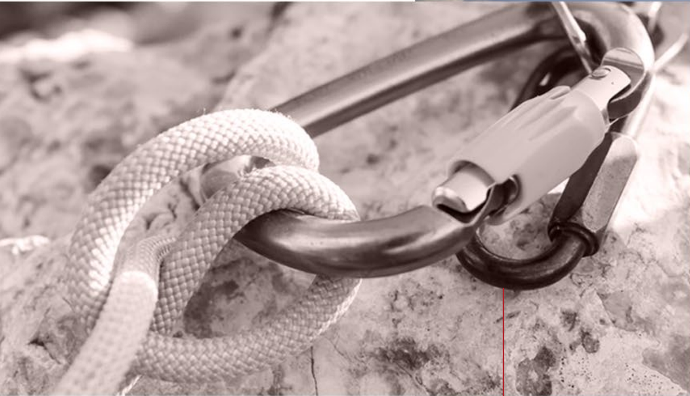


1. Macro, Fixed Income and Rates
2. Equity
3. FX and Commodities

Key Take-Aways

- Central bank support, low rates and signs of hope for an economic recovery continue to push investors towards more risk.
- Equity markets are still offering attractive dividend yields (USA 1.5%, Europe 2.4%, Switzerland 2.8%) alongside intact growth expectations.
- In the US, we are back in the «tech is leading» regime as big cap tech names gain momentum again. This offers an opportunity to reduce risk ahead of the summer while remaining invested in less volatile segments.
- European equities are benefiting from a rotation toward value (cyclicals). The DAX index is leading European markets – However, on the short-term is seeing an over-buying spree.
- The bond market will explore the upside potential in US yields throughout the year, which will keep global equity markets exposed to higher volatility.
- Investment grade corporate bonds are an attractive investment, especially in this era of central bank activism.
- We do not believe investors are adequately compensated for HY & EM bonds at current levels.
- US Inflation linked bonds (TIPS) are expensive. Outperformance typically accompanies Core PCE rises, which is currently absent. Furthermore, TIPS do not protect investors from a key inflation area: risk assets.
- Gold as a hedge for currency devaluation or against inflation seems less-critical than in past cycles. Current US inflation expectations seem lofty. We have to wait for more relevant data to confirm a trend of rising inflation. In the meantime, interest rates will determine movements in precious metals.
- With the current consolidation in US rates, the USD is expected to trend softer at least temporarily.

Macro, Fixed Income and Rates : The Fed and Inflation

The Fed has established that a necessary foundation for an enduring inflationary recovery is a vibrant financial sector. We can be certain that the Fed will maintain current levels of balance sheet bond purchases, and provide adequate money market liquidity.

Pandemic recovery programs in the U.S. have been exceptional. The Fed's support for the global dollar trade system was truly remarkable. The equity rally and the rebounding dollar are attributable directly to this recovery effort.

The new administration's policy initiatives represent a major turning point for U.S economic policy.

The gamble underlying the agenda is a belief that government can be a primary driver of growth. This debate is far from over.

For the time being, the U.S. equity market remains the most favorable market in the world. It will continue to attract global capital, which will be allocated to some of the world's best companies.

Bond investors however are furious with the new administration's Modern Monetary Theory (MMT) agenda. The bond market is the heart of free market capitalism, and despite the fact that it knew MMT was coming, it is genuinely stunned that it has gotten here so quickly and so aggressively. Thus, the bear market.

This enormous stimulus measure is a very risky experiment. The notion that government can spend money wisely and allocate capital prudently has been disproved countless times.

The Fed knows that, but is plunging ahead nevertheless. The bond market is right to test the Fed.

The pandemic has accelerated trends toward governance and income inequality. Despite the laudatory social implications, the rising cost and rapid increase in government deficit spending represents the greatest risk to capital markets.

Equity % Change	Price	MTD	YTD	EST P/E
S&P 500	3 973	4.24	5.77	20
Nasdaq	13 247	0.41	2.78	27
Russell 2000	2 221	0.88	12.44	27
Euro Stoxx 50	3 919	7.78	10.32	17
Stoxx 600 EUR	430	7.66	7.66	16
FTSE 100	6 714	3.92	3.92	13
SMI	11 047	3.21	3.21	16
NIKKEI 225	29 179	6.32	6.32	21
CSI 300 China	5 048	-3.13	-3.13	13
MSCI EM Index	1 316	1.95	1.95	13

