

## Monthly Pulse – Wednesday, 3<sup>rd</sup> November 2021

### Economic Outlook

As recovery continues and inflation appears more persistent, than what policymakers' models predicted, one after another central banks announce beginning of reduction or withdrawal of quantitative easing programs. With the backdrop of a slowing down growth momentum, the word "stagflation" is starting to crop up in the news.

#### Tactical Asset Allocation

Liquidity	Neutral
Bonds	Underweight
Equities	Neutral
Alternative Investments	Neutral

#### Macroeconomics

The October ECB meeting brought no major surprises. Main refinancing rate was left unchanged at 0.00% and bond buying will be continued at a "moderately lower pace" until at least March 2022. Christine Lagarde noted that recovery has been strong in the Euro area, although momentum is weakening. She insisted, that no rate hikes are planned for next year, but markets did not appear convinced. While before the speech, a single hike of 20 basis points in December 2022 had been priced by money markets, after the speech the anticipated hike timing was moved to October. Preliminary October Eurozone CPI figures showed year-on-year growth of 4.1% instead of the forecasted 3.7%. Inflation in the region has been above the average target of 2% since August. ECB's President noted the rising inflation, saying, that it is likely to stay elevated longer than expected. She also emphasized, that inflation should decline throughout 2022, when such contributing factors, as the recent rise in energy prices, reopening-related supply-demand mismatch, and base effects will no longer be affecting price growth pace.

After the highly anticipated Fed's meeting in the first days of November, the central bank is expected to announce the timing of tapering. Analysts believe that a gradual decrease in \$120 billion monthly asset purchases should conclude by the middle of next year. While there should be no surprises about the QE withdrawal pace, Fed's position on inflation is of particular interest to the markets. Jerome Powell acknowledged at a virtual conference in October, that so far inflation has proved more persistent than expected, and noted, that supply bottlenecks might pose a further risk for prices. Nonetheless, Powell maintained his view, that inflation will likely weaken next year and noted, that job market in the US still has some room for improvement, and so it is still too early for rate hikes.

#### Fixed Income

US 10-Year Treasury yield continued to climb up in October and reached 1.70%, the level unseen since May. However, the progress was erased in the last week, and the yield ended the month flat at 1.557%. A decrease in yield has been observed generally for the long-dated government bonds in major economies, while shorter-maturity yields increased, flattening the yield curves. Several factors have been suggested as possible explanations: from purely technical analysis and month-end rebalancing to stagflation concerns and a hawkish shift in monetary policy across the world. This situation is developing days before the highly anticipated Fed's meeting. Investors are uneasy about the possibility of an aggressive policy tightening by central banks in light of the unexpectedly persistent inflation. A policy mistake now would mean lower long-term growth, the fear of which could be the driver behind the yield curve move. At the same time, such a rapid move might signify investors' overreaction to heightened inflation. If the inflationary pressures indeed subside next year, yield curve should steepen again – tapering, naturally, should help as well.

In our portfolios, we stay underweight in fixed income, overweighting credit and keeping duration low.

#### Equities

Equities had quite a positive month: major US indexes were up over 5%, Europe showed a strong performance as well. This optimism was in part driven by strong corporate earnings reports, which should continue to support the market in the near future.

Emerging markets were also up in October, but suffered in the second half of the month, so they ended up lagging behind advanced economies. Several issues in China – namely, energy crunch, property sector difficulties, ongoing tensions with the US, and others – have affected Chinese equities in particular and emerging markets in general.

#### Equity Indicators

Valuation	Expensive
Momentum	Neutral
Seasonality	Positive
Macro-Economics	Neutral

Historically, November is a positive month for equities, and the market is still supported by the central banks, thus there is further upside potential for equities. At the same time, some volatility might be seen around the Fed's November meeting, as investors are anticipating any shifts in the central bank's tone.

Thus, we are keeping the neutral positioning in equities, but implement a slight tilt with switching from low-beta names to higher beta names e.g. change from IT to Energy and Growth to Cyclical.

## Alternative Investments

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EURUSD pair was volatile in October. It broke to new month's highs, just under 1.17, after Christine Lagarde's speech. However, positive surprises in US economic data the next day (namely, personal spending, PMI, and consumer sentiment), erased the gains, and the pair ended the month in red, under 1.16. Further price development will be influenced by the outcome of the Fed's November meeting: if investors hear more hawkish undertones, than they are expecting, the dollar will likely strengthen.

Gold price unsteadily grew in October but again failed to stabilize above \$1800 per ounce and ended the month around \$1780, up 1.4%. Investors are waiting for the Fed's meeting results before deciding on the further gold price trajectory. Elevated inflation and slowing down growth provoke concerns about an unlikely, but dangerous stagflation scenario. These concerns should make gold an attractive hedge and potentially support the prices. However, a much more realistic hawkish tilt in monetary policy across the globe makes the metal less attractive.

Oil prices continued to grow in October: both WTI Crude and Brent Crude ended the month around \$83 per barrel. OPEC+ is supposed to meet on November 4<sup>th</sup> and is expected to maintain production cuts, which is supporting the prices. A downside risk for the prices is coming from the possibility of Iranian oil entering the market, as negotiations on Iran nuclear deal are about to resume.

Overall, we believe, alternative investments as an asset class for the time being offer an attractive risk-return combination in the current environment. However, we reduce our exposure to commodities and therefore reduce our tactical asset allocation in Alternative Investments to neutral.

