

A wide-angle photograph of a European city, likely Zurich, featuring a river with several bridges and historic buildings. A prominent church spire is visible on the right. The image is partially obscured by a semi-transparent grey banner containing text.

# Bi-Weekly. Blackfort.

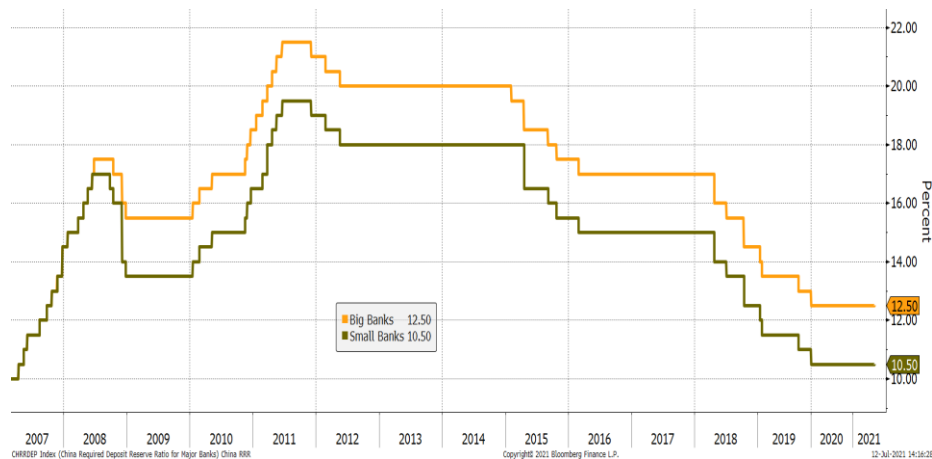
July (I)



## Macro Update: Global PMIs start rolling over while China restarts monetary stimulus

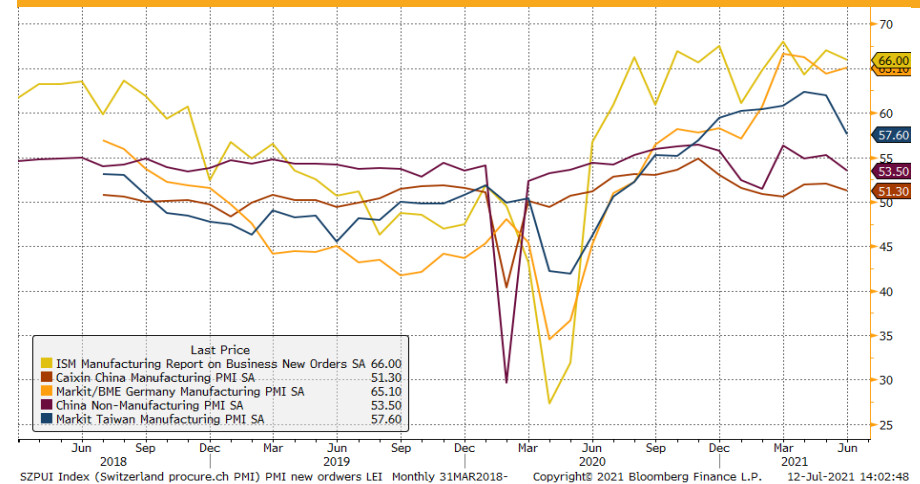
- ❖ Worldwide general expectations suggest monetary tightening across the globe as we already see it in Russia and Brazil where central banks have recently increased their policy rates.
- ❖ However, China's central bank has just announced a cut in the reserve requirement ratio (RRR) for nearly all Chinese banks by 50 basis points, effective 15 July. This is its first broad-based easing since January 2020. This step came just days after Premier Li Keqiang called for the use of an RRR cut and other monetary policy tools to support the economy and small and medium-sized enterprises. This cut will release about CNY 1 tr into the financial system and shows that Beijing is adopting a more pro-growth stance amid an uneven recovery.
- ❖ Also we noticed that the ECB is going to further stimulate the economy in the Europe. Over the weekend, ECB President Christine Lagarde said that the next Governing Council session will have "some interesting variations and changes" and will be "an important meeting." This happens after the news of last week when ECB has shifted to a symmetrical inflation target of 2%, from a prior commitment to keeping inflation "below, but close to, 2%." Overall, this should make the ECB policy structurally more dovish (accommodative).

