

Monthly Pulse – Friday, 5 February 2021

Economic Outlook

With mass vaccinations launched across the world, investors' optimism pushed markets to the all-time high in January. However, it soon became clear that there are major issues that still remain to be resolved: from vaccine production and transportation, to convincing people of their safety and efficacy. This realization raised the tension in the markets, so when a little "black swan" - the "rebellion" of Robinhood traders - happened, markets underwent a correction and VIX sharply jumped and remained at an elevated level of over 30 during the last week of January.

Tactical Asset Allocation

Liquidity	Neutral
Bonds	Underweight
Equities	Neutral
Alternative Investments	Overweight

Macroeconomics

With a Democratic Majority in the US Senate, it is likely that a new large stimulus package is going to be passed. However, it might still end up smaller than the ambitious \$1.9tn proposed by President Biden, since some Republican votes are needed to pass the bill and their proposed package is much more modest: \$618bn. Therefore, investors are closely watching for the outcome of negotiations.

As the economic situation on both sides of the Atlantic is still strained and a double-dip recession in Eurozone is likely, markets are concerned of the possibility of an unexpected premature tapering by central banks, which is why the Fed's repeated message, including the one in the January meeting, has been that no change in asset purchases is planned so far and that there will be a lot of guidance before it actually happens. Similarly, at the last meeting, the ECB kept the rates and asset purchases unchanged, since it is not expecting the inflation in the EU to raise above 2% in the coming months.

Fixed Income

The US Treasury yields rose in the first half of January on the vaccination optimism, but amid the risk-off mood in the second half of January, the yields briefly dropped below 1%, although did not stay at that level long and went up to 1.13% on February 3rd. Moreover, the US Treasury yield curve is at its steepest level since 2016, which means that the rates market remains optimistic about the upcoming recovery even despite the correction in the equity market.

Despite lagging in January, Emerging Markets still remain attractive in light of improving commodity consumption. Issuance of new bonds in January was at a record level, with governments and companies trying to lock in low interest rates, especially for (ultra-)long maturities. Investors were eager to buy the new bonds, signaling confidence in the Fed's intention not to start tapering in the upcoming months.

Equities

Beginning of mass vaccinations across the globe, accompanied by the prospect of a new large US stimulus bill extended the year-end equity rally into the first half of January and gave a push to pro-cyclical rotation. However, problems in vaccine production and distribution - especially in Europe - amid the still raging virus gave investors a reality check, so the markets fell in the second half of January erasing most of the month's gains. Eurozone was hit especially badly, while emerging markets, namely China, showed positive performance.

In light of prolonged lockdowns in Europe, large tech and healthcare stocks once again fared better than the more cyclical ones. However, consumer staples, as a typical defensive sector, was one of the losers in January, which shows investors' willingness to prepare for a recovery despite the short-term uncertainty.

Equity Indicators

Valuation	Neutral
Momentum	Neutral
Seasonality	Positive
Macro-Economics	Neutral

Alternatives

Gold price fell in January in line with the risk-on mood, but during the end-of-January correction, it failed to regain the losses and got stuck around 1850. This is partially due to the strengthening of USD, propelled by the large fiscal stimulus prospects and the European vaccination lags. Nonetheless, EUR/USD is yet expected to rise in the next months.

Oil prices rose in January on the expectation that OPEC+ will adhere to their production quotas amid clearer economic recovery prospects. The oil futures prices now are in backwardation, indicating that currently demand is picking up and travel and production are on course for recovery.

