Market Monthly

June 2021

Highlights

- **Economics:** Prior to Q2 earnings starting in half of July, USA economy continued with recovery based on key indicators. Wall Street expects best Y-o-Y earnings result, although in comparison one must include devastated performance in same quarter last year caused by corona. Projection of economy growth for Q2 remains at 9% while full year outlook is 6.6%. Inflation is still in focus and adversely affect market performance, while unemployment rate fell below 6% first time since corona outbreak. Almost half of the Americans are fully vaccinated. Those numbers trails in Europe, where there is a higher risk of Delta variant of coronavirus and some travel restrictions remains. Readings of PMI saturated on high level with no progress comparing to May values. Both inflation and unemployment rate are below USA values, with 2% and 8.0% respectively. Latest GDP estimation figures shows minor contraction of -0.3% comparing to Q1 2021. Due to sluggish recovery of consumption and manufacturing and political confrontation with most of the developed countries, forecasted expand of Chinese economy of 7.7% in Q2 is still not enough to initiate a reversal of downtrend in financial markets, which is present since February.

- **Inflation:** As mentioned, latest CPI numbers are far above target rate of 2%. However, even with June figure of 5.6%, FED will not combat inflation in short term. After reaching 2% in May, inflation rate kept same value in June. Other notable rates in June are as follows: China 1.1%, Russia 6.5%, Brazil 8.3%, India 6.3%.

- **Central bank interest rates:** FED meeting in June did not bring any surprise, current corridor 0-0.25% will be maintained in 2021, with gradually lowering asset purchase program. Similar to FED, ECB will not move key rates to positive zone, while Bank of China is considering reduction of mandatory reserve funds prior to decrease of key policy rate.

- **Capital market rates:** After pressure to lift bond yields closer to 2% on 10Y maturities, anticipating more hawkish policy from FED, price of Treasuries increased and current yield decreased from 1.6% to 1.45%. Similar drop of 15bps registered on German 10Y Bunds in June, with ending yield value of -0.3%.

Tactical Asset Allocation

- **Forex:** Following the FED decision that inflation rate doesn't require immediate action, dollar reversed downtrend and gained shortly 1% against EUR with cumulative monthly effect of near 3%. Spot rate of EUR/USD in the end of June stays at 1.185.

- **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.

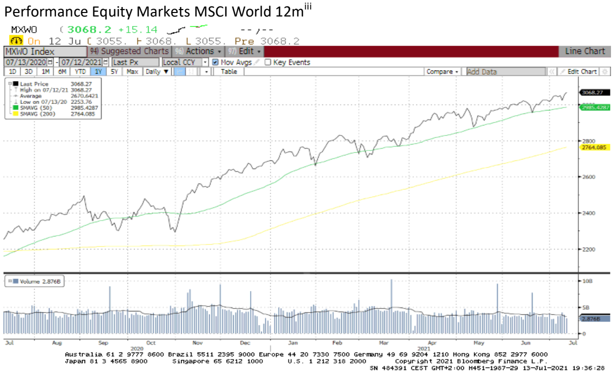
- **Equities (N):** Lower volatility on markets, in line with historical stability during summer months. As value stocks were in focus during first half of the year, IT shares, especially in USA posted increase during June as valuation models are not assuming anymore sharp increase of yields in short term.

- **Commodities (O):** Comparing to May, OPEC supply increased by 740kbpd, thus almost halving initial cut of near 10mbpd posed one year ago. Despite gradually increasing supply, demand pressure still shaping cost of oil on market, which is now around $75 per barrel. Surprisingly, inflation readings caused gold price to slightly decrease during June.

Investment Ideas[ii]

- Summer months usually don't offer extra reward, so we are focused on writing call options. For more risk seeking profile of investors, possible opportunity lies in investing in emerging markets.

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

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