### China cuts the reserve requirement ratio (RRR) by 50 bps starting 15 July



Source: Bloomberg, Blackfort Analytics

### Global PMIs start rolling over



- ❖ Fed speeches over the last week have prepared investors that first hiking steps are not imminent. For instance, on 9 July, Mary Daly, the president of the San Francisco Fed, stressed that there are several risks to the economic recovery. "I think one of the biggest risks to global growth going forward is that we prematurely declare victory on COVID."
- ❖ All these more dovish moves can be explained in the light of recent negative news flow from the COVID front and some weaker than expected macro data.
- ❖ Nevertheless, PMI data show that a slowdown stays at a very high level for the US, while in Europe the data is on average on a 15-year high. In Spain we have the highest results for 19 years. Only in China we do see PMI data approaching the 50 barrier which divides growth from slowdown.
- ❖ Peak growth and peak earnings are the dominant arguments for more stimulus. But they are good arguments for a goldilocks scenario as well, i.e., solid growth with some inflation. This might not only support the economy but also financial markets in general.

## Markets in 2021: Currencies, Commodities, Equity & Bond Indices

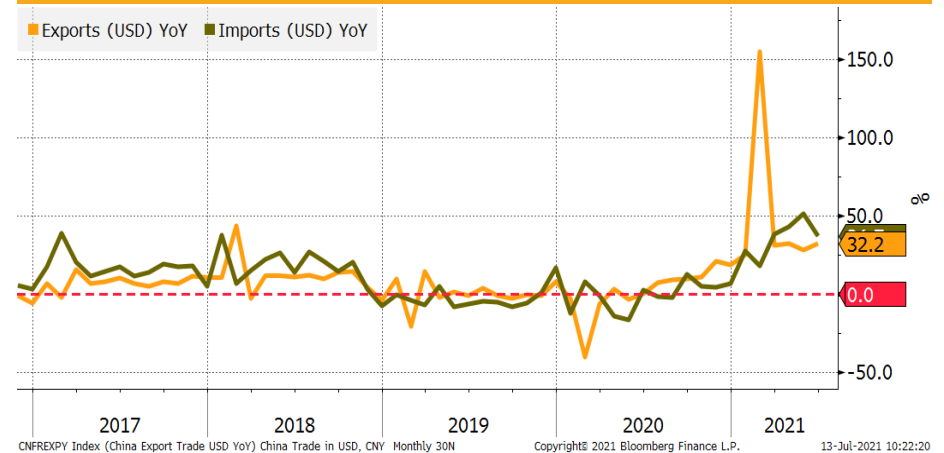
Bonds	Jul-21	YTD 2021
Bloomberg Barclays Global-Aggregate TR	0.26%	2.34%
Bloomberg Barclays Euro Aggregate Corporate TR	0.43%	0.04%
Bloomberg Barclays Pan-European High Yield TR	0.19%	3.76%
Bloomberg Barclays US Corporate High Yield TR	0.43%	4.06%
Bloomberg Barclays Asia USD High Yield TR	-0.30%	0.86%
Bloomberg Barclays Global High Yield TR	2.34%	0.26%
JPM Emerging Market Global Bond	0.14%	-0.89%

Equities	Jul-21	YTD 2021
NASDAQ 100 Stock Index	2.22%	15.86%
S&P 500 INDEX	1.71%	17.22%
MSCI World Index	1.44%	14.96%
MSCI Emerging Markets Index	-2.36%	4.86%
EURO STOXX 50 Price EUR	0.62%	17.31%
SMI	0.61%	15.35%
DAX	1.47%	14.88%
FTSE 100	0.81%	11.78%
Hang Seng Index	-3.22%	3.97%
Shanghai Shenzhen CSI 300 A-Shares	-2.31%	-1.33%
Nikkei 225	-0.64%	5.07%

Commodities	Jul-21	YTD 2021
Gold	2.10%	-4.45%
Copper	1.71%	22.61%
WTI	0.03%	55.09%
BRENT	0.86%	47.66%
Bloomberg Comodity Index	-0.39%	20.87%

Currencies	Jul-21	YTD 2021
EURCHF	-1.16%	0.27%
CHFUSD	0.68%	-3.62%
CHFGDP	0.01%	-4.88%
EURUSD	-0.48%	-3.45%
EURGBP	-1.10%	-4.74%
GBPUSD	0.62%	1.32%
EURRUB	0.49%	-3.31%
USDRUB	0.98%	-0.22%

### More easing in China although China's import/export data surged



- ❖ The cut of the Chinese reserve requirement ratio (RRR) due to growth concerns was the first easing step since January 2020. Therefore, today's Chinese import export data were a big surprise: Exports have surged to 32.2% YoY beating expectations of a slowdown to +23% YoY. Similar picture is seen with the import data which surged to 36.7% (expected 29.5%).
- ❖ In Europe the latest Markit PMI data indicates the strongest growth for 15 years according to the Markit press release.
- ❖ However, both areas have just cut rates or announced that they will be more dovish during the coming months.
- ❖ Also, the Fed indicates that rising rates is not on their priority list. Even the "starting about talking about staring tapering" was postponed to post-summer period.
- ❖ What this all means is that all three central banks are deliberately letting the economy running hot. Letting inflation surge and indirectly pushing real rates further into the negative, aka financial repression.
- ❖ The implications are that default rates will stay low, spreads for corporates will stay tight for longer and equity markets are well supported, while pullbacks might continue to be minor or like last week just used to buy the dip.

