

A wide-angle photograph of a European city, likely Zurich, featuring historic buildings along a river. A semi-transparent dark grey banner is overlaid across the middle of the image, containing the text. The background shows a mix of architectural styles, including a prominent church with a tall, green spire and another with a clock tower. The river is calm, reflecting the sky and buildings.

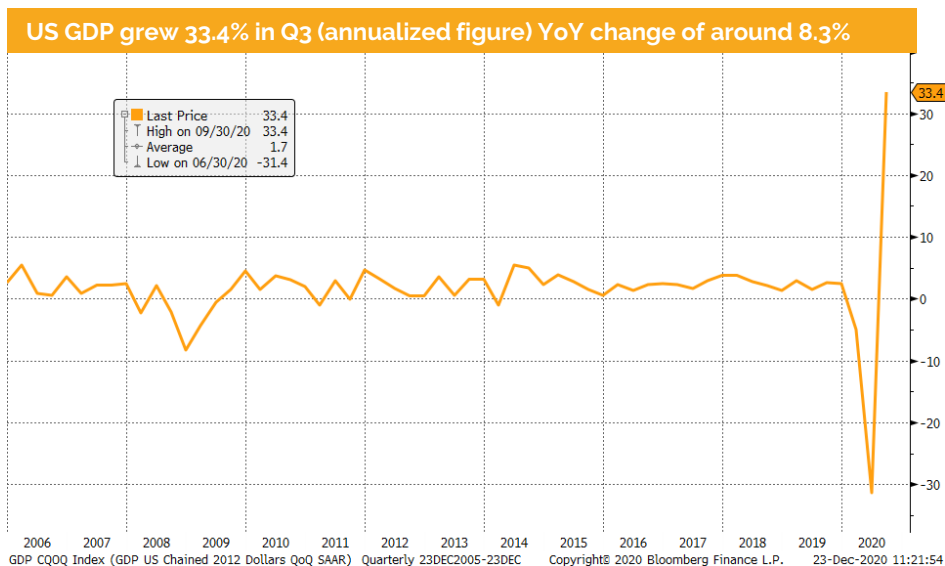
Bi-Weekly. **Blackfort.**

December (II)

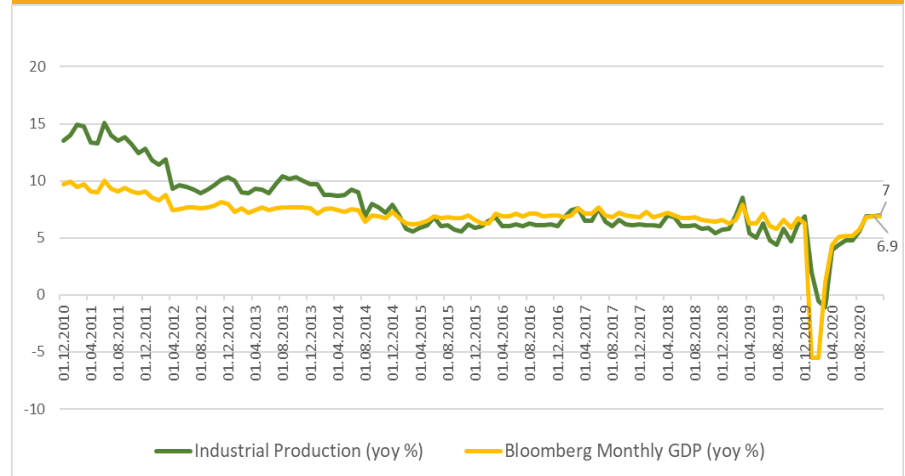


Macro Update: Q3 GDP data in China and in the US have surprised to the upside

- ❖ The US parliaments have finally agreed on a fiscal stimulus package of around 4% of US GDP. This USD 900 bn stimulus is the 2nd largest in history. However, President Trump asked for a substantial increase of paychecks. He has not (yet) threatened with his veto. It cannot be ruled out that there will be a delay due to the latest presidential reaction. Markets, however, seem to ignore this threat. On January 22nd the new administration will take over and discussions about more stimulus should be expected.
- ❖ The US economy grew in Q3 2020 33.4% annualized (i.e., around 8.3% in one quarter). This was higher than expected, which demonstrated two things. First, that the US economy doesn't really need a stimulus. Second, that the economy is very resilient and has adapted to the pandemic situation.
- ❖ We continue to see the US economy to expand more than 5% in 2021. We might even see an overshooting if we were to see more fiscal stimulus.
- ❖ In China, the latest PMI data have reached a 10-year high, the fright index, which measures exports to Europe and America has surged. Both indicate that China will grow more than 5% in 2021.
- ❖ The Chinese government has announced to stimulate the economy by further fiscal measurements.



