

INVESTMENT OUTLOOK 10.2020

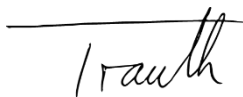
7 October 2020

As the US election campaigns go into their final spurt, the markets have been increasingly volatile. In September all major equity markets slipped. US tech stocks underperformed, owing to a major repricing at the beginning of September. President Trump's Covid infection, his swift return to the White house, and confusion around the stimulus talks between Republicans and Democrats kept the investors on tenterhooks.

Growth data have been mixed. There are clear indications that the stimulus-induced rapid rebound is running out of steam.

Meanwhile we are faced with a second wave of Covid infections in Europe and a third wave in the US. Many countries have strengthened lockdown measures, with severe impacts on sectors like travel, hospitality, and entertainment.

With the clouded economic outlook, the prevailing geopolitical risks and stretched equity valuations, we remain cautiously positioned.

A handwritten signature in black ink, appearing to read "Trauth".

Thomas Trauth

CEO – IMT Asset Management AG



FINAL SPURT IN THE US ELECTION CAMPAIGNS

Financial markets

In September most equity market indices fell. The MSCI Europe (-1.5%) outperformed the S&P500 (-3.9%). Tech stocks performed poorly, sending the NASDAQ index down by 5.2%. Tech stocks corrected sharply at the beginning of September and stabilized thereafter. The MSCI Emerging Markets Index fell 1.8%. The worst performers were the Chinese CSI300 and the Brazilian Bovespa, both down 4.8% on the month.

On 6 October, the US House Antitrust Subcommittee presented the findings of its 16-month investigation regarding potentially abusive market behavior by large tech companies. The focus has been on Amazon, Google, Facebook, and Apple. The democratic panel proposes a significant overhaul of anti-trust law, which could lead to a break-up of the above-mentioned tech companies.

As markets were in risk-off mood, government bonds yields fell across the board. While the short end of the curve remained almost unchanged, German 10-year yields fell 13 basis points. Credit spreads widened, high-yield spreads by 22 basis points and emerging market spreads by 59. Break-even inflation rates, i.e., inflation expectations, fell by about 15 basis points.

The gold price fell further and gold is currently trading around USD 1,880 per oz. Oil prices have been very volatile recently. Brent oil trades between USD 40 and 45 per barrel. The strong rally of industrial metals stalled in September and industrial metals prices dropped by 2.8%. Global REITS fell by 1.5% in September, but recovered somewhat in early October.

As uncertainties dominated the month of September and risky assets came under selling pressure, the USD rebounded. Once more the JPY demonstrated its safe-haven characteristics and strengthened. Renewed Brexit concerns sent the GBP down. The CNY continued its rising trend, which started at the end of May and reflects the Chinese economy's relative strength. Many emerging markets currencies continued to weaken in September.

Covid-19

The number of new daily cases has continued to be around 300,000, which brought the total number of cases to about 36 m on 6 October. The US exhibits the highest number of total cases with 7.7m, followed by India (6.7m) and Brazil (5m).

Many European countries face a second wave of infections, while it seems that in the US the third wave is approaching. Many governments introduced reinforced lockdown measures, which are likely to slow down economic growth.

US President Trump apparently caught the viral infection and was hospitalized on Friday, 2 October, returning to the White House on Monday evening, 5 October. Upon his return he told the public: "Don't be afraid of Covid. Don't let it dominate your life."

Macroeconomics

The European Markit PMI rose to 53.7 after 51.7, signaling that the European economy is still in a recovery phase after the sharp drop in March and April. The US ISM, however, fell to 55.4 after 56.0, but remains clearly above the 50-level.

US non-farm payrolls rose 661,000 in September. The figure was below expectations and clearly lower than the August reading of 1.49 m. This suggests that the economic recovery is slowing. Furthermore, the number of long-term unemployed rose sharply by 781,000 to reach 2.4m. This indicates that the pandemic is exerting lasting effects on the labor market.

EU inflation dropped to -0.3% in September. This was the second consecutive month of deflation. In addition core inflation, which excludes more volatile prices, for example of food and energy, hit a record low of 0.2% in September.

China has benefited from a strong recovery after extremely strict measures helped to prevent the virus from spreading. Furthermore, the Chinese government introduced strong stimulus measures, which have boosted credit growth. We expect that the resulting effects will peter out in the coming months.

