

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 title text. The background shows a mix of architectural styles, including a prominent church with a tall, thin spire and another with a clock tower. The river is calm, reflecting the sky and buildings.

# Market Watch. Blackfort.

July (I)

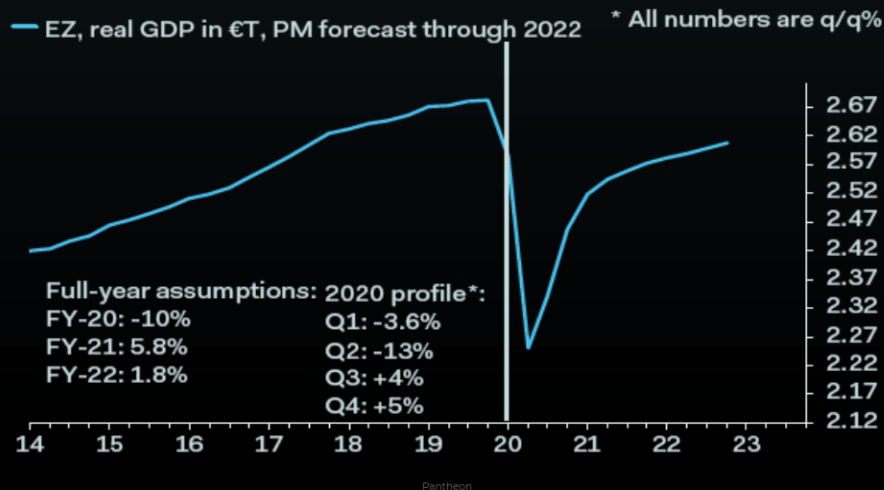


## Macro Update: Leading indicators surprise with a strong rebound

- ❖ The latest PMI data shows further improvement. Economists stick to their negative outlook while markets keep rising. We would argue that markets might be ahead of the actual reality, but leading indicators tell us that the future is less dark than the latest OECD and IMF forecasts.
- ❖ For more than 3 times in a row an upward sloping PMI data used to be a pretty good indicator for predicting an acceleration of economic activity over the next 9-18 months. As we have argued in the past this survey might be distorted due to the pandemic situation. We would at least give them the benefit of the doubt - it looks like a U-shape recovery.
- ❖ However, this is all under the assumption that a 2<sup>nd</sup> completed lockdown can be avoided. COVID-19 hotspots like the US, Brazil, India, the Balkan and Russia are scary, but the 2<sup>nd</sup> lockdown is not expected in any of these regions. Having said that, local temporary lockdowns must be expected, but their impact on the global recovery should be minor.
- ❖ The latest export figures from South Korea were very strong. This is another good leading indicator, but surprising for most economists.

### Europe will return to pre crisis GDP level only in 2023

#### A V-SHAPED RECOVERY, BUT A FULL RECOVERY WILL TAKE TIME



### Very strong rebound in German retail sales

#### — German retail sales, y/y%

\* Seasonally and working-day adjusted, real index



Source: Pantheon Macroeconomics

- ❖ The consumer data from the US was expectedly strong, while in Germany we see a very similar (but unexpected) recovery of consumer demand.
- ❖ The latest German retail sales, which were very strong and indicating that the German consumers have followed their French counterparts as the economy was reopened and people went on a shopping spree.
- ❖ We therefore expect that the US GDP pre-crisis level will be reached during Q4 2021, while the latest consensus states that it will take much longer period of time for Europe. However, we derive from the latest stimulus packages and the mentioned PMI surveys the fact that consensus is too pessimistic.
- ❖ In the Eurozone the further spread of COVID-19 is under control so far. If the rescue fund will be established and the ECB keeps its loose monetary stance, we might see Europe reaching the pre-crisis level during 2022.
- ❖ A key risk is back on the agenda - a hard Brexit. The latest negotiation round with the European Union has been stopped without reaching any breakthrough.

## Market Overview: Currencies, Commodities, Equity & Bond Indices

Bonds	Jul-20	YTD 2020
Bloomberg Barclays Global-Aggregate TR	1.31%	-3.41%
Bloomberg Barclays Euro Aggregate Corporate TR	0.25%	-0.95%
Bloomberg Barclays Pan-European High Yield TR	0.56%	-5.29%
Bloomberg Barclays US Corporate High Yield TR	1.23%	-2.62%
Bloomberg Barclays Asia USD High Yield TR	0.79%	-0.24%
Bloomberg Barclays Global High Yield TR	0.56%	-5.29%
JPM Emerging Market Global Bond	1.34%	-0.55%

Equities	Jul-20	YTD 2020
NASDAQ 100 Stock Index	4.42%	22.06%
S&P 500 Index	2.59%	-0.58%
MSCI World Index	2.87%	-2.76%
MSCI Emerging Markets Index	6.79%	-3.57%
EURO STOXX 50 Price EUR	2.65%	-9.63%
SMI	1.28%	-1.09%
DAX	2.22%	-5.01%
FTSE 100	0.69%	-16.21%
Hong Kong Hang Seng Index	7.19%	-5.53%
Shanghai Shenzhen CSI 300 A-Shares	12.89%	15.97%
Nikkei 225	1.47%	-3.34%

