

A wide-angle photograph of a European city, likely Zurich, featuring historic buildings along a river. A prominent church with a tall, green spire is visible in the background. The foreground shows a bridge and boats on the water.

# Market Watch. Blackfort.

June (I)

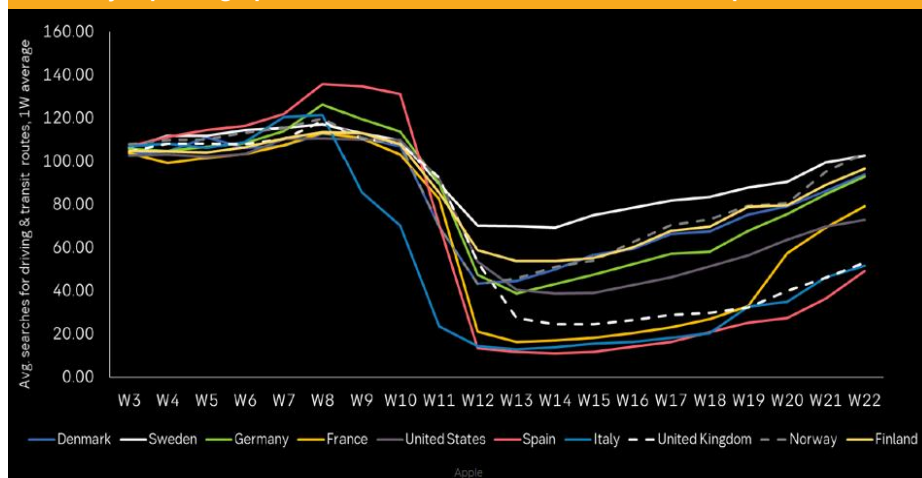




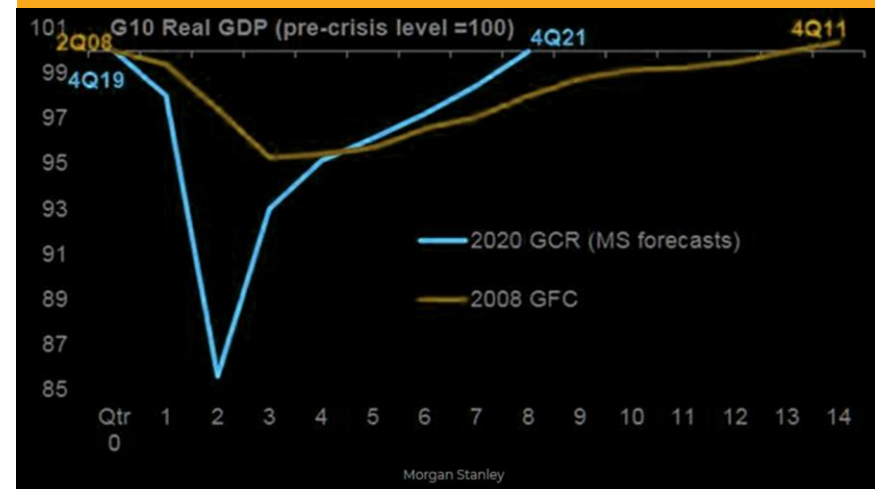
## Macro Update: Most Economists have revised its GDP forecasts down

- ❖ The latest PMI data was slightly better than the previous ones. Except for China all PMIs are below the growth area. However, the informative value is limited due to the smaller number of survey-participants and due to the special economic situation caused by the lockdown. There is however one take away, the direction of the curve is upward sloping, i.e. the data gets better indication of a modest recovery in H2.
- ❖ Meanwhile, economists keep revising their H2 GDP forecasts down, which stands in contrast to the PMI indication or the strong price increase in corporate bonds and equities. Only Morgan Stanley has revised its GDP forecasts up and claims that the equity rally is therefore supported. Either they and the markets are completely wrong, or all other economic forecasters are too pessimistic.
- ❖ The German coalition has agreed on a EUR 130 bn stimulus package. The main components are a cut in VAT and infrastructure projects. The approved package is larger than expected.
- ❖ Japan has announced another fiscal stimulus package. In the US the 3<sup>rd</sup> fiscal package is still in the parliament, but it might again be larger than USD 2 trillions.