Geopolitics

We are observing the final spurt of the US presidential elections. The dreadful first TV debate between the candidates was characterized by little real content, constant interruptions, personal insults, and a loose handling of the truth and facts. Further complications arise from the purported Covid infection of President Trump. In recent days, Biden has been able to increase his lead over Trump in the poll averages (see graph below).

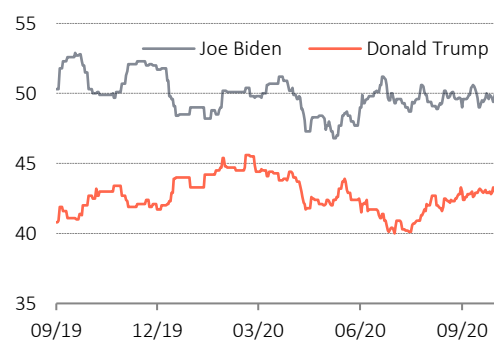
Meanwhile democrats and republicans are fiercely negotiating a further stimulus package. While the democrats suggest a package of USD 2.2 tn, the republicans are only prepared to agree on a figure of USD 1.6 tn. President Trump stopped the talks on Tuesday, only to backtrack later that day.

In Japan Shinzo Abe, who was in office for eight years, stepped down because of health issues. It is thought that his successor, Yoshihide Suga, who served as chief cabinet secretary for eight years, will continue with Abe's general policy framework.

The Brexit negotiations have proved to be exceedingly difficult recently, especially since the year-end

deadline is approaching. The EU has launched legal action at the European Court of Justice against the UK, claiming that the UK government was breaching the withdrawal agreement regarding the border between Ireland and Northern Ireland.

US election poll averages (Source: Real Clear Politics)



Monetary policy

At its policy meeting on 15 September the US Fed kept the interest rate unchanged at 0.25% and reiterated that it will continue its asset purchase program. The Fed noted that it will keep rates unchanged until "... inflation has risen to 2% and is on track to moderately exceed 2% for some time."

In a speech at the beginning of October Fed chairman Powell said that economic expansion is "still far from complete" and that "... the risks of policy intervention are still asymmetric. Too little support would lead to a weak recovery, creating unnecessary hardship for households and businesses. The risks of overdoing it seem, for now, to be smaller. Even if policy actions ultimately prove to be greater than needed, they will not go to waste. The recovery will be stronger and move faster."

The ECB held its policy meeting on 10 September. At the press conference, ECB president Christine Lagarde, announced that the main deposit rate will remain unchanged at -0.5%. She discussed the impact of the strengthening EUR on growth and inflation and said the ECB would watch the further development of the EUR closely. Surprisingly, the ECB upgraded its

forecast for GDP and inflation. Furthermore, the policy committee did not discuss an expansion of its bond-buying program.

The SNB held its quarterly monetary policy meeting on 24 September. It said that it was prepared to accelerate large foreign currency interventions, as uncertainties would put upward pressure on the CHF. There are analyst estimates that the SNB had sold almost USD 100 bn worth of CHF in the first half of the year.

Outlook

In our view, the economic outlook is clouded. Economic recovery is slowing. In addition, policy makers

are strengthening lockdown measures, since the Covid virus started to spread rapidly again. Furthermore, it is unclear whether we will be getting significant additional fiscal and monetary stimulus measures. At the same time, we observe heightened geopolitical risks, not least from the heated US election campaign. In addition, we regard bond and equity valuations as elevated.

As a result, we are staying cautiously positioned, with underweights for government bonds, high-yield bonds, and equities.

ECONOMICS

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661,000 in September. The figure was below expectations and clearly lower than the August reading of 1.49 m. This suggests that economic recovery is slowing. Furthermore, the number of long-term unemployed rose sharply by 781,000 to reach 2.4m.

