Monthly Pulse – Tuesday, 1 December 2020

Economic Outlook

November finally brought the little bit of optimism that investors were so desperately waiting and hoping for: **several companies** around the globe **announced their vaccine success**. Even though the struggle of production and distribution is yet to be overcome and the anti-pandemic restrictions in many countries are yet to be lifted, global stock markets finished their best month on record in November. In the US, almost a month after the elections, the political turmoil is closer to a resolution now that the incumbent president has agreed to start the transition process - even though at the same time he promised to continue challenging the results of the elections. It is somewhat apparent now that for the next two years the country will be governed by a democratic White House and a mostly republican Senate – the combination which markets also perceived as good news. Markets' optimism, however, looks a little bit premature considering the recent macroeconomic data.

Tactical Asset Allocation

Liquidity	Neutral
Bonds	Neutral
Equities	Neutral
Alternative Investments	Neutral

Macroeconomics

In the US, the number of initial jobless claims appears to be stuck at a highly elevated level of slightly under 800k compared to the pre-virus average of fewer than 250k per week. For comparison, the latest number of initial jobless claims stands at 778k, while at the peak of the Global Financial Crisis this number reached at most 665k per week. Overall, the October unemployment rate in the US was 6.9% and is not expected to have changed significantly in November. At the same time, the **US Treasury Secretary** Steven Mnuchin **refused to extend most of the emergency lending programs**, that provided credit to distressed businesses and local governments, and requested that the unused funds are returned to the Treasury. This move was criticized be the FED's Jerome Powell who believes that amid the pandemic the emergency lending program serves "as a backstop for our still-strained and vulnerable economy". The vaccines will not be widely available for months to come, but the apparent drop in recovery pace must be dealt with now especially **as many of the current stimulus measures are about to expire** by end of December.

Similarly, in Europe, according to the ECB's October meeting minutes, the recovery has stalled after the summer rebound. The "second wave" of COVID-19 prompted European governments to toughen and/or extend the anti-pandemic measures. The measures this time are more targeted, so, according to the ECB, the effect on some sectors, such as manufacturing and construction, is not expected to be as strong as in spring. However, sectors that heavily depend on tourism and leisure are taking a big hit. The Central Bank does not rule out the possibility of a "double-dip" recovery at least for some European countries. The **next ECB meeting** is to be held on December 10, and **it is expected that additional monetary easing measures will be introduced**. Meanwhile, Brexit deadline is looming on the horizon: January 1 is supposed to be the date when Britain is no longer part of the European Union with or without a trade deal. The negotiations are supposed to conclude within the first week of December according to the British foreign secretary Dominic Raab, after which they will need to be ratified by both sides. Two major issues remain unresolved: fishing rights and competition rules, and the sides' expectations on both are nowhere near one another.

Fixed Income

The markets traded in November in line with the global risk-on sentiment, which was driven by the election result and news of potential vaccines bringing an end to the pandemic.

Although US Treasury 10yr yields shoot up 15 bps to 0.97 on the vaccine news, the full conviction of an economic recovery was missing as the number of new COVID-19 cases increased day by day. It looks like that **rates markets want to have the facts for an economic recovery on the table**. Currently, they are just slowly adapting to the bullish equity scenario.

A Bloomberg survey shows economists' forecasts for US 10y yields at 0.91 by the end Q1 2021.

Credit markets behaved differently, much closer to equities. US and European HY spreads tightened around 100 bps, its biggest move since April/May. Currently, markets are trading close to pre COVID-19 levels. Bonds from down beaten sectors like airlines and retail performed best.

Similar behaviour we saw in Emerging Markets but not to the same extend. We like the sector as it still has some potential to perform, especially with the current raise in oil-price.

With an expected vaccine roll out in 1H21, provided support from central banks and fiscal stimulus continues, we expect **the hunt for yield to continue with higher beta names outperforming**.

Equities

Global equity markets experienced an exceptionally strong month. Many indices rose at double-digit rates and the MSCI World marked a new all-time high. This was due to the new development of several COVID-19 vaccines, which also surprised on the upside.

The **strongest gains** were recorded by **those regions and sectors that had lost the most during the crisis**. The **Eurozone** was by far the **main winner** in November.

Among the sectors, financials recorded above-average growth. However, the energy sector was the winner with an increase of over 25%.

Equity Indicators

Valuation	Neutral
Momentum	Negative
Seasonality	Attractive
Macro-Economics	Positive

The prospect of several vaccines against COVID-19 will be available and eventually are coming sooner than hoped for, has significantly increased optimism about the global economy. Economists also raised the growth forecasts for 2021 and 2022. The new scenario is likely to further boost the cyclical sectors in particular.