China's GDP (6.9%) and industrial production are back at pre crisis level



Source: Bloomberg

- ❖ The ECB has announced to substantially increase their bond buying program and its credit lending program. Meanwhile, the EU budget and the rescue packages were approved at an EU summit.
- ❖ Most southern European countries have already announced that they will accept the unconditional one-off payments, but they are very hesitant to use conditional credit lines. The success of this program depends on the way these funds are used. Spain, for instance, will just finance its normal state budget and does not plan to invest into infrastructure to support the economy.
- ❖ Therefore, the effectiveness is questionable, as the private sector is saving and not investing. These funds should be used for investments and not just for normal budget spending. The same argument holds true for the latest US fiscal package, but there we have a growing economy while in Europe we expect a significant negative effect of the lockdowns on the Eurozone's GDP.
- ❖ Emerging markets do profit from a falling US dollar and from rising commodity prices; both have positive growth effects.

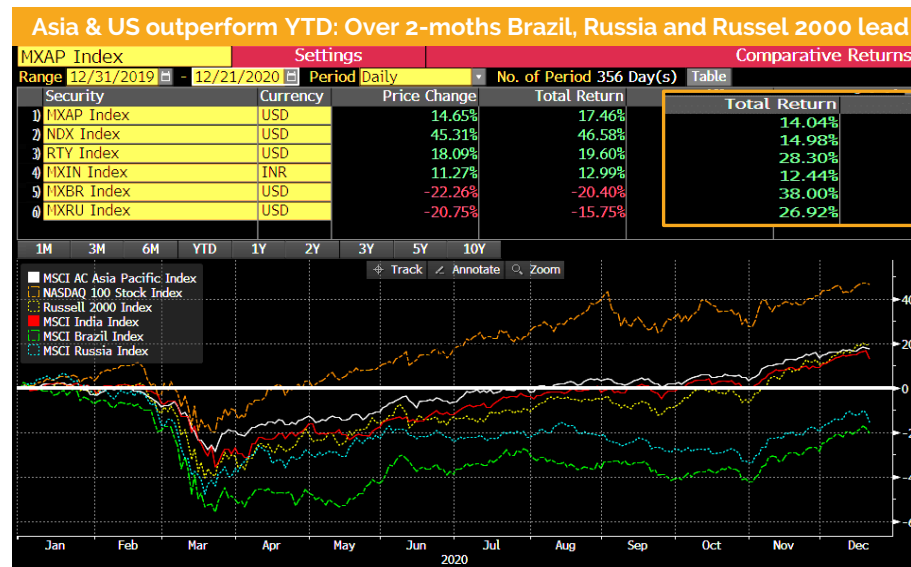
Markets in 2020: Currencies, Commodities, Equity & Bond Indices

Bonds	Dec-20	YTD 2020
Bloomberg Barclays Global-Aggregate TR	1.74%	6.26%
Bloomberg Barclays Euro Aggregate Corporate TR	0.19%	2.79%
Bloomberg Barclays Pan-European High Yield TR	0.43%	1.41%
Bloomberg Barclays US Corporate High Yield TR	1.18%	6.37%
Bloomberg Barclays Asia USD High Yield TR	1.63%	5.43%
Bloomberg Barclays Global High Yield TR	0.43%	1.41%
JPM Emerging Market Global Bond	1.34%	5.41%

Equities	Dec-20	YTD 2020
NASDAQ 100 Stock Index	3.69%	46.86%
S&P 500 INDEX	1.91%	16.19%
MSCI World Index	2.42%	14.45%
MSCI Emerging Markets Index	3.69%	14.57%
EURO STOXX 50 Price EUR	1.13%	-3.22%
SMI	-0.39%	1.66%
DAX	2.06%	2.38%
FTSE 100	3.24%	-11.48%
Hong Kong Hang Seng Index	0.02%	-3.49%
Shanghai Shenzhen CSI 300 A-Shares	0.95%	24.80%
Nikkei 225	0.34%	14.16%

Commodities	Dec-20	YTD 2020
Gold	5.43%	23.47%
Copper	2.85%	25.78%
WTI	3.71%	-22.99%
BRENT	5.23%	-24.12%
Bloomberg Commodity Index	3.60%	-4.39%

Currencies	Dec-20	YTD 2020
EURCHF	0.13%	0.06%
CHFUSD	2.27%	8.83%
CHFGBP	0.74%	6.64%
EURUSD	2.40%	8.93%
EURGBP	0.89%	6.73%
GBPUSD	1.49%	2.02%
EURRUB	0.33%	31.57%
USDRUB	-1.97%	9.04%



- ❖ Global equities end the year on a positive note; MSCI World all countries and developed are up around 14% in USD. However, during Q1 we have seen (triggered by COVID-19) a 2-weeks bear market followed by a steady rebound.
- ❖ MSCI Europe ended the year flat in USD and down measured in EUR. Our preferred regions, US and Asia, performed well. Since the beginning of November, we have seen a sector rotation into small caps, cyclical and value stocks on one side but on the other side a catch-up rally in emerging markets lead by Brazil and Russia.
- ❖ US government bonds were up more than 5% only to be outperformed by US inflation linked bonds.
- ❖ Corporate bonds in the non-investment grade area performed very well in 2020 but look like equity frothy, and we might see a correction over the coming months in both.
- ❖ Hedge funds underperformed as a group equities and bonds. While Private equity sit currently on \$1.5 trillion of cash, which they need to deploy over the coming months.
- ❖ Copper is up more than 25% and indicates that the industrial sector has recovered from the various global lockdowns.

