Market Monthly

May 2021

Highlights

- **Economics:** As Q1 earnings in USA beat expectations by significant margin and number of vaccinated citizens exceeds 60%, economic activity continues with recovery in May. Current estimation forecast almost 9% increase of GDP Y-o-Y in Q2, proving that current goal is to fully restore pre-corona unemployment levels, even if the pressure on fiscal side starts to accelerate inflation. Withdrawing from plan to increase corporate tax rate may amplify this problem in future, but in short term will most likely reduce current unemployment rate of 6%. Company results in Europe were even more stellar comparing with USA, as banking sector reversed impairment provisions from 2020 and automotive segment extended almost parabolic growth. Manufacturing PMI latest readings are well above 60, while Services PMI although with less impressive figures are now posting higher growing rates. Unemployment rate is lagging at 8%. China financial markets started recovery in May after stagnation in last two months, but PMI numbers are trailing a bit those from developed markets.
- **Inflation:** Price increase is now rising concern, especially in USA where 4.2% Y-o-Y CPI is noted in April, while May figure is expected to be closer to 5%. Inflation level in Europe now meets target of ECB of 2% and it sits on highest level in almost 3 years. Other notable rates in April are as follows: China 0.9%, Russia 5.5%, Brazil 6.8%, India 10.5%.
- **Central bank interest rates:** Even if inflation rate fairly exceeds 2%, there are no indications from FED that current corridor 0-0.25% will be changed in 2021. Support from monetary side will be gradually lowered firstly by lowering asset purchase program. Similar to FED, ECB will not move key rates to positive zone, while Bank of China is unchanged.
- **Capital market rates:** Inflation pressures materializes in latest readings, but 10Y treasuries in USA remains steady at 1.65% in May, while 10Y Bund after moving closer to positive territory in April, traded in range -0.2% to -0.1%.

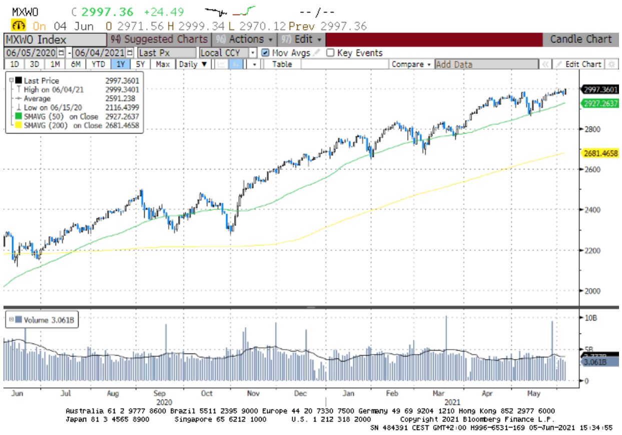
Tactical Asset Allocation

- **Forex:** Dollar slightly lose value to EUR and CHF in May, with spot to EUR hovering around 1.21, with minor volatility. Even with stabilization, dollar is on lowest levels to EUR in more than 3 years.
- **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. Due to improved outlook for US, we search also for US high yield bonds.
- **Equities (N):** Another month, another historical high values on market. As mentioned, emerging markets started to recover, while sentiment is still oriented towards value stocks. Potential risks coming from social network induced frenzy for certain small cap stocks, similar action caused pull back on markets in January.
- **Commodities (O):** In final week of the month, OPEC increased production by 450kbpd, with Saudi Arabia reversing previous cut of supply by 1mbpd. Still, pressure from demand side and rising inflation resulted with increase of crude oil price, which is now approaching $70/barrel.

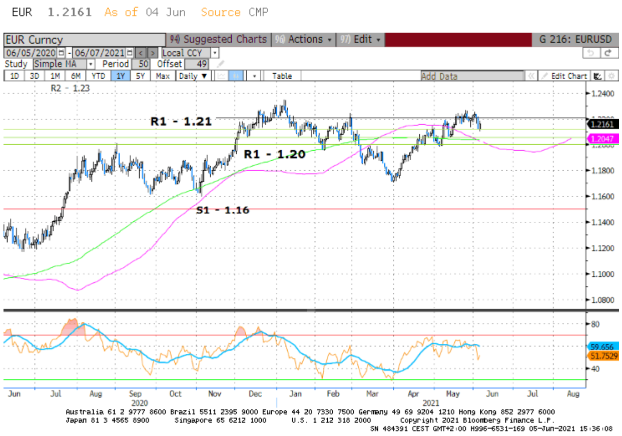
Investment Ideas[ii]

- After excellent Q1 results and diminishing risks related to corona virus, we gradually reduce level of cash, particularly targeting China IT companies.

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