Equity % Change	Price	MTD	YTD	EST P/E
S&P 500	3 973	4.24	5.77	20
UTILITIES	325	10.13	1.94	17
ENERGY	370	2.69	29.27	16
TELECOM	239	3.10	7.82	20
CONS STAPLES	699	7.71	0.45	20
REAL ESTATE	247	6.35	8.38	47
CONS DISCRET	1 341	3.59	2.94	27
MATERIALS	495	7.29	8.56	19
HEALTH CARE	1 360	3.74	2.74	16
INFO TECH	2 331	1.64	1.74	24
FINANCIALS	566	5.62	15.35	14
INDUSTRIALS	832	8.82	11.00	21

Currency % Change	Price	MTD	QTD	YTD
DXY	93.232	2.59	3.66	3.66
EUR-USD	1.1730	-2.86	-3.98	-3.98
USD-JPY	110.72	3.89	7.23	7.23
USD-CHF	0.9436	3.86	6.60	6.60
EUR-CHF	1.1070	0.90	2.38	2.38
GBP-USD	1.3783	-1.08	0.83	0.83
EUR-GBP	0.8511	-1.84	-4.78	-4.78
JP EM FX Index	56.14	-1.08	-3.08	-3.08

10 yr Yield Bps Change	Price	MTD	QTD	YTD
US	1.74	34	83	83
Germany	-0.29	-32	28	28
UK	0.85	2	65	65
SWITZERLAND	-0.28	-8	28	28
Japan	0.10	-7	7	7
US IG Spread	98	0	-4	-4
US High Yield spread	249	-35	-78	-78
EUR High Yield spread	323	-1	-8	-8

Commodity % Change	Price	MTD	QTD	YTD
BBG Commo Index	83.4	-2.15	6.91	6.91
Gold Spot $/OZ	1707.7	-1.52	-10.04	-10.04
Crude Oil WTI	59.2	-3.80	21.93	21.93

Volatility	Price	MTD	QTD	YTD
VIX	19.4	-30.59	-14.73	-14.73

Source Bloomberg: 31.03.2021

Macro, Fixed Income and Rates : The Fed and Inflation

In this context, real GDP growth forecasts for 2021 have been upgraded by most economists, with emerging economies like China and India, leading the way.

This debt crisis, which is slowly building up, may lead to the worst bear market of our careers.

10y Treasury yields at 1.73% have more than tripled from the August 2020 low of 0.50%. Yet at the same time, T-Bill rates have fallen to 0%. The yield curve is remarkably steep.

This tells us that despite bond investors being enraged that the Fed is monetizing the government's fiscal spending programs, they are convinced the Fed is sticking to its course.

Inflation, as measured by standard and historical metrics are tame. Core PCE is decelerating. Anecdotal evidence supports the Fed's view that supply-chain bottleneck price pressure is transitory. If the opposite were true, the total returns in the TIPS would be positive. They are not.

Bond investors are rightfully concerned about the new administration's push for substantial increases in deficit spending. Sellers in the Treasury market have outnumbered buyers by a huge margin. We do however observe that despite the lack of buyers, the sellers have become more cautious.

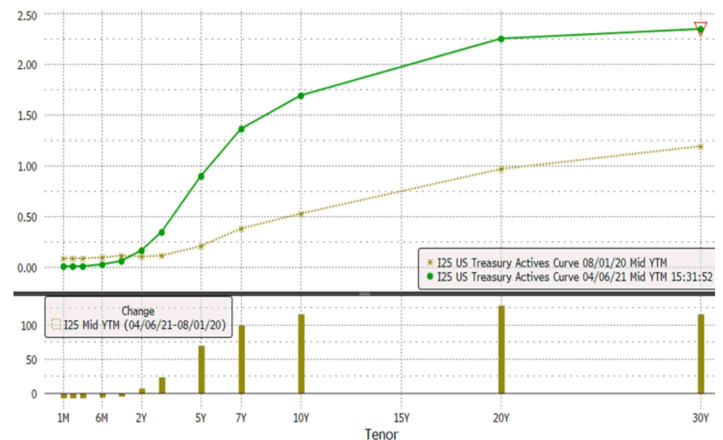
Long duration bonds are performing better than intermediate bonds, and the selling at the long end is less aggressive. The downtrend is slowing and is trying to find a temporary bottom. This, we think, is because inflation remains less threatening than the market narrative would suggest.

There will soon be a time to buy long duration bonds.

Although Europe is behind the US in terms of the recovery, vaccinations and the fall in unemployment, German Bund yields have moved in tandem with US Treasuries: the yield on the 10-year Bund has risen from -0.6% at the beginning of the year to -0.3%. German 5-year breakeven inflation is rising steadily and stands at 1.26%.