In addition, the environment for financials has now also improved. Firstly, the brighter global economic picture should mean that the financials do not have to form further provisions for "COVID-related" payment defaults, or that they can gradually release them. Secondly, analysts expect a permanent expansive monetary policy as well as rising inflation expectations a steeper yield curve, which should help the banks to recover their margins. Thirdly, the new economic confidence should lead to a general increase in demand for credit. And because **financials are valued low compared to the market as a whole**, analysts see potential for a catch-up movement, at least temporarily. This reassessment also has an **impact on the relative attractiveness of the Value and Growth investment styles**. In the hope of a broad-based economic recovery and the associated above-average upside potential of financials, the value style, in which the financials account for the majority, should perform better than growth in the short to medium term.

The assessment of the sector and style favourites also affects the relative attractiveness of the regions. The Swiss equity market, for example, is dominated by the defensive sectors of healthcare and non-cyclical consumer spending, and thus represents a safe haven in the equity universe. In the base scenario, these sectors and thus the market as a whole are likely to underperform.

The **opposite is true for the Eurozone**. There, the **cyclicals** are weighted the highest and **financials** are prominently represented. The latter had previously suffered from the consequences of the financial and debt crisis. In the COVID-19 crisis, they were again punished. Even if the structural challenges from the first two trouble spots continue to have an impact, at least the end of the COVID-19 crisis should lead to a recovery. This would create an important prerequisite for the Eurozone to outperform the other regions, as the index development of the monetary community has been closely linked to that of financials since the financial crisis.

The picture for the Eurozone has probably brightened, but it should be borne in mind that the actual earnings trend of its listed companies lags that of the other regions. Moreover, the current dispute over the EU budget and the reconstruction fund highlight the structural challenges that remain unresolved. In this respect, we **expect outperformance to be temporary rather than the start of a new multi-year trend**.

All in all, the news on COVID-19 vaccination is positive, but we think that the stock markets are too euphoric even though the central banks are very expansive. The economy in the last quarter is likely to be worse than in the previous quarter. We therefore are **cautiously optimistic and remain neutral**.

Alternatives

The risk-on environment has also triggered a sell-off in Gold. The financial markets have been the biggest driver as gold consumption took a hit in the second quarter. This should be more balanced in the future. **Investors have to watch out for a change in the FED's communication**. Gold in 2013 has significantly corrected after the FED announced the start of tapering. We are still far off of this scenario and see therefore still **some upside to Gold**.

The pandemic has given more power to the OPEC due to the significant reduction in shale production. Therefore, we will see how markets will react to their meeting this week. It seems quite probable to see oil prices well **above USD 50 for next year**.

Hedge Funds had another good month, but we do not expect Hedge Funds to earn more than single digit returns in the future as high management fees and low yields already reduce some return potential. The pandemic has shown that **investors do well to include crisis-resistant strategies such as Insurance-linked strategies or global macro fund**. We will continue with these strategies as they are an important driver to stabilise portfolio returns.

In the period around the US elections at the beginning of November, there was **a broad-based weakening of the USD**, while pro-cyclical currencies in particular were able to gain ground. The fact that with Joe Biden as president elect, **less geopolitical interference is to be expected in the future** was received positively by the financial markets. The market also seems to be able to live well with a divided Congress, as this will mean that there will be no majority for drastic economic policy changes or experiments. However, a **split congress is likely to provide less lavish fiscal stimulus** than would have been the case in the scenario of a clear democratic victory. As a result, the FED will adopt a wait-and-see stance for the time being and thus **put less of a strain on the USD in the short term**. For the EUR/USD, markets will retest the 1.20 level but should not overshoot for the month to come even though the latest CFTC commitments show that investors are still heavily EUR long positioned.

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Market Overview as of Tuesday, 01 December 2020, 10:19 AM

Fixed Income

	Rate	Δ 1m	Δ 3m	Δ ytd
USD Overnight	0.08	0.00	0.00	-1.46
USD 1y Swap	0.21	0.00	-0.02	-1.56
USD 3y Swap	0.27	-0.01	0.04	-1.42
USD 5y Swap	0.43	0.00	0.11	-1.30
USD 10y Swap	0.86	0.00	0.18	-1.04
EUR Overnight	-0.47	0.00	-0.01	-0.03
EUR 1y Swap	-0.52	0.01	-0.08	-0.20
EUR 3y Swap	-0.51	0.03	-0.08	-0.27
EUR 5y Swap	-0.46	0.03	-0.08	-0.35
EUR 10y Swap	-0.25	0.02	-0.09	-0.46
CDX Xover 5y	3.03%	-1.16%	-0.50%	0.23%
iTraxx Xover 5y	2.57%	-0.98%	-0.54%	0.50%