Fig. 1: PMIs

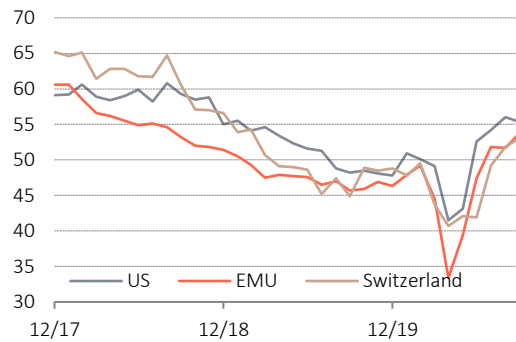


Fig. 2: PMIs

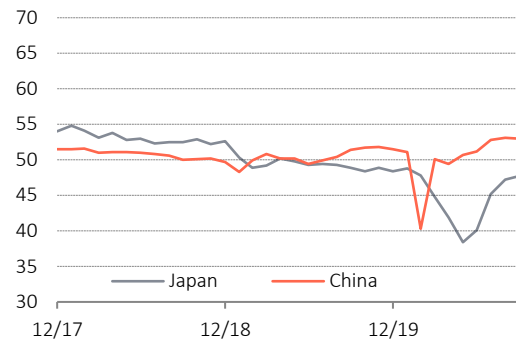


Fig 3: Consumer price inflation, in % YoY

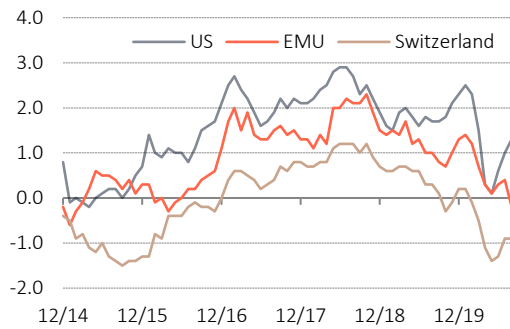


Fig. 4: Consumer price inflation, in % YoY

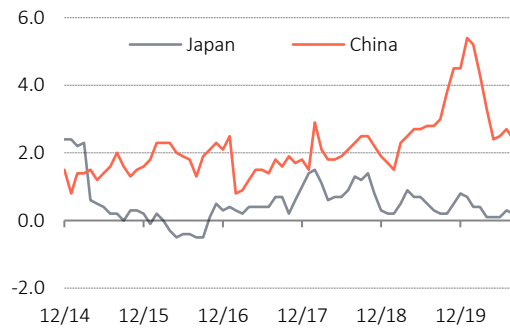


Fig 5: Unemployment rates, in %

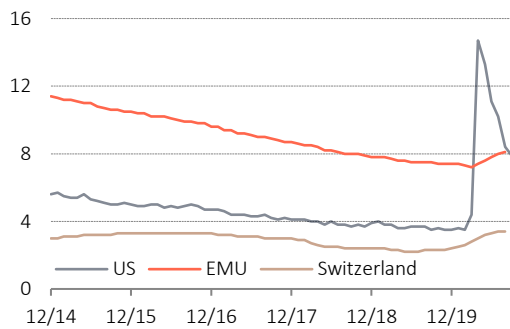
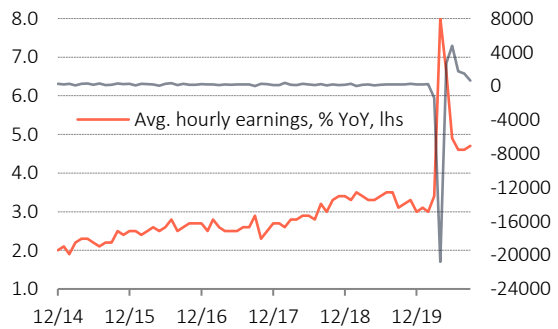


Fig 6: US labor market



FIXED INCOME

As markets were in risk-off mood, government bond yields fell across the board. While the short end of the curve remained almost unchanged, German 10-year yields fell 13 basis points. Credit spreads widened,

high-yield spreads by 22 basis points and emerging market spreads by 59. Break-even inflation rates, i.e., inflation expectations, fell by about 15 basis points.

