1%	5.2%	4.5%

Source: Clarus Capital Group, Bloomberg

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research@claruscapital.ch, www.claruscapital.ch