Market Monthly

December 2020

Highlights

- **Economics:** In final month of the year, uptrend on financial markets continued, although growth was milder. Approval of coronavirus vaccine usage, delivering of long expected $0.9tn stimulus package in and settling dust about the outcome of presidential elections helped all major indices in USA to finish year on all time high values. This fiscal measures enhance inflation expectations in following months and combat signs of slowing down of the economy, where for the first time since April nonfarm payroll jobs fell, even if unemployment rate stood at 6.7%. Maintaining more restrictive measures regarding coronavirus than USA, Europe successfully managed to finally close Brexit deal in December and cut unemployment rate to 8.3%. Latest PMI readings confirms expansion outlook in major European economies. China was more focused on internal regulation with pressure on Ant Group IPO that adversely affect share price of Alibaba, but industrial PMI numbers showed only minor decline, which can be more justified by seasonality than by deterioration of economic prospects.
- **Inflation:** Prices in USA continued to post minor increase, 0.2% higher inflation in November totaling 1.2% Y-o-Y, still below target of 2%. Europe is experiencing deflation of -0.2% YTD, contribution of November was -0.3%. Other 1Y CPI values were: Russia 4.9%; China -0.5%, Brazil 4.3%, India 6.9%
- **Central bank interest rates:** As expected, FED maintained 0-0.25% corridor of interest rate and supported package of fiscal measures. Other monetary authorities, like ECB and People's Bank of China kept rates at -0.25% and 3.85% respectively.
- **Capital market rates:** Yields on 10Y treasuries posted very low volatility in December, with only 4bps span in trading, finishing year at 0.92%. Demand for German 10Y caused yields to briefly went below -0.6%, but in final week of the month, moved closer towards -0.5%.

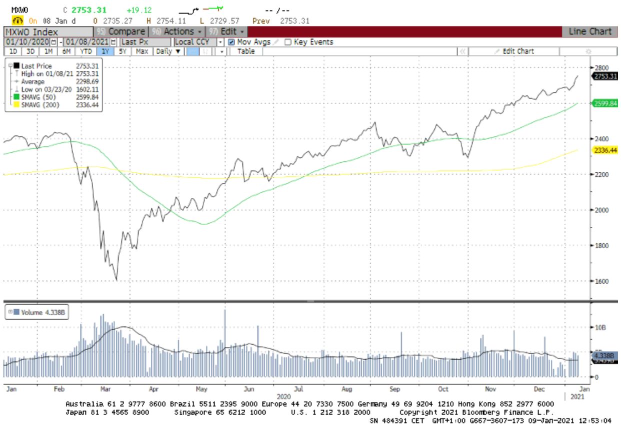
Tactical Asset Allocation

- **Forex:** After finally breaking key resistance level of 1.20, dollar constantly was losing value to euro, reaching 1.23 spot rate, before finishing year at 1.22. Investors are now seeking more risky opportunities in emerging markets and expecting higher inflation rate in USA, which can put dollar on further pressure.
- **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, backed up by analyst consensus that yields on 10Y treasuries will exceed 1% in beginning of 2021.
- **Equities (O):** All the recent developments in finding effective vaccine, solving of key political uncertainties in both USA and Europe and historical fact that January is usually best performing month for financial markets implies temporarily increasing of equity exposure with focus on chemicals/industrial sectors and small to mid cap companies.
- **Commodities (O):** OPEC once again showed unity and only moderately increase supply. This decision coupled of steady rebound of demand helped crude oil price to increase from $45 to $48 for barrel at the end December, approaching psychological barrier of $50/barrel which will be most likely breached in January.

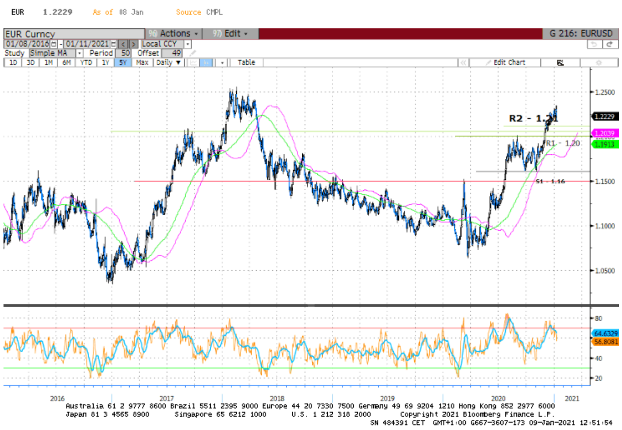
Investment Ideas[ii]

- As we expect increase in equity market, we paused writing of covered call options and focused on buying selected stocks from China and cyclical companies in Europe.

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