Fig.7: 2Y government bond yields

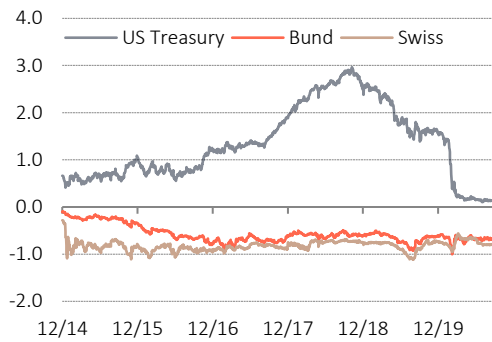


Fig. 8: 10Y government bond yields

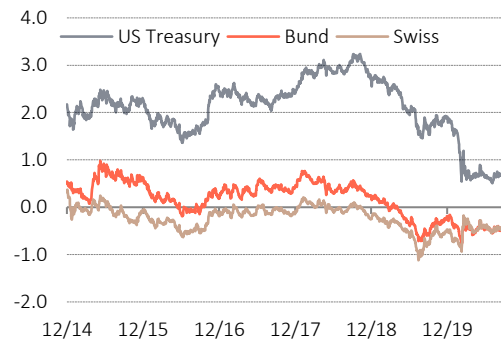


Fig 9: 10Y break-even inflation

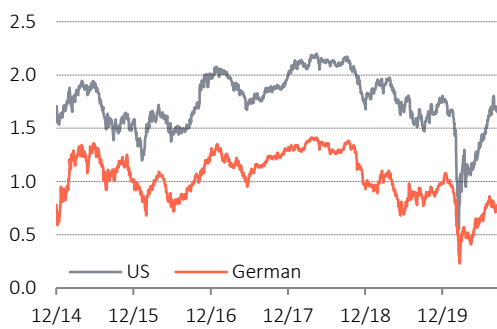


Fig. 10: Credit spreads, 5Y credit default swaps

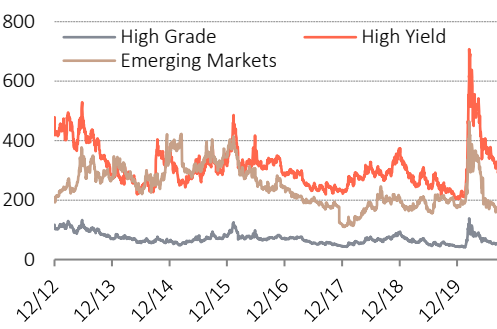


Fig 11: Money market spreads (3M-2Y)

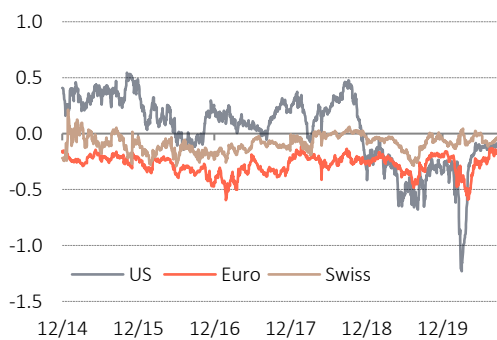
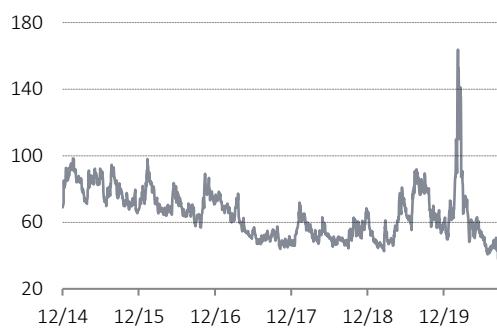


Fig 12: Merrill Lynch volatility index (MOVE)



EQUITIES

In September most equity markets indices fell. The MSCI Europe (-1.5%) outperformed the S&P500 (-3.9%). Tech stocks performed poorly, sending the NASDAQ index down by 5.2%. Tech stocks corrected sharply at the beginning of September and stabilized

thereafter. The MSCI Emerging Markets Index fell 1.8%. The worst performers were the Chinese CSI300 and the Brazilian Bovespa, both down 4.8% on the month.

