

Market Monthly

August 2020

Highlights

- Economics:** After recording a sharp decrease in Q2 GDP figures, markets continued to rise, especially in USA market dominated by tech giants. S&P 500 posted best August performance in 34 years, reaching 3500 level for the first time in history, while Nasdaq ending month value was 30% higher than beginning of the year value. Reasons behind this are continuation of decreasing unemployment rate, which is now 10% and FED pledge to induce inflation at all costs. Still, 1tn USD stimulus from the fiscal side is missing, major parties are now more confronted with the outcome of the election race in November than reaching the deal. Further, corona cases in USA are finally decreasing. In Europe, industrial production and PMI numbers continue to increase, but incremental growth is smaller comparing to previous months. Unemployment rate is flat at 7.8% in Eurozone, and slightly lower in Germany, 6.4%. During August, there were no additional coordinated economic measure, also ECB meeting passed without any divergence from current policy. Confrontation between China and USA settled down during last month, resulting with low volatility on Chinese markets. Latest release of dollar denominated exports showed almost 10% increase Y-o-Y, but slowing down of imports could be interpreted as stagnation of domestic consumption, which can limit potential growth of equity market.
- Inflation:** No movement in USA CPI observing on monthly basis, Y-o-Y figure for July was 0.6%. Core inflation in Europe increased by 0.1% to total rolling 12 month value of 0.4%. Other 1Y CPI values for July were: Russia 3.6%; China 2.7%, Brazil 2.3%, India 6.9%
- Central bank interest rates:** In its latest meeting, FED decided to use all disposable tools to exceed target inflation rate of 2%, but kept current interest rate corridor (0% to 0.25%) and states that weak dollar wouldn't be a concern. Other monetary authorities, like ECB and People's Bank of China kept rates at -0.25% and 3.85% respectively.
- Capital market rates:** After FED announcement of prolonged expansive monetary policy coupled with slight correction on Gold market, 10Y Treasuries yield reversed trend and from starting 0.53% ended month at 0.7% at the end of month. Similar to July, in August volatility on Bund was lower, increasing only 5bps to -0.46%

Tactical Asset Allocation

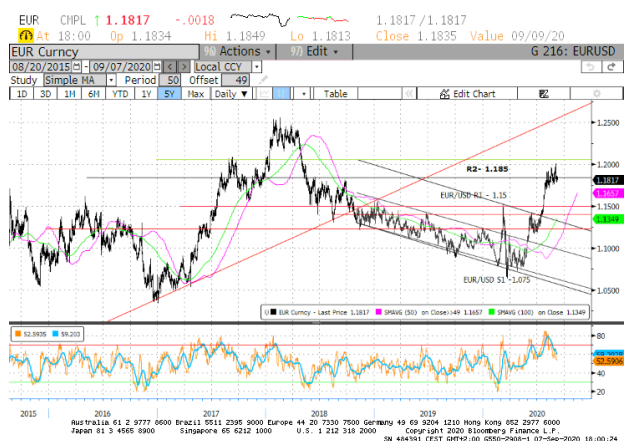
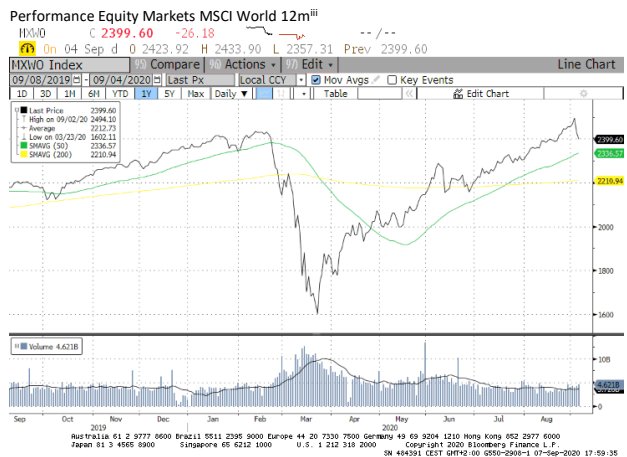
- Forex:** FED meeting had also implications on eur/usd, especially with implied statement that weak dollar is favored. Resistance level of 1.20 was tested and final

August figure indicates 1% strengthening of EUR to 1.19 spot vs USD.

- 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):** August was very positive on equity market, posting the all-time highs on USA indexes and erasing most of the losses elsewhere. However, current valuations are, in our opinion, too high, especially in IT sector. Potential buy opportunities can be found in cyclical stocks where there is still space to offset losses caused by corona pandemic.
- Commodities (N):** Low volatility on crude oil market continued in August, where barrel was traded in tight range \$40-43. OPEC agreement of production cut is still in place, but for the full recovery of oil price, demand catalyst is still missing.

Investment Ideasⁱⁱ

- We continued to write call options on stocks from overperforming sectors, slowly building cash position for entering position on possible correction of IT stocks.



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

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ⁱⁱⁱ Return for the last rolling 12m