### Mobility is picking up but in most cases are still far below the pre-crisis level



### MS is among the few who revised their G10 GDP forecasts up



- ❖ Besides fiscal stimulus we see at the 4 major central banks discussing the extension of monetary stimulus. The ECP boosts its pandemic emergency purchase program by EUR 600 bn (beating expectation by 100 bn), even though so far it has spent less than a third of the approved 750 bn.
- ❖ In the US Fed members keep openly discussing the possibility of a yield curve control while at the same time sending negative signal regarding negative US Fed rates.
- ❖ High frequency data shows that public life is picking up. In the US we are at around 60% of pre-crisis levels. Sweden and Norway are almost at 100% while Spain, Italy and the UK are at the bottom of the list.
- ❖ The same data for China shows that pre-crisis level has been reached and kept stable since roughly 4 weeks.
- ❖ Based on such indications we can expect that in the western world the speed of recovery will be slower than in China but still it will be rather U shaped, which stands in contrasts to most economic forecasts and is reflected in asset prices.



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

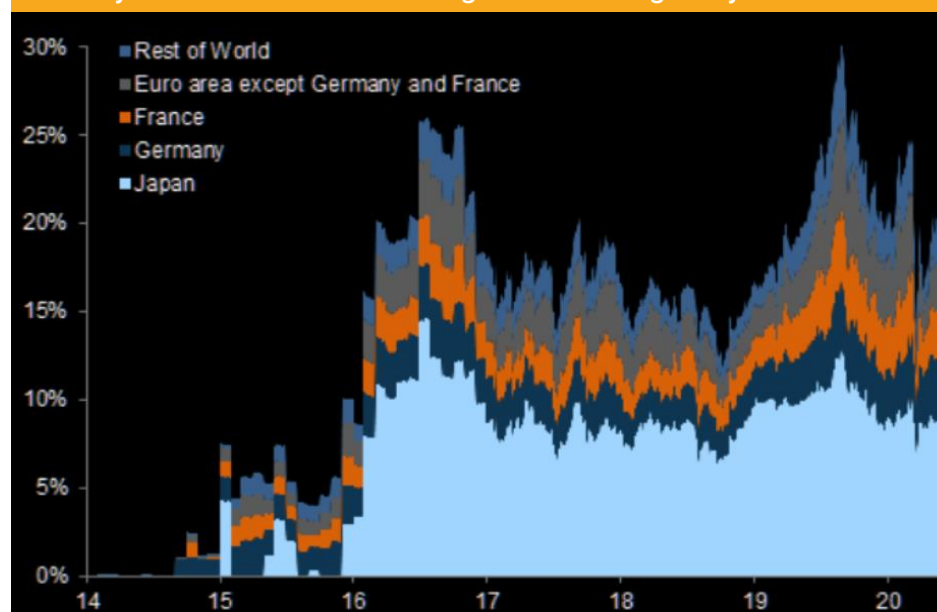
Bonds	Jun-20	YTD 2020
Bloomberg Barclays Global-Aggregate TR	2.22%	-4.71%
Bloomberg Barclays Euro Aggregate Corporate TR	0.29%	-2.19%
Bloomberg Barclays Pan-European High Yield TR	1.49%	-6.30%
Bloomberg Barclays US Corporate High Yield TR	1.93%	-2.89%
Bloomberg Barclays Asia USD High Yield TR	1.41%	-3.59%
Bloomberg Barclays Global High Yield TR	1.49%	-6.30%
JPM Emerging Market Global Bond	1.39%	-2.99%

Equities	Jun-20	YTD 2020
NASDAQ 100 Stock Index	1.87%	11.92%
S&P 500 Index	2.62%	-2.50%
MSCI World Index	3.50%	-4.73%
MSCI Emerging Markets Index	6.27%	-10.62%
EURO STOXX 50 Price EUR	7.38%	-11.26%
SMI	2.84%	-1.71%
DAX	7.53%	-5.96%
FTSE 100	4.70%	-14.29%
Hong Kong Hang Seng Index	6.58%	-12.53%
Shanghai Shenzhen CSI 300 A-Shares	3.08%	-2.39%
Nikkei 225	3.74%	-3.10%

