

Market Monthly

July 2020

Highlights

- Economics:** Fresh GDP numbers in USA for Q2 showed plunge of economic activity by 32.9%, which is by far highest decline ever recorded. However, this number was expected by investors and didn't have implications on markets. Unemployment rate continues to decline, but still in double digit territory, 11.1%. Earnings season in America proved resilience of IT giants lifting share prices to new all-time highs values. FED continues to support economy, but Americans are concerned about continuation of unemployment benefits after July. Proposed \$1tn stimulus package Democrats considers not enough. On the other side, consensus is reached in €750bn program in Europe, where contraction in Q2 is not that dire. Major European economies lost 10-13% with almost unchanged unemployment rate which is hovering around 7%. After plunge in March, Eurozone PMI readings slowly regained values and July numbers are back in expansion zone. Chinese markets had exceptional start of the month with mainland indices reaching highest levels since 2015, before correction in second half of July. June industrial production in China continued to growth, +4.8% Y-o-Y.
- Inflation:** After deflation in May, consumer prices in USA advanced by 0.6% in June, setting 12 month figure to 0.6%. In Europe, June inflation increased by 0.2% totaling 0.8% for the annual inflation. Other 1Y CPI values for March were: Russia 3.4%; for China 2.7%, Brazil 2.3%, India 6.9%
- Central bank interest rates:** Central Banks around the world continued with expansive monetary policy during July. In most recent meeting, FED didn't change current interest rate corridor (0% to 0.25%) and stated that any hawkish action can't be expected until annual CPI exceeds 2%. Also, ECB and People's Bank of China kept rates at -0.25% and 3.85% respectively.
- Capital market rates:** Strong bull-run on gold market coupled with weak dollar depressed yields on 10Y Treasuries from 0.7% to 0.53% at the end of month. Demand for less risk asset class also resulted with higher price/lower yields on 10Y Bund, but not to that extent, final July yield -0.5% was 10 bps lower than starting month value.

Tactical Asset Allocation

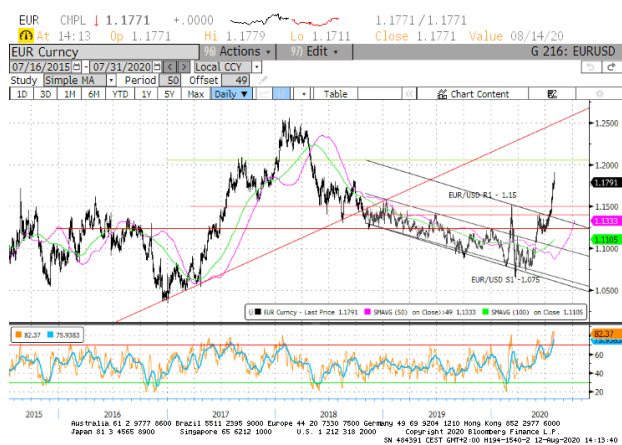
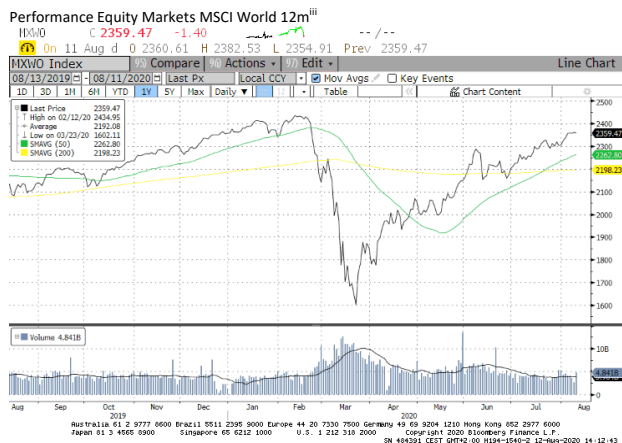
- Forex:** In July, EUR constantly gained value comparing to USD, on absence of agreement regarding second economy stimulus package in USA and FED willingness to keep dollar weak to boost exports. From opening 1.12

spot rate, EUR strengthen by 6% vs USD in and finished month with 1.18 value.

- 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.
- Equities (N):** Similar to previous month, markets started very positive before going sideways in second half. Ignoring the currency loss, American markets fueled by IT giants are now positive YTD, while European markets still lagging. As mentioned, cooling down of Chinese markets was modest, and values are still more than 10% higher comparing to beginning of 2020.
- Commodities (N):** Finally low volatility on crude oil market, price was little changed from \$40/barrel for the whole month. OPEC extended production cuts until the end of the 2020.

Investment Ideasⁱⁱ

- Markets around the world recovering from virus impact, we continue to decrease cash position and overweight Chinese equities alongside with writing call options on selected stocks to enhance yields.



EURUSD Technical Chart 5y, Bloomberg

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

ⁱⁱⁱReturn for the last rolling 12m

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