

Monthly Pulse – Friday, 3rd September 2021

Economic Outlook

Another wave of COVID-19, boosted by the spread of the more contagious Delta variant, is now full blown across the globe. The US is once again leading the way in terms of the grim absolute numbers. The impact is starting to be noticeable in the data, in particular, in the US and Asia. However, vaccinations and revaccinations largely help mitigate the worst scenarios of the past waves. Thus, equity markets, buoyed by monetary and fiscal stimulus, continue to reach new highs, and VIX is around its lowest levels since the beginning of the pandemic.

Tactical Asset Allocation

Liquidity	Neutral
Bonds	Underweight
Equities	Neutral
Alternative Investments	Overweight

Macroeconomics

In his much-anticipated speech during Jackson Hall symposium, Fed's Jerome Powell indicated a likely upcoming reduction in bond purchases by the central bank, as the country's economy is recovering. However, the overall tone of the speech was not as hawkish as expected, which had its effect on the markets. Powell explained, that in the central bank's view, it is still far too early to increase rates. While inflation is in line with the target, the economy is still fragile: Consumer Sentiment Index sharply dropped in August, and employment is yet to reach the goal. US initial jobless claims continued to fall in August and reached the lowest levels since the beginning of the COVID-19 pandemic, around 350k per week, but they are still high above the average before March 2020 of around 210k-220k per week. Unemployment remains elevated as well: it stood at 5.4% in July, which is around 2 p.p above the pre-pandemic level. September Fed meeting should shed more light on the central bank's next steps: the timing and the pace of tapering are expected to be announced either then or after the November meeting.

Meanwhile, Europe is catching up in its recovery: preliminary August CPI was 3% year on year, 0.3 p.p. above expectations, exceeding the 2% target for the second month straight. While some European policymakers have expressed concern over the bank's ultra-easy policy in the relatively-high-inflation environment, markets did not show a strong reaction to the latest inflation data, which suggests, that investors are not expecting a rapid response from the central bank. The minutes from the central bank's July meeting, released in August, as well as Christine Lagarde's statements,

emphasized that rates won't be raised until inflation is sustainably robust over the planning horizon of several years and that the currently elevated levels are mostly viewed as transitory. At the same time, it is widely expected that after the September's meeting a reduction in the pace of PEPF purchases will be signaled.

Fixed Income

US 10-Year Treasury yield had a truly roller-coaster month. It tried to break higher twice, but the ongoing spread of Delta-variant with the uncertainty it brings, as well as disappointing economic data pointing at a slowdown in recovery momentum prevented the yield from breaking above 1.40%, so it ended the month around 10 basis points up, at 1.30%.

In light of the past months' dynamics, analysts reevaluated their forecasts for US Treasury yields. The average expectation for 10-year yield is 1.80% by the end of the year: 50 basis points up from the current level (for comparison, in May the average expectation for the same period was 2.00%). Nonetheless, at the moment, the only apparent direction for bond yields now is upward - or for bond prices downward - so we stay underweight in fixed income for now.

Equities

Equities had an overall positive if a bit bumpy month: S&P 500 and STOXX Europe 600 were up 2.9% and 2.0% respectively in August. The best performers were tech, communications, and utilities sectors, while materials, energy, and consumer discretionary sectors lagged behind, as the spreading Delta variant remains the main threat to the markets on a global scale.

Among regions, China again underperformed due to the continued regulatory tightening, which hit the region's tech sector particularly hard. The country's equities have been in a downward trend for over half a year and have erased most of the last year's incredible gains, as investors' confidence has been undermined by future policy uncertainty, growth slowdown, and geopolitical tensions between China and US.

Equity Indicators

Valuation	Expensive
Momentum	Neutral
Seasonality	Negative
Macro-Economics	Neutral

There is an upside potential for equities, as long as central banks' and governments' support in major economies continues, but risks around Delta variant are substantial, and valuations are high. Thus, we remain neutral in equities and favor Europe, where valuations are cheaper and recovery is at an earlier stage compared to the US.

Alternative Investments

WTI Crude price fell below USD 70 per barrel in the beginning of August and since then failed to break above that level several times ending the month in red. Brent Crude price oscillated in a similar way and ended August at USD 73 per barrel. It appears for now oil prices are struggling to break higher due to the decreased oil demand caused by the spread of Delta variant on the one hand, and planned increases of oil production by OPEC+ on the other hand.

EURUSD ended the volatile August in red, just below 1.18. After falling for several months, the currency pair appears to

have reversed its trend in the final week of August. From the fundamental perspective, EURUSD is supported by Powell's dovish speech, as well as by strong inflation figures in Eurozone and a possible reduction of asset purchases by the ECB, the timing of which might be announced in September.

Gold had a volatile month continuing to gravitate towards 1800 USD per ounce. It briefly and rapidly dropped below 1700 on positive US jobs report in the beginning of August but regained all losses by the end of the month. Supported by USD weakness in light of the Fed's somewhat dovish stance, gold ended August around 1815, appearing to have confidently broken through the 1800 threshold. This means, that there is a potential for further increase if USD weakness continues. US unemployment data released in the first days of September is likely to affect the future development of gold price as well as of other asset classes.

We believe, alternative investments as an asset class offer an attractive risk-return combination in the current environment, thus we continue to overweight them in our portfolios.

