Market Monthly

May 2020

Highlights

- **Economics:** After plunge of economic activity by -4.8% in Q1, unemployment rate of May in USA rose above 15%. Easing of corona measures in most of states will benefit recovery, but full effect of fiscal stimulus alongside with record FED balance sheet of nearly USD 7tn will set economy output on pre-corona levels probably at the end of Q3. In Europe, Germany unemployment rate (6.3%) is at highest value since 2015, but PMI numbers, although still in contraction territory, signalizing that worst has passed. Also, at the end of month Eurozone leaders made step forward in proposing EUR750bn support program. Latest export numbers of 3.5% increase from China positively surprised investors, but setting economy recovery as primary goal could mean that GDP growth would be lowest in two decades.
- **Inflation:** Observing US consumer prices on monthly basis, expenditures declined by 0.8% in April, reaching 0.3% increase for y-o-y. On Eurozone, prices in April dropped by 0.3% comparing to March, 12 month figure is 0.4%. Other 1Y CPI values for March were: Russia 3.1%; for China 3.3%, Brazil 2.4%.
- **Central bank interest rates:** Central Banks around the world had same response to financial crisis happened in March, slashed the interest rates and pledged historical high asset purchasing programs. During May, Central Banks continued with buying bonds, but didn't further lower rates. In Europe, German court has to decide whether ECB crossed out its mandate with extensive purchase program.
- **Capital market rates:** Volatility on this market continue to diminish, with US 10Y Treasuries trading in tight range 0.6%-0.7%. Similar situation is in Europe, where 10Y Bund changed hands in -0.6% to -0.4%, with stable uptrend movement on yields during May.

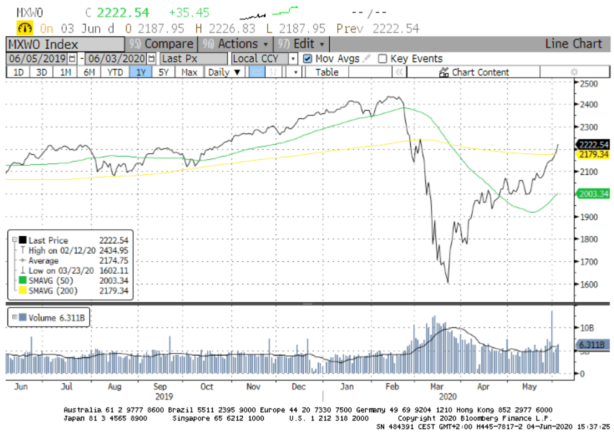
Tactical Asset Allocation

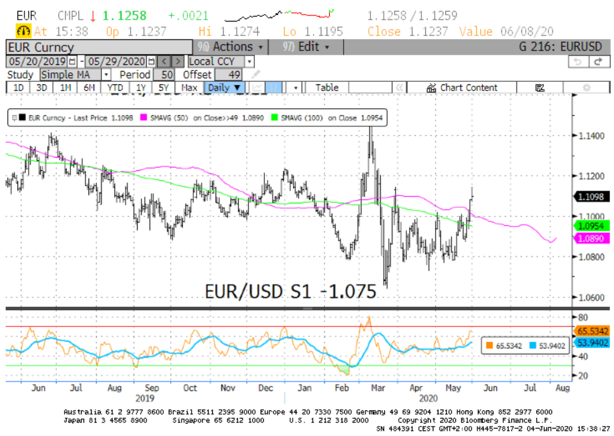
- **Forex:** In May, EUR/USD was trading in 1.08 – 1.11 range, with strengthening of EUR by the end of month. Signs of economy restoration support investors to go towards more risky asset classes and exit from safe havens like dollar investment. Further, delayed response of Eurozone to implement fiscal measures similar to USA lifted Euro.
- **Bonds incl. High Yields (U[i]):** 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.
- **Equities (O):** Markets continued rally in May, although pace is not that steep like in April. Additionally, European markets picked up and now difference between performances of DAX and S&P 500 is down from 8% to 6% at the end of May, observing from the beginning of the year.
- **Commodities (N):** Historical occurrence of negative oil price in the mid of April didn't repeat in May, when already agreed cut of 10mn barrels in production was implemented. On top of that, Saudi Arabia further cut supplies by 1mn barrel. From demand, USA oil storage figures are reducing since the second week of May, showing signals of recovery. This was reflected on more than 70% increase in oil price, which ended month around $35.

Investment Ideas[ii]

- Markets around the world recovering from virus impact, we continue to decrease cash position and overweight Chinese equities and enter position in Italian bonds to in times where yields temporary goes due to concerns of ECB buying Italian bonds.

Performance Equity Markets MSCI World 12m[iii]





EURUSD Technical Chart 5y, Bloomberg

[i] How to read: (U) underweight; (N) neutral; (O) overweight
[ii] See rationales on our web page www.aspermontcapital.ch
[iii] Return for the last rolling 12m

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