Commodities	Jul-20	YTD 2020
Gold	-0.25%	17.08%
Copper	1.93%	-1.11%
WTI	3.46%	-33.46%
BRENT	4.74%	-34.70%
Bloomberg Commodity Index	1.54%	-18.16%

Currencies	Jul-20	YTD 2020
EURCHF	0.05%	-1.85%
CHFUSD	0.39%	2.51%
CHFGBP	-0.47%	8.61%
EURUSD	0.43%	0.62%
EURGBP	-0.43%	6.59%
GBPUSD	0.85%	-5.64%
EURRUB	1.26%	16.50%
USDRUB	0.00%	4.50%

### Gold futures have traded above USD 1'800



- ❖ Gold keeps moving up due to a minor selloff in risky assets driven by the fear of a 2<sup>nd</sup> lockdown provoked by an acceleration of new COVID-19 cases in the US.
- ❖ In June emerging market equities and European equities have outperformed US equities, partially driven by money flow from the US into the overseas investments.
- ❖ Year to date US equities have been led by tech stocks, that outperformed the rest of the world. The 2<sup>nd</sup> best region was China, where A-Shares driven by retail investors have risen around 9%.

## Investment Outlook: Is positive PMI data misleading?

### Liquidity

- ❖ The Swiss National Bank keeps intervening to weaken the Swiss franc against the euro although we see simultaneously a strengthening against USD.
- ❖ The EUR lost against the dollar and was flat against the Swiss franc. Short-term we might see a further strengthening driven by capital flows from the US to the Eurozone.
- ❖ The USD has strengthened against the Euro and the pound during the 2<sup>nd</sup> half of June due to the temporally risk-off mode. The DXY (USD strength) index has started to move slightly down since the end of June as the risk appetite has risen together with US equities.

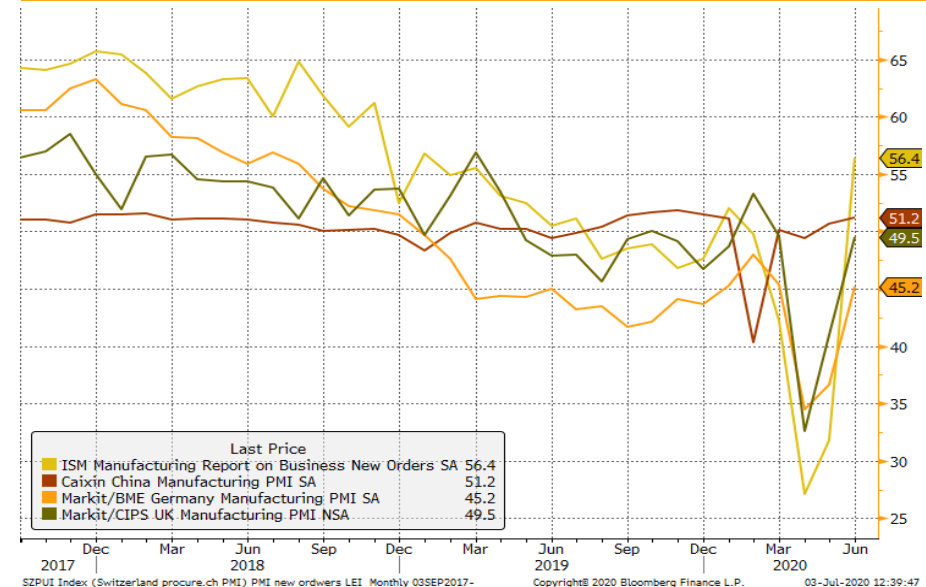
### Equities

- ❖ Emerging market equities have risen strongly due to a weaker dollar and a better economic outlook. We believe that the reason for that is the latest PMI and retail sales data.
- ❖ European equities driven by the reopening of the economy have risen sharply over the last two weeks as well, while the S&P 500 consolidated above its support area of around 2'800 to 3'000 points.
- ❖ Global equity markets supported by fiscal and monetary stimulus continue to perform well. However a correction can occur anytime. We would use such an event to slightly increase our allocation in equities.
- ❖ We still cannot find any euphoria among professional investors. They keep chasing the rally and are underperforming retail investors.

### Fixed Income

- ❖ Corporate bonds were trading in a narrow trading range. We still consider the actual spreads as attractive. We prefer US high yields over US equities.
- ❖ Some fallen angels have strongly outperformed after their rating were cut. We reckon that fallen angels benefit not only from the Fed bond buying program, but also from a lot of professional corporate bond managers, who have bought them as the normal selling pressure on fallen angels is distorted due to the Fed loose monetary policy.

### PMI surveys keep rising, indicating an acceleration of economic activities



### Alternative Investments

- ❖ Gold: The gold price might have entered a new trading range of around 1'750 to 1'800. For the first time since 2011 gold has traded above USD 1'800 per ounce for a short time period. The mid-term outlook is still positive, and we might see soon another break of the 1'800 level.
- ❖ REITs: European residential REITs trade slightly higher than two weeks ago. Commercial REITs still struggle with after-lockdown limitations and COVID-19 pandemic.
- ❖ Oil: WTI futures are now trading around USD 40 per barrel. Besides the decision of the OPEC+ to prolong the production cut for another month we see more and more US fracking producers shutting down their businesses.

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