Fig. 13: MSCI equity indices – major regions

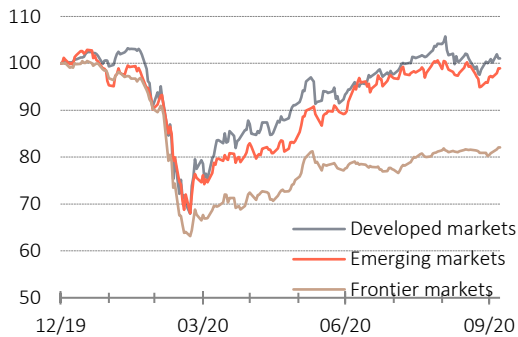


Fig.14: Equity indices – major developed markets

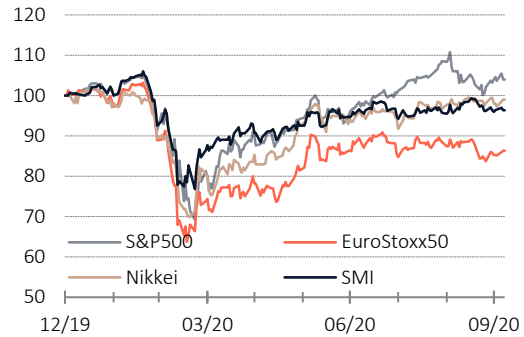


Fig 15: Equity indices – major emerging markets

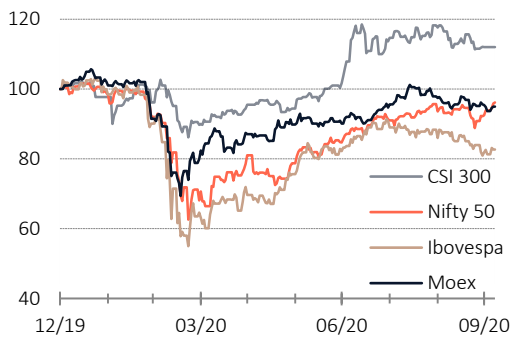


Fig. 16: Sector performance, MSCI Europe, YTD

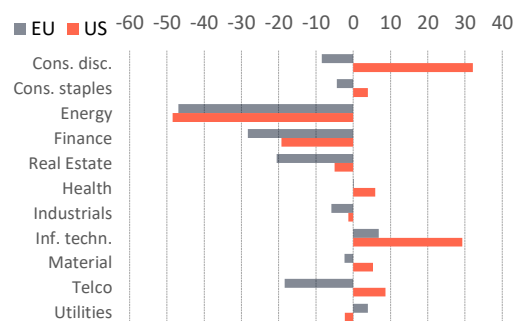


Fig 17: Price-earnings ratios

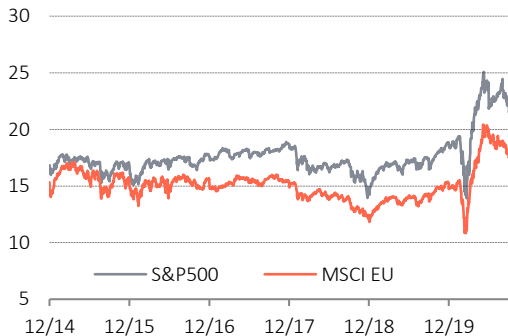
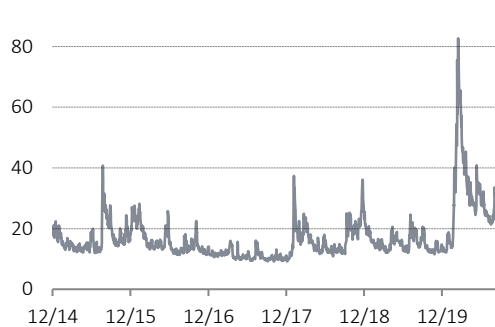


Fig 18: Equity volatility – S&P500 VIX index



ALTERNATIVE INVESTMENTS

The gold price fell further and gold is currently trading around USD 1,880 per oz. Oil prices have been very volatile recently. Brent oil trades between USD 40 and 45 per barrel. The strong rally of industrial metals

stalled in September and industrial metals prices fell by 2.8%. Global REITS fell by 1.5% in September, but recovered somewhat in early October.

Fig. 19: Gold price, USD/oz



Fig.20: Brent oil price, USD/bl



Fig 21: Bloomberg commodity indices

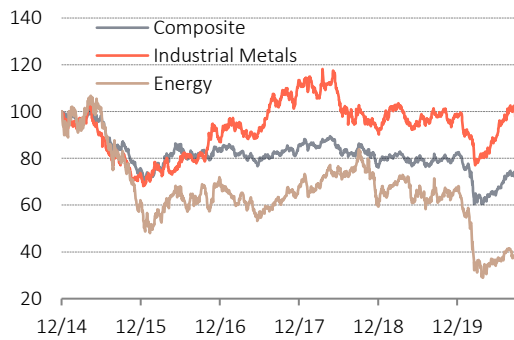


Fig. 22: HFRU hedge fund indices

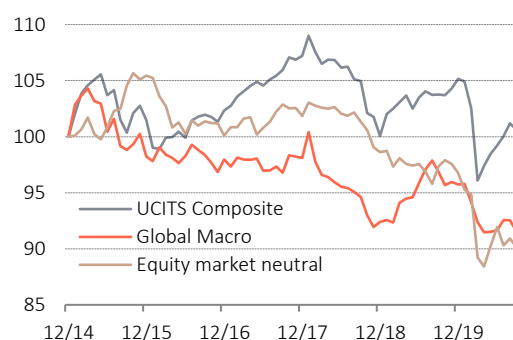


Fig 23: FTSE EPRA/NAREIT global REITS index



Fig 24: LPX global listed private equity



CURRENCIES

As uncertainties dominated in September and risky assets came under selling pressure, the USD rebounded. Once more the JPY proved its safe-haven characteristics and strengthened. Renewed Brexit concerns sent the GBP down. The CNY continued its

strengthening trend, which started at the end of May and reflects the Chinese economy's relative strength. Many emerging markets currencies continued to weaken in September.