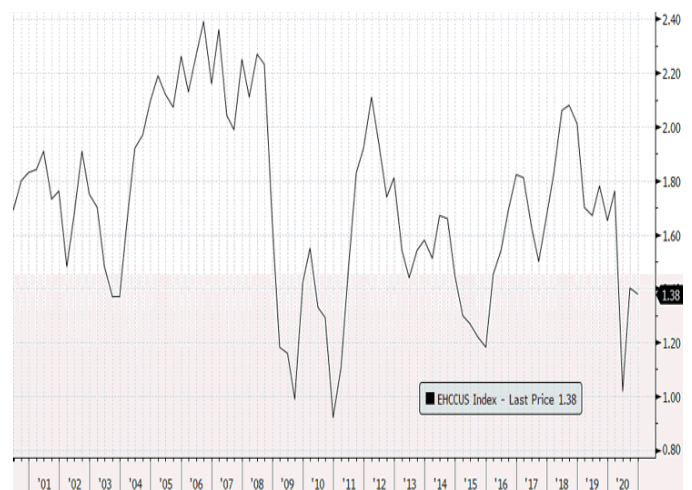
Diversifying into different types of credit is not just an option, but a must for euro-based portfolios.

US yield curve 1.8.2020 vs. 6.4.2021



Source Bloomberg

US Core PCE %YoY over the last 20 years



Source Bloomberg

German 5-year breakeven inflation

Source Bloomberg

Equity : Surf The Wave For Now

Equites are looking 6 months ahead. They see recovery. They see a 6% US GDP growth rate in 2021. They see crowded airports, record bookings for Caribbean cruises, and a seemingly insatiable demand for electronic gadgets. Perhaps this is overly optimistic, but equity investors are an optimistic crowd.

There is certainly a danger of a jolting re-pricing to lower levels. Any corporate organizational, operational, or earnings mistake will be punished by the market. High debt levels and leverage ratios exacerbate the risk. What is clear at the same time is that earnings growth is rebounding. The U.S economy's transformation to an even more technologically advanced economy has been greatly accelerated. This is very impressive and will continue.

Productivity is rising. So are savings. So is household wealth. It is no wonder that consumer confidence readings are rebounding nicely. In corporate America, free cash flows at the best companies are accelerating at a quickening pace.

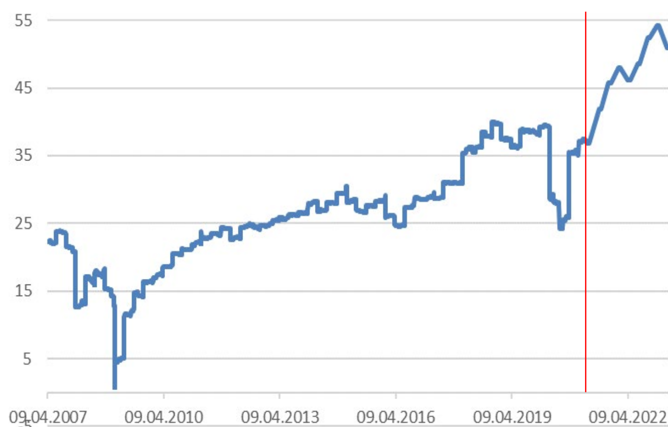
The question is: What is the net present value of these cash flows? And are they worth this much?

Since the March correction we are back in the «old» regime of tech and semis outperforming the overall market in the US. This may well continue throughout April and even May. For now, headlines from the pandemic and infrastructure spending deals may continue to boost sentiment – how much of all the good news is priced in?

Be aware, bond markets will test higher yields again over the coming months. Rising equity valuations increase the risk of a correction at some point, especially if discounted future cash-flows become less valuable as a result of higher market rates. Remain invested for now, but do not increase risk in portfolios. If anything, lock-in some profits on positions with strong increases since the equity rebound that began in March 2020.

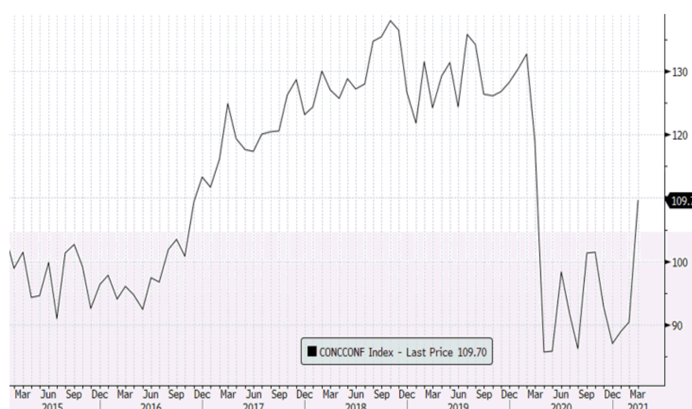
European equities held up well and outperformed their US counterparts in the global rotation toward value and cyclicals. The DAX is in an unbroken upward trend, although overbought at this point. Emerging Markets (we favour Asia-Pacific) should be a rebound candidate as we head into the summer thanks to a softer USD.

