

Blackfort Insights 25.02.2021

A minor pullback - is it already over?

Two weeks ago, we have raised the question "To correct or not to correct? After a minor pull-back in the broad market and sharp selloffs in highflyers like Tesla or GameStop broad market indices look from a technical standpoint ready for a next leg up. The RSI came down to a neutral territory and indices tested the 50-day average. This pullback happened without a significant rise in trading volume. By the contrary at lower market levels we have seen inflows into equity funds. Buy the dip is still the favorite strategy.

The pending US fiscal stimulus package which cloud be as high as 9% of US GDP, might push global GDP up by around 1-1.5%.

We had on top Fed Chair Powell testifying twice in front of US parliaments and twice during and after his speech US markets rallied. Lower for longer and the downplaying of inflation fears were enough to stabilize US equity markets.

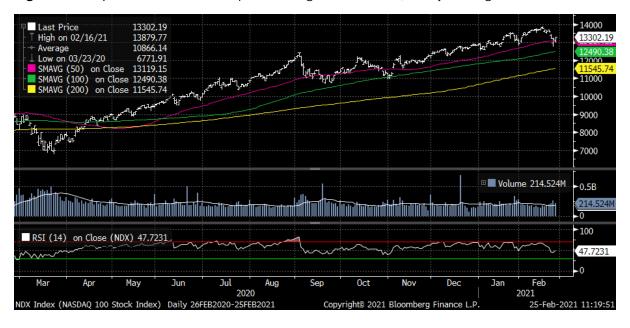


Fig. 1: Nasdaq 100 trades after the pullback again above its 50-day average

This minor pullback was accompanied by a massive rise in US 10-year treasury yields. Interesting is the decoupling of the US high yield and investment grade bond markets. Spreads so far have hardly moved and yields were range bound.



Fig. 2: Russel 2000 has consolidated without a significant pullback

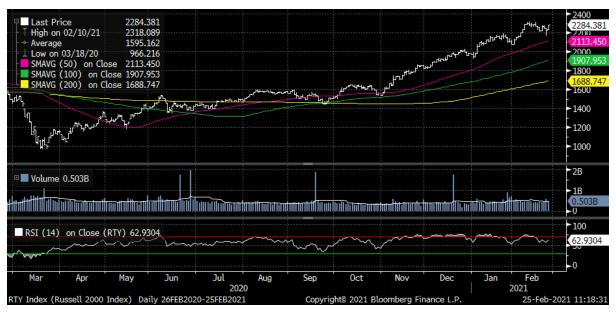
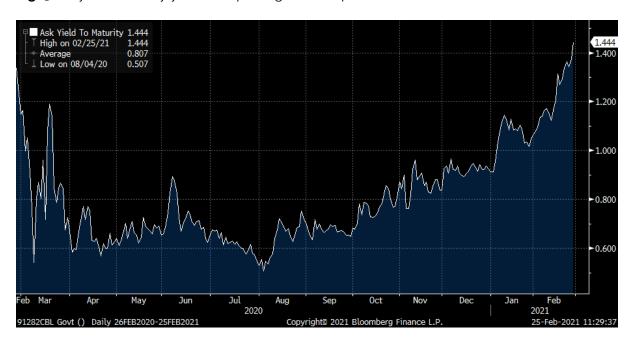


Fig. 3: 10-year Treasury yields keep rising at a fast pace



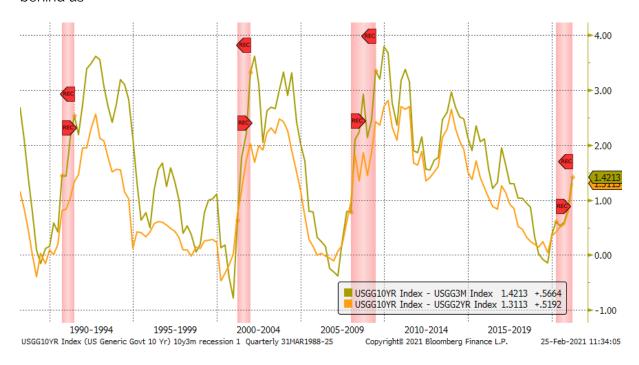
The US yield curve has steepened further as the yield levels from 1 month to around 7-year bucket have not moved much. We therefore get a clear signal from the US government bond market that the recession is behind us and that the growth outlook has significantly improved.



-1.100000 12.000000 1.000000 US High Yield (L1) 3.171303 Emerging Market Hard Currency (L1) 2.664363 0.900000 Global High Yield (L1) 10.000000 Global IG Corporates (R1) 0.800000 8.000000 0.700000 6.000000 0.500000 0.400000 3.732022 0.200000 2.000000 Dec Jun 2019 2021 LF98TRUU Index (Bloomberg Barclays US Corporate High Yield Total Return Index Va Copyright@ 2021 Bloomberg Finance L.P. 25-Feb-2021 11:33:27

Fig. 4: Corporate bonds' spreads did (so far) not react to rising treasury yields.

Fig. 5: The US yield curve has steepened and sends a clear signal that the US recession is behind us



Other macro indicators like the flash PMIs do confirm this view. The US data stayed in the acceleration area. Next week we get the next data set. It is expected that not only in the US but also in Europe we do see stronger PMI data, at least in the industrial area. The German ZEW or IFO indicators let us assume that the industrial sector has seen a strong increase of exports towards Asia. This picture is confirmed by a further rise of industrial metals.



| Last Price | 9308.50 | Fligh on 02/24/21 | 9522.50 | Average | 536.46 | Low on 03/19/20 | 4371.00 | SMAVG (50) on Close | 8081.23 | SMAVG (50) on Close | 7574.51 | SMAVG (200) on Close | 6896.45 |

Fig. 6: Copper continues to rise, indicating a strong increase of demand from industrials

The near future will depend on the impact of rising government bond yields on the corporate bond and equity markets. We expect that equity markets are resilient and will price in a stronger economy. The tech sector might continue to underperform cyclicals and small caps.

The bond markets must find a new balance between the yield level of corporates in relation to the relevant government bond markets. Therefore, the risk for rising yield spreads and a correction in corporate bond prices has risen.

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