Fig. 25: EUR-USD exchange rate



Fig. 26: GBP-USD exchange rate



Fig. 27: USD-JPY exchange rate



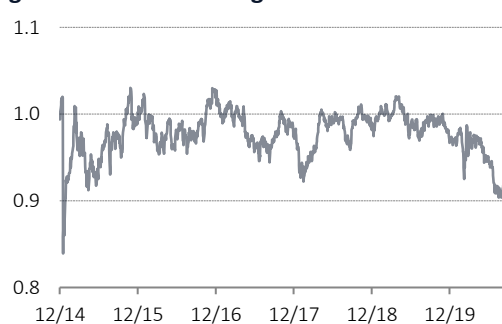
Fig. 28: USD-CNY exchange rate



Fig. 29: EUR-CHF exchange rate



Fig. 30: USD-CHF exchange rate



COVID-19

The number of new daily cases continues to be around 300,000, which brought the total number of cases to about 36 m on 6 October. The US exhibits the highest number of total cases with 7.7m, followed by India (6.7m) and Brazil (5m).

Many European countries face a second wave of infections, while it seems that in the US the third wave is approaching. Many governments introduced strengthened lockdown measures, which are likely to slow down economic growth.

Fig. 31: Total Covid-19 cases (x 1000)

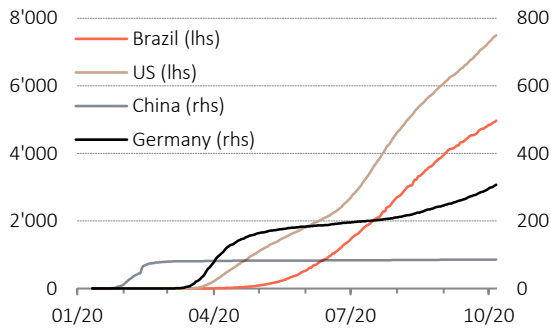


Fig. 32: New cases per day (7-day average)

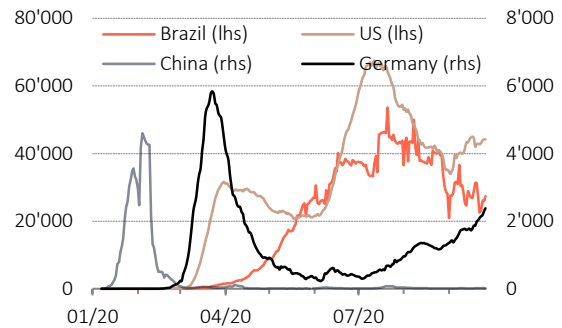


Fig 33: US bankruptcy index



Fig.34: US personal income, excl. transfers (USD bn, 2012 prices)

