Market Monthly

February 2021

Highlights

- **Economics:** As concerns for tighter market regulations faded away in USA, indices resumed uptrend movement in first half of the month based on expectations of faster economy recovery in 2021 with Goldman Sachs raising forecast of GDP growth in 2021 to 6.8%. However, size of USA debt caused investors to request more yield on fixed income in second half of the month, adversely affecting markets, especially IT part. Unemployment rate further decreased and now value is 6.2% in February. Europe avoided contraction in Q4 and with latest PMI numbers well above 50, economy is on path to achieve projected 3.5% growth of GDP for 2021. Unemployment rate is still above 7% with flattening in last few months. Slowing down of economic activity is present in China, but due to holiday season, as nation expects National congress of party to set goals for this year. Limited liquidity on markets combined with warnings of high valuations and extended growth resulted with moderate month losses both on Mainland/Hong Kong indices.
- **Inflation:** Survey in USA indicates additional 0.3% price increase in February, totaling 1.7% Y-o-Y, but still below targeted 2%. Europe inflation value didn't change, and remained at 0.9%, while other CPI values were: Russia 5.7%; China -0.3%, Brazil 4.6%, India 4.1%
- **Central bank interest rates:** FED maintained 0-0.25% corridor of interest rate and supported package of fiscal measures, but market participants expects more hawkish policy in following months. Other monetary authorities, like ECB and People's Bank of China kept rates at -0.25% and 3.85% respectively.
- **Capital market rates:** Contrary to previous months, most of the turbulence came from fixed income market where 10Y treasuries added more than 40bps and briefly exceeds 1.5% in February surpassing pre corona levels. More moderate growth of 20bps is posted on Bunds, but ending month yield of -0.26% was observing last 12 months.

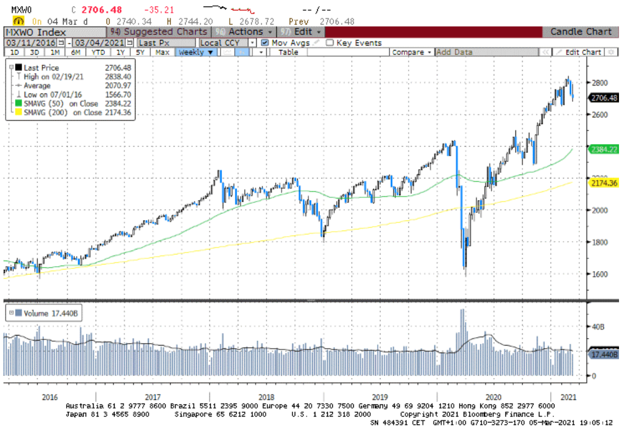
Tactical Asset Allocation

- **Forex:** Increased volatility on bond market didn't affect EUR/USD currency pair which traded hands in tight range 1.20-1.22. On the other hand, Swiss Franc started to lose value to both currencies in final week of February.
- **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, as inflation expectations rose recently.
- **Equities (N):** Investors are now more focused on cyclical stocks and underperforming sectors in 2020 like Banks and Oil companies, cutting their exposure mostly in IT segment. Besides favoring value compared to growth stocks, in February retreat from emerging markets is also registered.
- **Commodities (O):** Saudi Arabia voluntarily cut production by 1mbp/day, further reducing total output. As OPEC+ countries are willing to extend current production in March meeting, alongside with gradually increasing demand and good economic prospects for 2021, crude oil price continued to climb, reaching almost $65/barrel in final days of February.

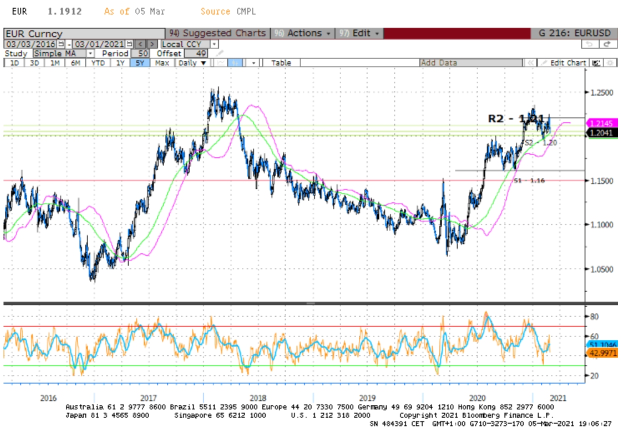
Investment Ideas[ii]

- With high volatility values return to markets, we resumed writing of covered call options and focused on buying selected stocks from cyclical segments, maintaining overweight position in oil sector in Europe and closely track opportunity to buy proven IT companies in case of price correction touch our limits.

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