Market Monthly

October 2021

Highlights

- **Economics:** Behind us is earnings busy month which once again didn't disappoint. With 81% of S&P 500 companies Q3 results beat expectation, bullish sentiment returned on the market, helped by final delivery of infrastructure plan by Biden administration. However, 2% GDP increase in Q3 is the slowest pace since the outbreak of pandemic, as supply chain issues negatively affects pace of economic recovery. Inflation surpasses 6% level, on the other hand, unemployment rate continues to decrease while FED is not in rush with possible hikes of interest rates. Eurozone posted similar GPD Q-o-Q rate of 2.2%, unemployment rate still exceeds 7% and political issues combined with fourth corona wave caused by delta variant continues to overshadow economic news. Energy crisis remains one of the unsolved topics in Europe, while China finally managed to put in the control. Nevertheless, trend of GDP growth suffered, and latest readings fall behind expectation to 4.9%, combined with PMI October figure in contraction zone put pressure on maintaining pace of economic expansion seen in last decades.
- **Inflation:** October value for USA CPI exceeds expectation and ended up on 6.2%, posting highest value since 1990, but FED continues to claim that this is temporary overshoot. Similar, ECB stated that current Europe inflation readings of 4.2% are elevated, and less pressure will be in Q1-Q2 of 2022. Other data are as follows: China 1.5%, Russia 8.1%, Brazil 10.7%, India 4.5%.
- **Central bank interest rates:** In last meeting, FED confirmed start of the tapering by the end of 2021, current corridor 0-0.25% will be maintained and possibly extended in 2022. Currently, shape of FED policy depends on the outcome of election, where Powell face competition from Lael Brainard, former US Under Treasury secretary. ECB and People Bank of China didn't change interest rates.
- **Capital market rates:** Impact of inflation rates lifted bond yields close to March high but didn't exceed 1.7% figure on 10Y Treasuries after pulling back to finish month at 1.56%. Bunds of similar duration yields increased by 10bps, ending October with value of -0.1%

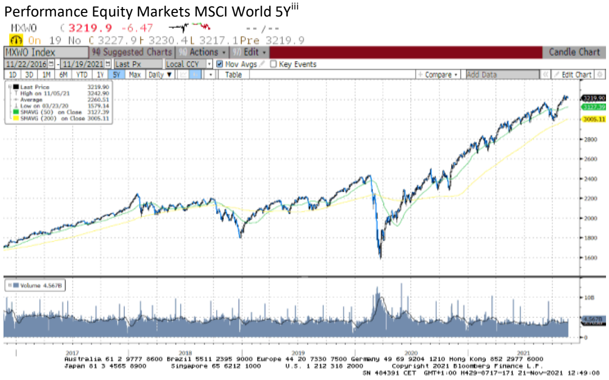
Tactical Asset Allocation

- **Forex:** After summer months where USD appreciated against EUR, October was relatively stable, and pair traded in range 1.15-1.17. Level of 1.15 acts as support for EUR, and possibility of falling down still exists.
- **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):** Call for temporary correction on the equity market in September proved to be right decision, as market fully offset losses from last month. Growth stocks were back in the focus of investors, particularly from IT and Consumer discretionary segment. Developed market continued to outperform Emerging, however, as earnings season is behind, pace of growth on equity market could be slowdown in final months of the year.
- **Commodities (O):** Energy crisis in Europe and China combined with OPEC determinacy to keep moderate increase in supply despite appeals from Biden resulted with oil price moving forward to $85/barrel by the end of the October. As inflation figures supports extending this trend, triple digit values of crude oil price can be seen soon first time after 7 years.

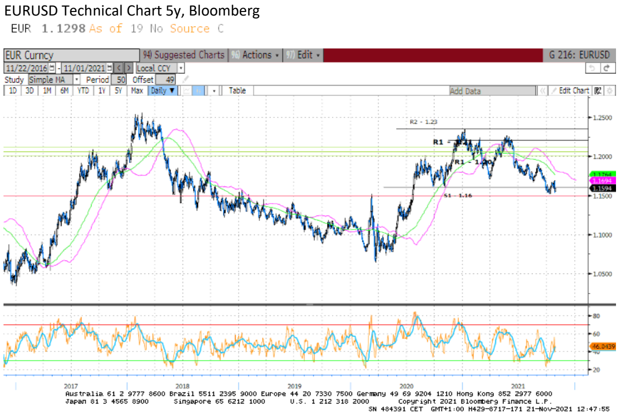
Investment Ideas[ii]

- Investors should be cautious and selectively take profit, as October gains will be hardly beaten in short term horizon.

Performance Equity Markets MSCI World 5Y[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