Commodities	Jun-20	YTD 2020
Gold	-1.87%	12.51%
Copper	0.69%	-11.07%
WTI	5.22%	-38.93%
BRENT	3.84%	-39.71%
Bloomberg Comodity Index	0.97%	-20.46%

Currencies	Jun-20	YTD 2020
EURCHF	1.22%	-0.16%
CHFUSD	0.37%	1.04%
CHFGBP	-0.44%	6.33%
EURUSD	1.61%	0.92%
EURGBP	0.78%	6.16%
GBPUSD	0.82%	-4.97%
EURRUB	1.82%	12.60%
USDRUB	0.08%	0.71%

### Globally around 20% of all outstanding bonds have negative yields



- ❖ The amount of negative yielding bond was reduced from around 30% of all outstanding bonds to 15% during the selloff in March. Since then we see a global rally in equities and a significant tightening of corporate spreads. The amount of negative yielding bonds has increased to around 20%.
- ❖ We do see two trends: government bonds' yields stay at very low levels and for most of the issues in JPY, EUR and CHF stayed the whole time below zero.
- ❖ In contrast we have higher yields in the corporate bond market. These yields are reflecting the negative economic outlook by trading at higher spreads.
- ❖ Nevertheless the hunt for yield has reduced spread levels by roughly two thirds of its corona peak.



## Investment Outlook: Further US corporate spread tightening during 2020?

### Liquidity

- ❖ The Swiss franc profits from the weakening USD and the simultaneously strengthening of the EUR. The SNB didn't have to intervene in the last two weeks. This effect was driven by the restart of the global economy. Money has been pulled out of the two safe haven currencies - JPY and CHF.
- ❖ The EUR is strengthening against the USD. After the ECB announcement of the additional EUR 600 bn increase of the PEPP the EUR gained momentum.
- ❖ The USD measured by the DXY index has broken out of its trading range and continues to fall (USD is weakening).

### Equities

- ❖ The most hated rally has driven the S&P 500 up around 34% without any setback. This is unprecedented case in history. Most strategists have completely missed out this movement. This week Goldman Sachs has revised its bearish outlook to a constructive view on the US equity market.
- ❖ It is remarkable that the breath of the rally gets wider, we see now small and mid caps outperforming the FAANGs. On top of that emerging markets have caught up over the last week and outperformed developed equity markets.
- ❖ In Europe the hope of a German fiscal stimulus package pushed the DAX above 12'000 level. The announced unconditioned help for the southern Eurozone has strongly supported the rally in European stocks.
- ❖ After such a strong move a consolidation or correction can occur any time. But at the same time such possible weakness might be used to buy equities due to the underinvested professional fund managers.

### Fixed Income

- ❖ The situation in the high yield market is unchanged. We see a continuation of spreads tightening in tandem with the global equity market rally.
- ❖ Members of the Fed have again communicated that negative rates are not on their agenda. But they do consider a "Yield curve control (YCC)" to be a valid option going forward and an additional tool to steer the monetary policy.
- ❖ We continue to prefer US BB corporates. Due to the Fed buying their spreads, we expect a further tightening during the rest of 2020. This view is dependent on an economic recovery during the 2<sup>nd</sup> half of this year.

### Unprecedented 40% rise of the S&P 500 without a setback



### Alternative Investments

- ❖ Gold: The gold price trades in a trading range of 1'700 to 1'750. Over the last trading sessions while equities and bonds rallied, we have just seen a consolidation and no selloff. A weaker USD and rising inflation expectations in the US are both supportive for gold.
- ❖ REITs: European residential REITs have rallied over the last two weeks. Most of them trade now in line with their respective equity market. However, commercial REITs, in particular shopping-malls, keep underperforming due to the trend of online shopping.
- ❖ Oil: WTI futures are trading at the level of around USD 35 per barrel. The price has risen due to the cut in production and speculations from financial investors.



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