

Market Monthly

February 2020

Highlights

- Economics:** In the US, the final 4Q19 GDP data showed slowest growth during the Trump mandate, posting 2.1% increase. Full year growth totaled to 2.3%. Unemployment rate stood at record low value 3.5%. On the other side of the ocean, Eurozone expands only 0.1% in last quarter of 2019, with Germany stagnating and France even recorded contraction -0.1%. Unemployment rate is stable, 7.4% in February. Forecasts for 2020 GDP growth rate are downgraded due to outbreak of coronavirus.
- Inflation:** Observing US consumer prices on monthly basis, expenditures rose by 0.1% in February, reaching 2.3% increase for y-o-y. On Eurozone, prices in February dropped by 0.2% comparing to January, 12 month figure is 1.2%. Other 1Y CPI values for February were: Russia 2.3%; for China 5.2%, Brazil 4.0%.
- Central bank interest rates:** On the January meeting, Fed haven't changed funding rates, which are in corridor 1.50%-1.75%. However, Fed will closely monitor situation and economic impact of coronavirus, and market participants expects multiple cuts of funding rates, possibly going to 0 value in this year. ECB has tighter maneuver space, already in negative interest territory, in February unchanged from -0.5% value, so in case of monetary stimulus needs ECB will probably go for the further QE measures. Other central banks of major economics also watching closely development of coronavirus and are prepared to cut basic lending rates. China already cut funding rates by 10bps.
- Capital market rates:** In equity market reversal during the last week of February, yields of 10yr US treasuries were under pressure. Strong demand resulted for all-time lows, dropping from 1.5% values at the start of month to 1.15%. European bonds didn't expressed such volatility due to negative yields, German 10Y Bund yield decreased 20bps. Although EUR bond prices remain supported over the longer term, yields in EUR will remain unattractive for some time.

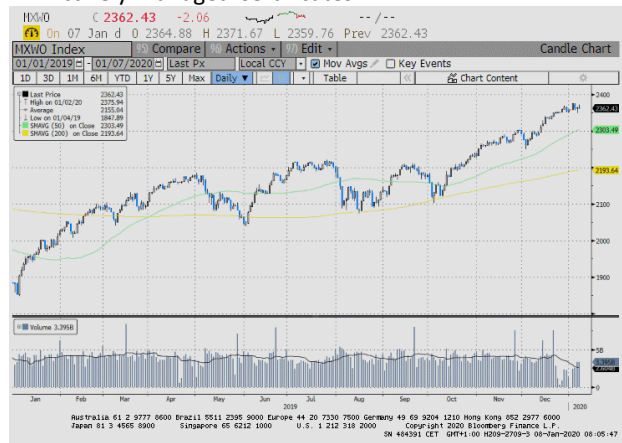
Tactical Asset Allocation

- Forex:** EURUSD posted higher volatility, due to concerns regarding Eurozone growth prospects. On the 20th February, USD recorded 3Y high value of 1.078 for EUR. However, due to tightening of US – EUR bond spreads during the end of February and unwinding carry trade positions, EUR regain strength and ended month with spot value above 1.10.

- Bonds incl. High Yields (Uⁱ):** Since near-zero/negative policy rates and negative real rates are seen persisting in Europe for several years, we continue investing in up to 2028 maturities of European DM bonds to improve yield and look for USD bonds with shorter maturities ahead of future rate changes.
- Equities (N):** After initial rebound at the beginning of the month and supporting measures from China, European and US markets recorded all time high values during mid-February, but sudden sharp increase of cases in Italy and South Korea was the reason for massive sell-off in final week of February, erasing all gains from the start of the year.
- Commodities (N):** Due to sluggish demand and production halt in China, which encounters for roughly 15% of oil spending needs, crude oil price fell additional 5%, posting a total decrease 15% since end of 2019. Price of crude oil at the end of February is 47\$ per barrel and it is highly dependent on March OPEC meeting.

Investment Ideasⁱⁱ

- We remain positioned for a market rebound within our Actively Managed Certificates.



ⁱHow to read: (U) underweight; (N) neutral; (O) overweight
ⁱⁱSee rationales on our web page www.aspermontcapital.ch

ⁱⁱⁱReturn from beginning of the year till current date

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