Market Overview as of Friday, 3 September 2021, 5:07 PM

Fixed Income

	Rate	Δ 1m	Δ 3m	Δ ytd		Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Overnight	0.07	0.00	0.02	0.00	USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD 1y Swap	0.15	0.01	0.01	-0.04	USD Aggregate 1-3y	0.0%	0.1%	0.2%	0.1%
USD 3y Swap	0.52	0.09	0.08	0.28	USD Aggregate 3-5y	-0.2%	0.3%	0.2%	-0.4%
USD 5y Swap	0.87	0.14	-0.04	0.44	USD Aggregate 5-7y	-0.4%	1.1%	0.8%	-1.1%
USD 10y Swap	1.34	0.15	-0.26	0.41	USD Aggregate 7-10y	-0.6%	2.2%	2.0%	-1.4%
EUR Overnight	-0.48	0.00	-0.01	0.01	EUR Overnight	0.0%	-0.1%	-0.2%	-0.3%
EUR 1y Swap	-0.51	0.01	0.00	0.02	EUR Aggregate 1-3y	-0.1%	0.0%	0.0%	-0.2%
EUR 3y Swap	-0.43	0.04	-0.02	0.07	EUR Aggregate 3-5y	-0.2%	0.4%	0.4%	0.0%
EUR 5y Swap	-0.32	0.06	-0.06	0.14	EUR Aggregate 5-7y	-0.4%	1.0%	0.8%	0.0%
EUR 10y Swap	0.00	0.10	-0.13	0.26	EUR Aggregate 7-10y	-0.7%	1.7%	1.1%	-0.7%
CDX Xover 5y	2.74%	-0.19%	-0.13%	-0.18%	US Corp. HY	0.8%	2.2%	3.8%	4.7%
iTraxx Xover 5y	2.28%	-0.07%	-0.18%	-0.14%	EUR HY	0.3%	1.0%	2.3%	3.5%

Equity

	Price	P/E	D. Yield	FCF yield		Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	9,509	20.3	1.8%	4.8%	MSCI World	2.4%	6.7%	16.3%	18.7%
S&P 500	4,532	22.3	1.3%	3.1%	S&P 500	2.5%	8.1%	18.7%	20.7%
NASDAQ	15,617	29.3	0.7%	2.8%	NASDAQ	3.7%	15.4%	23.1%	21.2%
Euro Stoxx 50	4,201	17.7	2.7%	11.9%	Euro Stoxx 50	2.0%	3.0%	13.1%	18.2%
SMI	12,343	19.5	2.7%	5.6%	SMI	1.5%	7.2%	14.6%	15.3%
FTSE 100	7,142	12.6	4.1%	10.4%	FTSE 100	0.5%	1.1%	7.0%	10.6%
DAX	15,770	14.6	2.8%	8.9%	DAX	1.4%	0.9%	12.0%	15.0%
MSCI Asia Pacific	203	15.7	2.4%	6.4%	MSCI Asia Pacific	1.3%	-3.2%	-4.1%	1.6%
FTSE China A50	15,137	12.9	2.6%	13.5%	FTSE China A50	-1.9%	-16.6%	-15.6%	-14.5%
MSCI Emerging Market	1,312	13.7	2.6%	6.1%	MSCI Emerging Market	1.4%	-5.2%	-4.8%	1.6%
PH Semiconductor	3,426	20.3	1.1%	3.5%	PH Semiconductor	0.9%	9.1%	15.1%	22.6%

Commodity

	Price	FCST 21	FCST 22	Δ Future		Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	1,830	1780	1740	-1.3%	Gold	1.1%	-2.2%	6.6%	-3.5%
Silver	24.75	25.65	24.8	1.8%	Silver	-3.4%	-10.2%	-6.6%	-7.1%
Platinum	1,017	1189.78	1281.5	9.1%	Platinum	-2.8%	-12.8%	-14.5%	-6.3%
Palladium	2,417	2653.25	2587.5	5.0%	Palladium	-8.8%	-14.6%	3.3%	-1.1%
Crude Oil	69.85	65.45	63.12	-0.2%	Crude Oil	-0.3%	3.4%	19.7%	45.5%
Brent Oil	72.91	68.45	66.88	-1.9%	Brent Oil	1.6%	4.4%	19.4%	43.2%

Foreign Exchange

	Price	FCST 21	FCST 22	Δ Spot		Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	1.1882	1.18	1.2	1.0%	EUR/USD	0.1%	-2.0%	-1.6%	-2.8%
GBP/USD	1.3853	1.39	1.43	3.2%	GBP/USD	-0.5%	-1.7%	-0.8%	1.5%
USD/CHF	0.9139	0.92	0.92	0.7%	USD/CHF	-1.1%	-1.0%	0.5%	-3.1%
USD/JPY	109.68	110	111	1.2%	USD/JPY	-0.6%	0.5%	-2.5%	-5.8%
EUR/CHF	1.0858	1.1	1.13	4.0%	EUR/CHF	-1.2%	1.0%	2.1%	-0.3%
USD/RUB	72.76	71.9	70	-3.9%	USD/RUB	0.3%	0.7%	1.7%	2.3%
EUR/RUB	86.45	86.4	85.6	-1.0%	EUR/RUB	0.1%	2.8%	3.3%	4.9%

Source: Clarus Capital Group, Bloomberg

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