## Market Overview as of Wednesday, 3 November 2021, 4:22 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	0.31	0.14	0.16	0.12	USD Aggregate 1-3y	-0.3%	-0.4%	-0.2%	-0.2%
USD 3y Swap	0.97	0.34	0.54	0.73	USD Aggregate 3-5y	-0.6%	-1.0%	-0.6%	-1.2%
USD 5y Swap	1.27	0.25	0.54	0.84	USD Aggregate 5-7y	-0.5%	-1.4%	0.1%	-2.1%
USD 10y Swap	1.60	0.11	0.40	0.67	USD Aggregate 7-10y	-0.5%	-2.0%	0.9%	-2.7%
EUR Overnight	-0.49	-0.01	-0.01	0.00	EUR Overnight	0.0%	-0.1%	-0.2%	-0.4%
EUR 1y Swap	-0.48	0.03	0.05	0.05	EUR Aggregate 1-3y	-0.1%	-0.3%	-0.2%	-0.4%
EUR 3y Swap	-0.19	0.18	0.28	0.32	EUR Aggregate 3-5y	-0.5%	-1.0%	-0.3%	-0.7%
EUR 5y Swap	-0.05	0.16	0.34	0.41	EUR Aggregate 5-7y	-0.6%	-1.7%	-0.3%	-1.3%
EUR 10y Swap	0.21	0.06	0.31	0.47	EUR Aggregate 7-10y	-0.7%	-2.5%	-0.2%	-2.5%
CDX Xover 5y	3.02%	-0.01%	0.09%	0.09%	US Corp. HY	-0.2%	0.4%	2.3%	4.4%
iTraxx Xover 5y	2.59%	0.00%	0.23%	0.17%	EUR HY	-0.4%	-0.3%	0.8%	2.8%

### Equity

	Price	P/E	D. Yield	FCF yield		Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	9,629	20.2	1.8%	5.0%	MSCI World	5.8%	3.7%	9.1%	20.2%
S&P 500	4,625	22.4	1.3%	3.1%	S&P 500	6.2%	4.6%	10.3%	23.1%
NASDAQ	15,966	29.7	0.6%	2.8%	NASDAQ	7.9%	6.0%	15.7%	23.9%
Euro Stoxx 50	4,304	16.8	2.7%	13.7%	Euro Stoxx 50	6.6%	4.5%	7.6%	21.1%
SMI	12,349	19.2	2.6%	5.6%	SMI	6.7%	1.5%	11.1%	15.4%
FTSE 100	7,247	12.6	4.0%	10.6%	FTSE 100	3.1%	2.0%	4.0%	12.2%
DAX	15,947	15.3	2.5%	8.2%	DAX	5.2%	2.5%	4.7%	16.2%
MSCI Asia Pacific	198	15.4	2.4%	7.3%	MSCI Asia Pacific	1.5%	-1.3%	-3.7%	-1.0%
FTSE China A50	15,412	13.1	2.5%	13.1%	FTSE China A50	-0.5%	-1.1%	-11.1%	-13.0%
MSCI Emerging Market	1,264	13.3	2.8%	6.9%	MSCI Emerging Market	1.4%	-2.3%	-5.6%	-2.1%
PH Semiconductor	3,557	20.3	1.2%	3.7%	PH Semiconductor	9.1%	4.7%	15.7%	27.2%

### Commodity

	Price	FCST 21	FCST 22	Δ Future		Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	1,761	1780	1718.75	-0.7%	Gold	0.3%	-2.7%	-1.7%	-7.1%
Silver	23.17	25.19	24	0.7%	Silver	2.8%	-9.6%	-14.3%	-13.1%
Platinum	1,026	1088.38	1152.5	-0.5%	Platinum	5.4%	-2.2%	-17.0%	-5.9%
Palladium	1,990	2460	2311.25	3.5%	Palladium	4.5%	-25.0%	-33.4%	-18.6%
Crude Oil	81.08	67.78	69.5	-2.2%	Crude Oil	7.3%	17.9%	30.8%	70.1%
Brent Oil	82.30	70.67	71	-3.6%	Brent Oil	4.8%	16.7%	26.9%	62.6%

### Foreign Exchange

	Price	FCST 21	FCST 22	Δ Spot		Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	1.1575	1.16	1.16	0.2%	EUR/USD	-0.4%	-2.4%	-4.1%	-5.2%
GBP/USD	1.3654	1.37	1.4	2.5%	GBP/USD	0.3%	-1.9%	-1.8%	-0.1%
USD/CHF	0.9125	0.93	0.94	3.0%	USD/CHF	1.4%	-1.0%	-0.2%	-3.0%
USD/JPY	114.07	112	113	-0.9%	USD/JPY	-2.8%	-4.4%	-4.4%	-9.5%
EUR/CHF	1.0563	1.08	1.12	5.9%	EUR/CHF	1.7%	1.5%	4.1%	2.4%
USD/RUB	72.23	71.33	70	-3.1%	USD/RUB	0.4%	1.0%	4.1%	3.0%
EUR/RUB	83.61	81.99	81.38	-2.7%	EUR/RUB	0.7%	3.6%	8.2%	8.4%

Source: Clarus Capital Group, Bloomberg

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research@claruscapiital.ch, www.claruscapiital.ch