Market Overview as of Thursday, 5 February 2021, 3:37 PM

Fixed Income

	Rate	Δ 1m	Δ 3m	Δ ytd		Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Overnight	0.08	0.01	0.00	0.01	USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD 1y Swap	0.18	-0.01	-0.03	-0.01	USD Aggregate 1-3y	0.0%	0.2%	0.3%	0.0%
USD 3y Swap	0.29	0.05	0.02	0.05	USD Aggregate 3-5y	0.1%	0.3%	0.3%	0.0%
USD 5y Swap	0.60	0.16	0.20	0.17	USD Aggregate 5-7y	-0.3%	0.0%	-0.1%	-0.4%
USD 10y Swap	1.25	0.30	0.46	0.33	USD Aggregate 7-10y	-0.9%	-0.7%	-1.2%	-1.3%
EUR Overnight	-0.47	0.03	-0.01	0.03	EUR Overnight	0.0%	-0.1%	-0.2%	0.0%
EUR 1y Swap	-0.53	0.01	0.00	0.00	EUR Aggregate 1-3y	-0.1%	-0.1%	0.2%	-0.1%
EUR 3y Swap	-0.49	0.04	0.05	0.02	EUR Aggregate 3-5y	-0.2%	0.0%	0.8%	-0.1%
EUR 5y Swap	-0.39	0.09	0.10	0.07	EUR Aggregate 5-7y	-0.3%	0.0%	1.3%	-0.2%
EUR 10y Swap	-0.10	0.17	0.18	0.16	EUR Aggregate 7-10y	-0.6%	-0.2%	1.4%	-0.5%
CDX Xover 5y	2.87%	-0.17%	-0.76%	-0.06%	US Corp. HY	0.9%	4.6%	6.8%	0.9%
iTraxx Xover 5y	2.40%	-0.13%	-0.79%	-0.02%	EUR HY	0.8%	4.3%	6.5%	1.0%

Equity

	Price	P/E	D. Yield	FCF yield		Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	8,216	21.4	1.9%	5.6%	MSCI World	2.8%	12.1%	17.8%	2.6%
S&P 500	3,872	22.8	1.5%	4.0%	S&P 500	3.9%	10.3%	16.3%	3.1%
NASDAQ	13,561	30.1	0.7%	2.9%	NASDAQ	5.9%	12.3%	21.9%	5.2%
Euro Stoxx 50	3,661	18.3	2.8%	12.1%	Euro Stoxx 50	3.2%	13.9%	12.0%	3.1%
SMI	10,800	17.8	3.0%	8.1%	SMI	1.0%	4.8%	6.9%	0.9%
FTSE 100	6,501	14.8	3.9%	17.5%	FTSE 100	-1.7%	10.1%	6.5%	0.6%
DAX	14,086	15.9	2.8%	9.7%	DAX	3.2%	12.1%	11.3%	2.7%
MSCI Asia Pacific	211	19.4	2.1%	4.3%	MSCI Asia Pacific	3.8%	16.5%	24.5%	5.6%
FTSE China A50	19,174	14.9	2.2%	7.7%	FTSE China A50	5.9%	17.5%	24.7%	8.3%
MSCI Emerging Market	1,388	16.5	2.2%	4.2%	MSCI Emerging Market	5.1%	19.0%	25.8%	7.5%
PH Semiconductor	3,008	23.6	1.2%	3.3%	PH Semiconductor	6.0%	20.9%	36.3%	7.6%

Commodity

	Price	FCST 21	FCST 22	Δ Future		Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	1,802	1860	1787.5	3.3%	Gold	-7.8%	-7.5%	-11.3%	-4.9%
Silver	26.82	25.05	22.38	-4.8%	Silver	-3.0%	5.9%	-2.1%	1.5%
Platinum	1,136	1078.12	1000	-2.4%	Platinum	1.4%	25.8%	13.9%	5.2%
Palladium	2,342	2447.88	2300	6.8%	Palladium	-6.1%	-2.1%	5.6%	-4.6%
Crude Oil	56.80	50.83	54.5	-7.0%	Crude Oil	13.6%	42.5%	29.7%	16.8%
Brent Oil	59.40	53.27	56.24	-6.6%	Brent Oil	10.9%	41.4%	25.8%	14.6%

Foreign Exchange

	Price	FCST 21	FCST 22	Δ Spot		Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	1.2004	1.25	1.25	4.0%	EUR/USD	-2.4%	1.7%	1.1%	-1.8%
GBP/USD	1.3704	1.4	1.4	2.1%	GBP/USD	0.5%	4.6%	4.4%	0.4%
USD/CHF	0.9022	0.89	0.91	0.9%	USD/CHF	-2.7%	0.4%	0.5%	-1.9%
USD/JPY	105.69	102.5	106	0.3%	USD/JPY	-2.9%	-1.9%	-0.1%	-2.3%
EUR/CHF	1.0830	1.1	1.12	3.4%	EUR/CHF	-0.3%	-1.2%	-0.6%	-0.1%
USD/RUB	74.70	69.2	68.5	-8.7%	USD/RUB	-0.9%	3.1%	-2.4%	-0.4%
EUR/RUB	89.67	84.67	80.84	-10.4%	EUR/RUB	1.5%	1.2%	-3.6%	1.2%

Source: Clarus Capital Group, Bloomberg

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research@claruscapital.ch, www.claruscapital.ch

Editors Olga Karpova, Junior Portfolio Manager