S&P 500 consensus earnings per share



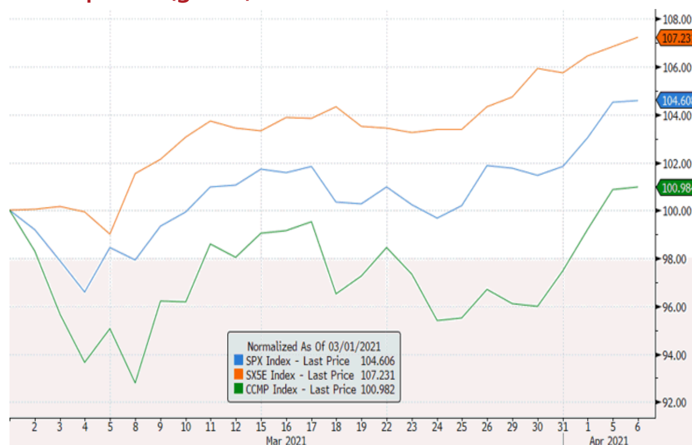
Source: Bloomberg

US Conference Board Consumer Confidence



Source: Bloomberg

Euro Stoxx 50 (red), S&P 500 (blue) and Nasdaq Composite (green) since 1.3.2021



Source: Bloomberg

FX and Commodities: Can Gold lose its shine?

Interest rate differentials and economic recovery metrics continue to favor a tactical long position in US Dollars. Particularly against the Euro. Strategically, however the dollar faces enormous uncertainty.

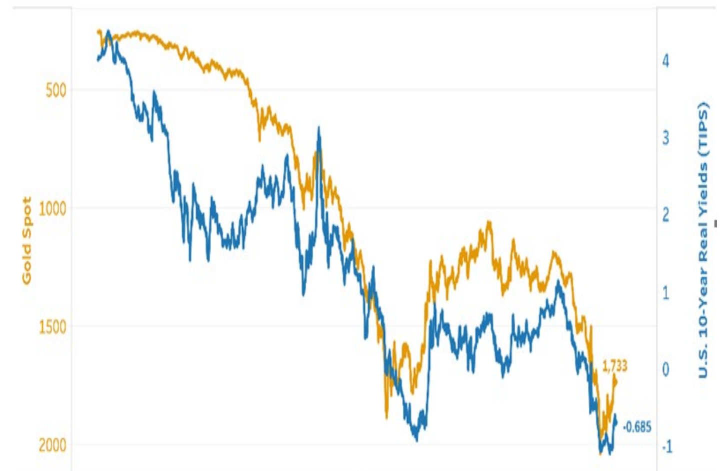
Investors are right to worry about the country's credit worthiness when the current account deficit could conceivably double.

The only refuge in this case is the Swiss franc & gold, which those interested in preserving wealth should certainly own.

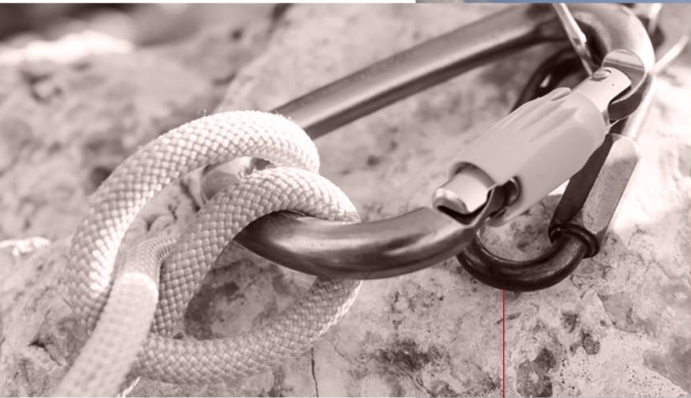
At present, however, gold faces some very serious and unique obstacles. As real yields in the U.S have risen since January, gold has fallen. The (negative) correlation is high, and rising.

This corresponds with the new administration's leftward lurch.

Gold is negatively correlated to real yields, which are negative. If they go positive, Gold will fall.



Source: Arborresearch



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