# Investment Outlook: Summer Rally led by Nasdaq

## Liquidity

- ❖ CHF has played out its role as a safe haven currency. During the mini pullback in the equity markets, we did see a stronger CHF and JPY while the USD has weakened.
- ❖ The EUR gained against the USD during the pullback but since the beginning of the week the USD has regained some of its losses.
- ❖ Similarly, the USD measured by the DXY lost during the pullback but has regained half of the occurred loss since then.

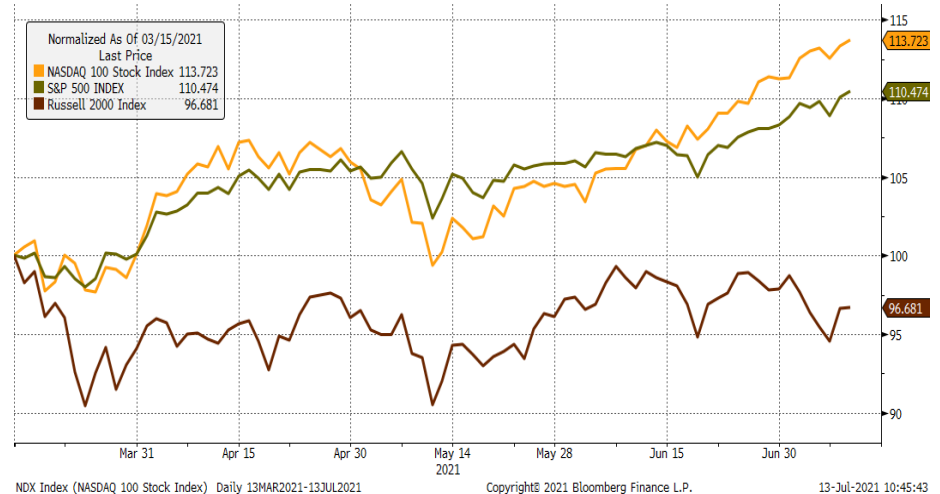
## Equities

- ❖ If seasonality continues to play out, we expect that both Nasdaq indices will continue to outperform the Russell 2000 and the S&P 500 over the summer into autumn mainly driven by large cap tech. The FANG+ index has started to outperform the broad market after a consolidation since last August. Apple for instance has reached several new record closing levels.
- ❖ We are at the beginning of the Q2 earnings season. For both the US and Europe we do expect unprecedented YoY growth rates, partially driven by the lockdown one year ago and by the strong pent-up demand of consumers.

## Fixed Income

- ❖ After the last Fed meeting, we have seen a drop in 10-year treasury yields to below 1.5%. That was followed by a further drop to around 1.25%. Then and now market commentators do expect rising yields, but we are stocked below 1.4%. The latest auction of 10-year treasuries has seen a strong demand for this bond at a yield of 1.36%. This is amazing, but institutional investors are not only forced to buy bonds but also seem happy with a nominal yield below 1.4%.
- ❖ Therefore, real treasury yields are far below zero in the light of 5.4% US CPI. Even more amazingly, US high yields have risen during the recent one day drop in equity markets. Spreads are very tight, but if the economy keeps growing and if monetary stimulus persists this will last longer.

## Nasdaq outperforms the broad US Market



## Alternative Investments

- ❖ Gold: Gold has regained the 1'800 level during the selloff. It continues to trade below the resistance area at around 1'835 - 1'840. Mid-term we should see higher prices, it may well be during the next equity pullback.
- ❖ Copper: Since the June 21<sup>st</sup> copper is rising in a very volatile market. It lost during the equity pullback more than 5% but has gained more than half back after. The global demand is rising while in China the demand is temporarily covered by the strategic reserve. Mid-term China will return to the global market, which gives additional support to the price.
- ❖ WTI and Brent futures have gained value due to the dispute at the OPEC+ conference. The participants could not agree on future production quotas, which was interpreted as a continuation of insufficient supply for the expected reopening demand.

## New Issue: West China Cement

Bond I



Price D

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## Update: Advanced Drainage Systems

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## Initial Coverage: Peach Property

Equity



Price D



Source: M

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## Blackfort Bonds: Changes

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## Blackfort Offense: High Yield and Emerging Market Bonds USD

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