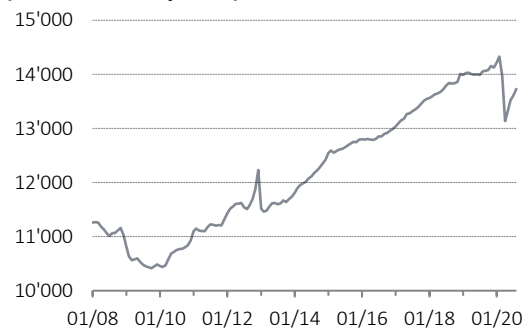


Fig 35: Central bank total assets, indexed

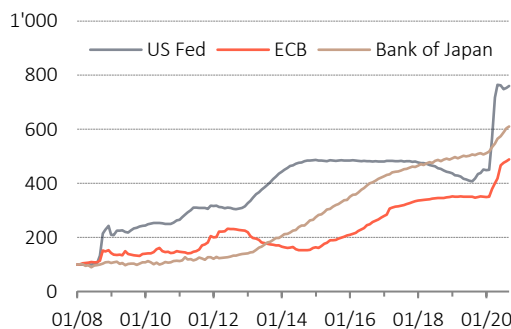
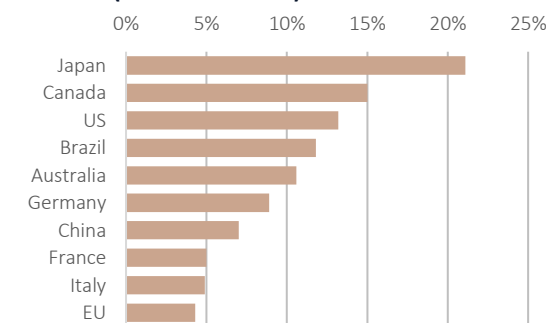


Fig 36: COVID-19 fiscal stimulus as of June 2020, % of GDP (Source: Statista)

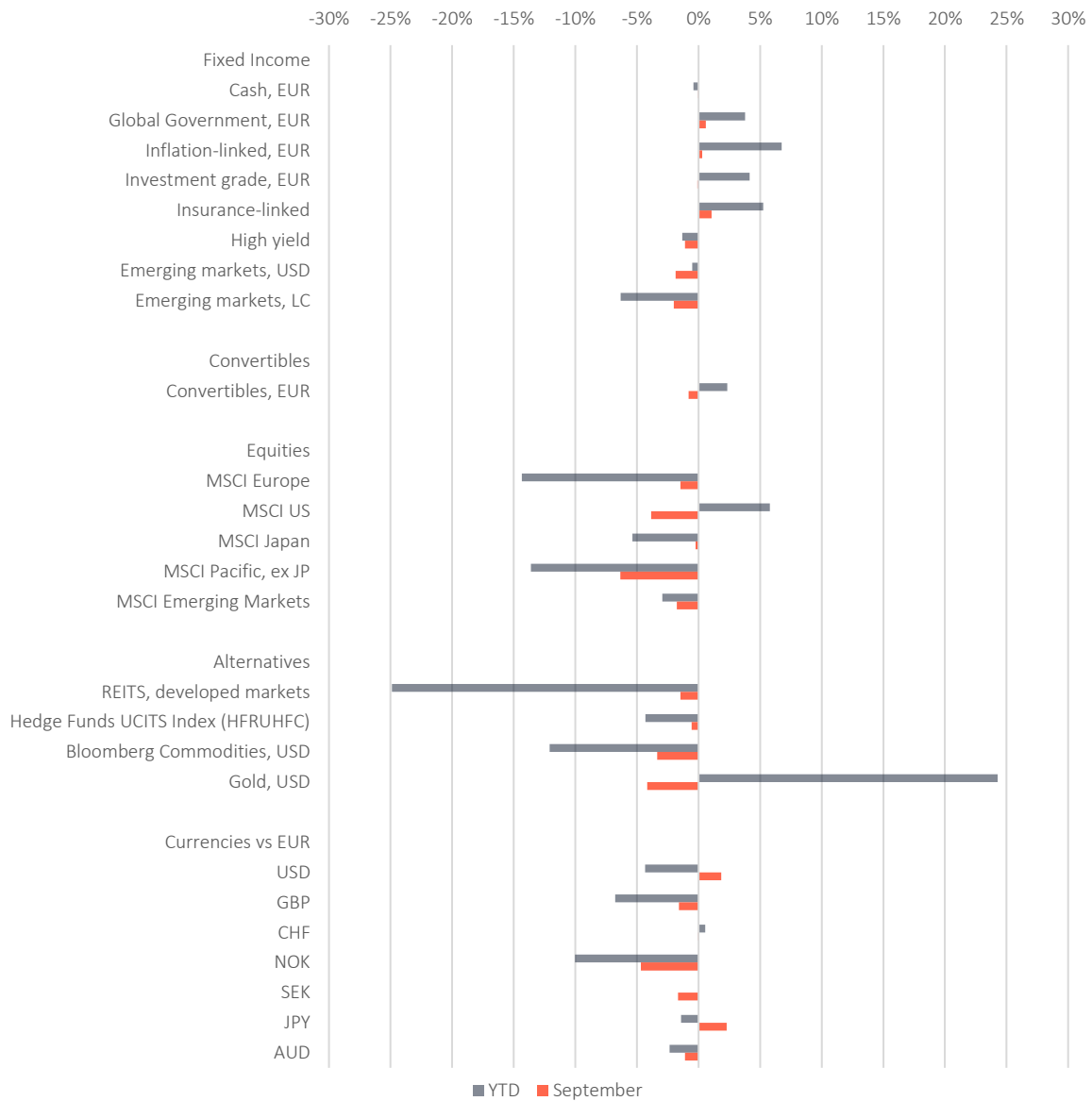


ASSET ALLOCATION

The only asset classes, which performed positively in September were government and insurance-linked bonds. Risky assets, in general, sold off, including commodities. Also the gold price fell by 4%.