Investment Outlook: Risk-on has continued, but a pullback can occur any time

Liquidity

- ❖ CHF: The US has classified Switzerland as a currency manipulator. This might hinder SNB to intervene on the FX market as much as they want. We expect a stronger CHF against the dollar and a range bound against the Euro.
- ❖ The EUR/USD trades above 1.21 and might further strengthen.
- ❖ The USD is expected to weaken. However, the incoming head of treasury Mrs. Yellen has announced that she would like to see a stronger dollar, while the Fed intervention will keep the dollar under pressure.

Equities

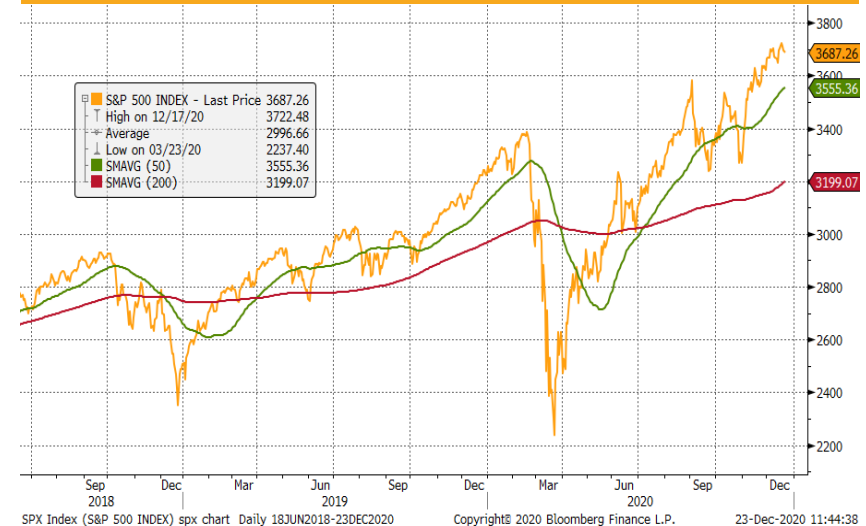
- ❖ Based on a Bloomberg survey of 17 equity strategists, the expected average year-end target for the S&P 500 stands at 4035. The range of forecasts goes from 3800 to 4400. This represent an upside of around 6-7%. We believe that the consensus will be wrong as usual. And we expect a pullback of 5-15% but overall a positive year.
- ❖ Having said that, we either see a massive overshooting due to the stimulus and an unexpected strong economic recovery, or a negative year with disappointments on stimulus and growth.
- ❖ Our main theme keeps that this secular bull market is not over and based on a disruptive economy we will see surprises not only on the growth side but also on the stimulus side. The rally will end in a final melt up, but nobody can foresee when this is going to happen. Equities are based on the new Shiller Excess CAPE Yield compared to bonds attractive priced and might therefore continue to rise.

Fixed Income

- ❖ Global investment grade corporates offer a yield to maturity of around 0.4%, while most developed government bonds have nominal negative yields or like in the US are after adjusting for inflation offering negative real yields.
- ❖ We see some value in the high yield space, but the benchmark yields are low and range from around 3.9%- 4.6%. This is definitively too little but there are no alternatives in the liquid bond space. We keep our allocation, as we believe yields will stay low over the coming 12 months and on average, we do not expect a significant spread widening.

Source: Moody's, Blackfort Analytics

S&P 500 has risen too far in a very short time



Alternative Investments

- ❖ Gold: After the recent sell-off gold has started a recovery rally. We expect that the Gold price will stay above its 200-day average. We believe that Gold will serve as a protection against expected market turbulences .
- ❖ REITS: Both commercial and residential real estates were rising over the last weeks. Short-term the price movement will depend on the development of the equity market. Mid-term we expect a further rise of REITS. We continue to see more downside protection in residential REITS.
- ❖ Oil: The surge of the oil futures prices was interrupted by the news of a mutated corona virus. However, we expect that this is short lived and the WTI oil future will rise above 50 dollar over the coming months.

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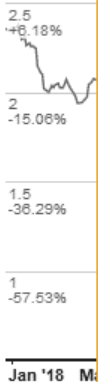
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