

# Market Monthly

## March 2021

### Highlights

- Economics:** In the US, \$1.9tn stimulus package was adopted as the emergency rescue event. By the end of the March, Biden administration unveiled another stimulus, big infrastructure plan worth \$2.2tn. The project is aiming to revitalize U.S. transportation infrastructure, water systems, broadband and manufacturing, among others. This project should be funded by increase in the corporate tax rate from 21% to 28%. As vaccine rollout accelerates and economy reopens, unemployment is expected to continue falling, from February 6.2% to 6% in March. In the EU, PMI continued growth in March reaching highest level since 2018. Service sector recovered but still below expansion zone. Industrial PMI rose to 62.5, highest since measurement inception, 1997. Still, outlook worsened for EU, due to pandemic worries. Vaccination is very low as zone struggles to get enough doses, while France, Germany, Italy announced extension of lockdown measures in the coming months. China's factory activity in March expanded at the slowest pace in almost a year on softer overall domestic demand, but underlying economic conditions remained positive even as input and output inflationary pressures intensified for manufacturers. The Markit PMI dropped to 50.6 vs February's 50.9, below expectations of 51.3.
- Inflation:** Eurozone inflation rose to 1.3% in March from 0.9% in Feb, but core inflation excluding volatile energy pricing, alcohol and tobacco actually fell from 1.1% to 0.9%. CPI for the United States is 1.7% for the 12 months ended February 2021 after climbing 1.4% previously. Estimated year end CPI is 2.4%.
- Central bank interest rates:** FED maintained 0-0.25% corridor of interest rate and supported package of fiscal measures, but market participants expect change of language and more cautious approach to keeping interest rates at minimums. ECB and People's Bank of China kept rates at -0.25% and 3.85% respectively. Russia, Brazil and Turkey increased their rates to curb rising inflationary pressures.
- Capital market rates:** US 10Y yields continued to rise from February and reached 2-year high level of 1.77% in March, stabilizing around 1.65-1.70%. Rising stimulus pushed yields higher with expectations to reach 2% in the coming period. Bunds 10Y yields extended negative yield from -0.26% to -0.29% by the end of March.

### Tactical Asset Allocation

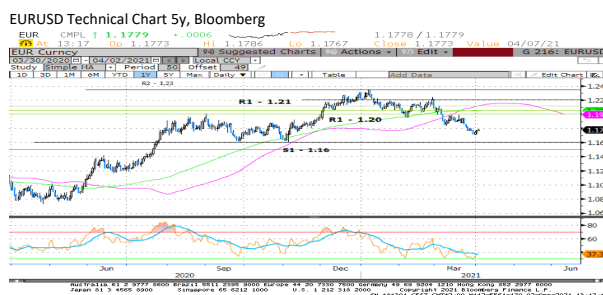
- Forex:** Increased volatility on bond market affected EUR/USD currency pair which traded in the range of 1.19-1.17. Lower bound was reached by the end of

March, as dollar was getting stronger partly due to rising 10Y yields as well as slower EU recovery. Swiss Franc also lost value to USD during March.

- Bonds incl. High Yields (U<sup>i</sup>):** 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. Due to improved outlook for US, we search also for US high yield bonds.
- Equities (N):** Sentiment shift toward value vs high growth seen in February continued in March. Dow jumped more than 6% in March as investors shifted toward value stocks, as rising yields and inflation/rates increase fears rose. Further tensions between US-China evident in SEC adopting the law on further audit of China companies listed in US, brought more downward pressures on those stocks and investors continue to retreat from EM.
- Commodities (O):** Oil saw quick jump as Suez Canal was blocked for few days, but it reverted to around \$60/barrel. Increasing worries in EU and extended lockdown measures slowing demand for oil. During March, Saudi Arabia kept production cuts by 1mbp/day, further reducing total output.

### Investment Ideas<sup>ii</sup>

- With high volatility return to markets, we reduced our position in IT sector and increased cash. Cash reserves will be used to closely track opportunity to buy proven value and IT companies in case of price correction touch our limits.



<sup>i</sup>How to read: (U) underweight; (N) neutral; (O) overweight  
<sup>ii</sup>See rationales on our web page [www.aspermontcapital.ch](http://www.aspermontcapital.ch)

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<sup>iii</sup>Return for the last rolling 12m