The USD and the JPY strengthened against the EUR. Year-to-date gold remains the strongest performer, while REITS remain the laggards.

Fig. 37: Performance of major asset classes, based on our EUR portfolio strategy



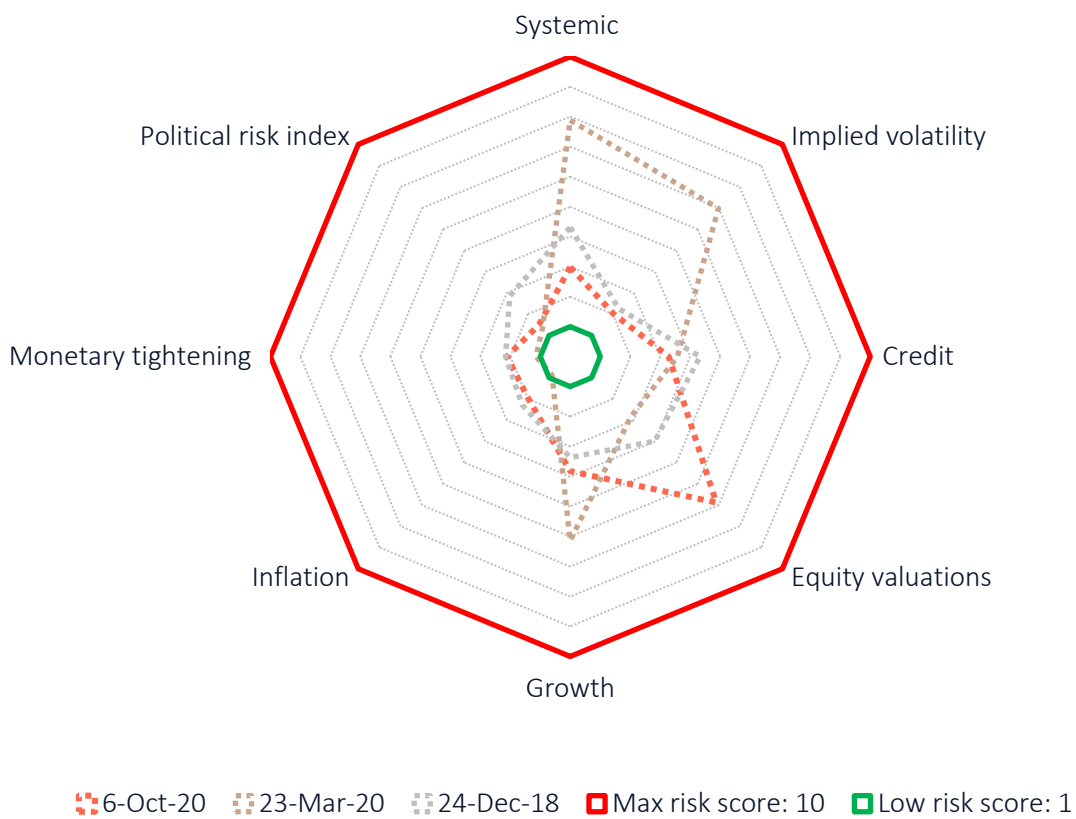
RISK MONITOR

Equity valuations still look stretched, despite record low interest rates. Inflation expectations rose somewhat, up from very depressed levels in

March. Our risk monitor does not flag other major risks. Growth indicators, for example, rebounded and PMIs are back clearly above the 50-level.

Fig. 38: IMT Risk Monitor

23-Mar-20 Pandemic
24-Dec-18: Growth and monetary tightening fears



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Source for all graphs: IMT Asset Management AG, Bloomberg, Real Clear Politics, for Fig 36 Statista (de.statista.com), for Fig. 38, the political risk index: "Measuring Geopolitical Risk" by Dario Caldara and Matteo Iacoviello at <https://matteoiacoviello.com/gpr.htm>.