

Market Monthly

January 2021

Highlights

- Economics:** Riots in Washington in first week of January didn't interrupt market growth, Democrats secured majority in Senate and allowed full transition to new president Biden. Slowing down of markets happened in final week of the month, when coordinated action of retail investors opposed short position of institutional investors and caused sharp debate of possible market manipulation. Speaking of fundamentals, as per initial release, USA GDP declined 3.5% in 2020, with final quarter contributed +4%. Unemployment rate further decreased and now value is 6.3% in January. In Europe, economic data for Q4 also beat expectation, still growth was far less impressive than in US and hovers near 0. After 7 months of consecutive growth, Germany industrial export numbers was flat in January, showing possible end of economic expansion. Unemployment rate was also unchanged, 8.3%. As expected, China finished year with +2.3% growth of GDP, exports rose even more, 3.6%, becoming only major economy that manage to fully offset adverse impact of coronavirus.
- Inflation:** Prices in USA continued to post minor increase, 0.3% higher inflation in November totaling 1.4% Y-o-Y, still below target of 2%. Europe finally posted positive inflation of +0.9% in January, while other CPI values were: Russia 5.2%; China 1%, Brazil 4.5%, India 4.1%
- Central bank interest rates:** 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:** After pausing in December, yields on 10Y treasuries exceeds 1% in January and remained in uptrend, finishing month on 1.08%. This time, yields in Europe followed, with Bund yields increased by 6bps, but value is still below -0.5%.

Tactical Asset Allocation

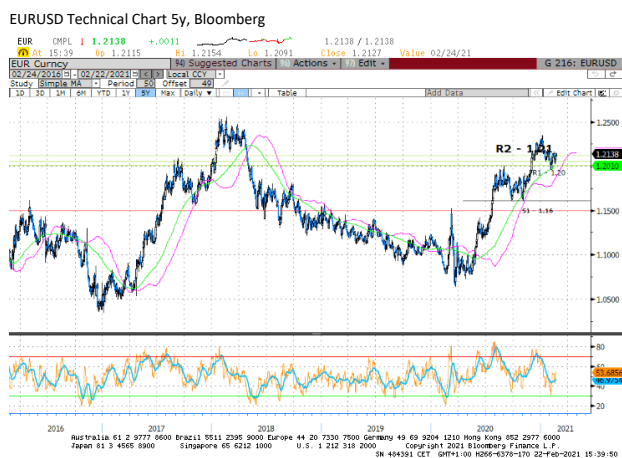
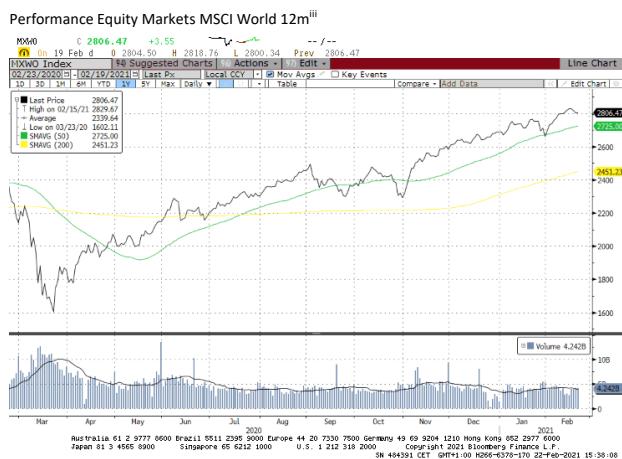
- Forex:** Dollar continued to lose value against EUR in first half of the month, with spot value reaching 1.235, lowest value in last 2 years. As equity market corrected in final week of January, dollar regained portion of value, closing month near 1.20 spot compared to EUR.
- Bonds incl. High Yields (U¹):** 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 move towards 1.5% in beginning of 2021.

- Equities (O):** Earnings season report for 2020 so far showed better than expected results, with positive outlooks for 2021. Recent increase in USA stimulus package, rising bond yields and expansive monetary policy benefits equity market, however, one has to be cautious given that current P/E and other metrics based on combination of market/fundamental value are on all time historical high, implying that equities are overvalued.
- Commodities (O):** Oil maintained momentum in 2021, passing \$50/barrel on shrinking of oil reserves in USA. Next OPEC meeting is scheduled for March, until then, production levels still has positive impact on oil price, finishing month with +10% increase and value of \$53/barrel.

Investment Ideasⁱⁱ

- 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.



¹How to read: (U) underweight; (N) neutral; (O) overweight
²See rationales on our web page www.aspermontcapital.ch

ⁱⁱReturn for the last rolling 12m

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