	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%	0.1%	0.4%	2.9%
USD Aggregate 3-5y	0.2%	0.0%	0.6%	5.1%
USD Aggregate 5-7y	0.6%	0.2%	1.7%	7.6%
USD Aggregate 7-10y	1.3%	0.4%	3.3%	10.0%
EUR Overnight	0.0%	-0.1%	-0.2%	-0.4%
EUR Aggregate 1-3y	0.0%	0.3%	0.8%	0.2%
EUR Aggregate 3-5y	0.2%	0.8%	2.0%	1.2%
EUR Aggregate 5-7y	0.3%	1.4%	3.3%	2.6%
EUR Aggregate 7-10y	0.4%	2.2%	4.4%	4.0%
US Corp. HY	4.0%	§	10.1%	5.1%
EUR HY	4.0%	3.6%	8.5%	1.0%

Equity

	Price	P/E	D. Yield	FCF yield
MSCI World	7,683	24.7	1.9%	6.1%
S&P 500	3,622	25.8	1.6%	4.3%
NASDAQ	12,268	31.9	0.7%	3.1%
Euro Stoxx 50	3,525	22.9	2.6%	12.4%
SMI	10,486	20.0	3.0%	8.8%
FTSE 100	6,363	21.1	3.4%	18.0%
DAX	13,422	19.7	2.6%	10.1%
MSCI Asia Pacific	189	20.3	2.1%	4.5%
FTSE China A50	17,051	14.4	2.3%	8.2%
MSCI Emerging Market	1,205	18.6	2.1%	4.6%
PH Semiconductor	2,663	23.5	1.3%	3.4%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	12.8%	5.0%	20.2%	11.2%
S&P 500	10.8%	2.7%	18.5%	12.1%
NASDAQ	11.0%	-0.2%	27.8%	40.5%
Euro Stoxx 50	19.2%	7.6%	14.5%	-5.9%
SMI	9.4%	2.9%	6.7%	-1.2%
FTSE 100	14.1%	8.6%	3.2%	-15.6%
DAX	16.1%	3.5%	15.8%	1.3%
MSCI Asia Pacific	10.2%	8.9%	23.4%	10.9%
FTSE China A50	8.4%	8.1%	25.3%	18.5%
MSCI Emerging Market	9.2%	7.6%	26.7%	8.1%
PH Semiconductor	18.6%	15.6%	44.5%	44.0%

Commodity

	Price	FCST 20	FCST 21	Δ Future
Gold	1,792	1776	1870	-1.3%
Silver	23.23	20.0	22.42	-11.2%
Platinum	993	875	916.25	-13.0%
Palladium	2,420	2152	2127.5	-23.4%
Crude Oil	45.62	38.4	46	-2.5%
Brent Oil	48.20	42.2	47.75	1.7%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	-4.7%	-9.1%	3.1%	17.7%
Silver	-2.4%	-19.4%	20.9%	26.6%
Platinum	17.0%	3.3%	10.3%	0.0%
Palladium	8.6%	4.7%	22.0%	28.7%
Crude Oil	26.2%	4.3%	22.8%	-18.6%
Brent Oil	25.5%	3.2%	20.3%	-20.4%

Foreign Exchange

	Price	FCST 20	FCST 21	Δ Spot
EUR/USD	1.1975	1.1900	1.2300	2.7%
GBP/USD	1.3383	1.3100	1.3700	2.3%
USD/CHF	0.9063	0.9100	0.9100	0.4%
USD/JPY	104.25	104.00	106	1.7%
EUR/CHF	1.0853	1.0800	1.1200	3.2%
USD/RUB	76.13	77.00	72.30	-5.2%
EUR/RUB	91.16	91.43	90.82	-0.4%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	3.0%	0.3%	7.6%	6.6%
GBP/USD	3.7%	-0.1%	7.4%	0.9%
USD/CHF	1.5%	0.2%	6.1%	6.6%
USD/JPY	0.6%	1.7%	3.2%	4.2%
EUR/CHF	-1.4%	-0.1%	-1.4%	0.0%
USD/RUB	5.8%	-3.3%	-9.2%	-18.6%
EUR/RUB	2.8%	-3.6%	-15.4%	-23.6%

Source: Clarus Capital Group, Bloomberg

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Editors Roger Ganz, Head Asset Management, Dejan Ristic, Head Equity & FX, Markus Mettier, Head Fixed Income, Olga Karpova, Junior Portfolio Manager