Market Monthly

February 2022

Highlights

- **Economics:** The escalation in the Ukraine crisis hit capital markets on all fronts. Investor sentiment is tested as the attack on the Ukraine marks the potential for further escalation between the Western world and Russia. This includes wide ranging sanctions that could hurt economies on both ends as Europe's dependency on Russian fossil fuels has seen a spike in energy prices. Data from the US shows a strong US economy with job reports showing a stable 4.0% unemployment rate in USA, but inflation concerns remain high. In Europe, economical numbers, although stabilizing, are still behind USA, including unemployment rate of 7.0%. On the PMI side, the USA and Europe move in tandem with manufacturing in the high 50s around 58 while services PMI have retracted to around 51. China's situation remains as before around 50 on their PMI figures as their CNY celebration and the winter Olympics end.
- **Inflation:** January value for USA CPI continued to rise, climbing to 7.5% (prev. 7.0%). Europe is slightly better at 5.1% (prev. 5.0%). Those values are highest in multiple decades, and the market is expecting central bank action. Other readings were as follows: China 0.9% (previous 1.5%), Russia 8.7% (prev 8.4%), Brazil 10.4% (prev. 10.1%), India 6.0% (prev. 5.6%).
- **Central bank interest rates:** The next FED meeting is scheduled for beginning of March with the market sentiment of four interest rate increases in 2022. The ECB kept their interest rates as is and are keeping a close eye on the situation in the Ukraine. They want to ensure smooth liquidity conditions and will implement the sanctions decided by the EU and the European governments. China have increased their daily reverse repo injections for their economy.
- **Capital market rates:**. The US yield curve has steepened, especially on the shorter durations until about 6 years with the 10y at 1.8. The Bund yield curve remains with a slight increase of the 10Y Bunds to 0.1322% (0.0088%) thus remaining in positive territory.

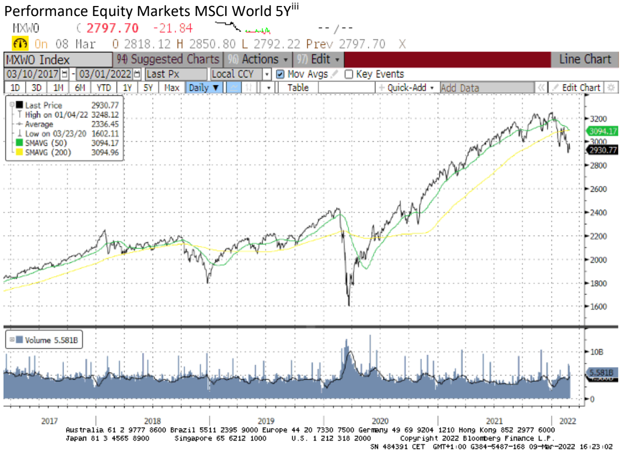
Tactical Asset Allocation

- **Forex:** EUR/USD saw an initial increase to above 1.14, but ended the month back at 1.1205, virtually unchanged from the month before. We did observe a flight to save haven currencies with the CHF strengthening especially against the EUR.
- **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 (U):** European Equities were hit hard with the DAX loosing -6.53% in February due to the situation in the Ukraine. Sanctioned Russian companies have been delisted for the time being.
- **Commodities (N):** Oil continued to increase from \$88/barrel all the way up to \$95/barrel as the situation in the Ukraine unfolds. Russian energy assets is still being purchased at the moment, a situation that could change from either side.

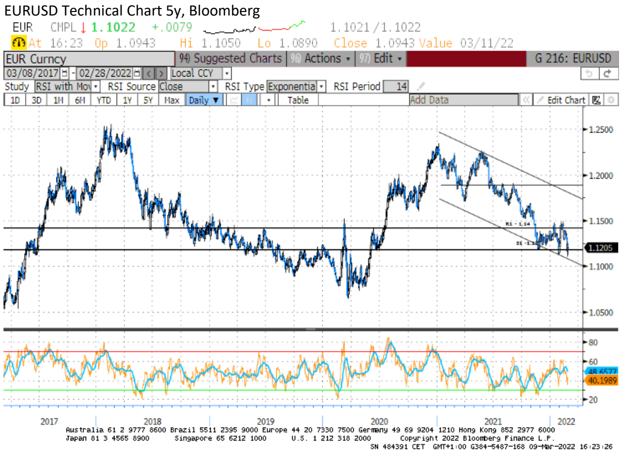
Investment Ideas[ii]

- We increased our overall short positions in the DAX via the Long/Short certificate to 3% client exposure.

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