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# INVESTMENT OUTLOOK 12.2020

**10 December 2020**

The second wave of the pandemic is rolling over large parts of the world's population. While many European countries have decided on strengthened lockdown measures, the US, still under President Trump's leadership, has been more relaxed. Currently, we are waiting to assess the full impact of the Thanksgiving weekend on infection rates.

Meanwhile, the first Covid vaccinations have been administered in the UK. Other public health authorities are fast-tracking further approvals. We expect that by mid-2021 there will have been a more broadly based roll out of vaccines.

It is now almost certain that despite President Trump's claims of voting fraud, the handover of power in the US will take place peacefully.

Less orderly, however, is the Brexit process. The end of the transition period – on 31 December – is approaching fast, but negotiators have still not been able to strike an exit deal. Markets nevertheless don't seem to be particular nervous about the prospect of a disorderly Brexit.

Trauth

**Thomas Trauth**
CEO – IMT Asset Management AG

# THE SECOND WAVE

## Financial markets

Although the second Covid pandemic wave crashed over the world in November, it was an exceptionally strong month for equity markets. The S&P500 index rose 10.8%, the German DAX by 15.0% and the Emerging Markets index by 9.2%. In addition, we observed a strong equity market rotation. Cyclical sectors like industrials, financials, and energy, which have been laggards in recent years, clearly outperformed. This reflects the optimistic view of market participants that economies will rebound strongly next year.

Despite the strong rally of risky assets, bond yields remained very stable. German 10-year government bond yields rose slightly, by 6 basis points, while US yields fell 3 basis points. Despite very stable nominal yields, inflation expectations went up, by 8 basis points in the US and 18 basis points in Europe. Credit spreads strongly tightened in line with the risk-on environment.

The price of gold continued to fall in November, losing 5.4%. In contrast, cyclical commodities like oil and industrial metals surged, by 27% and 10% respectively. Global REITS recovered strongly to gain 10%. Meanwhile the major listed private equity index climbed by 15.5%.

The USD remained on the weak side, falling vis-à-vis most major currencies, losing 1.5% against the EUR and 0.5% against the CNY. The GBP came under strong selling pressure at the End of November as it became apparent that Brexit talks are likely to fail.

## Covid-19

The second wave is now showing its full impact. The number of new daily cases has risen to almost 700,000, bringing the total number of cases worldwide to almost 71 m by 10 December. The US still has the highest numbers of cases worldwide. The additional effect of the Thanksgiving weekend will be seen in the next couple of days.

On a positive note, the first vaccines have been administered, but it will take at least until mid-2021 to reach a significant vaccination coverage. At the same time, Sanofi and GlaxoSmithKline experienced a setback with their vaccine development and had to delay the rollout. In our view, this suggests that we may encounter further stumbling blocks when the vaccines are being rolled out globally.

## Macroeconomics

The recent increase of Covid cases and the lockdown measures taken in response will slow down the economies in the coming months. It is not unlikely that we will encounter a double-dip recession. For example, the US ISM softened to 57.5 after 59.3, in line with many other PMIs. US job growth stalled, the additional 245,000 jobs in November being well below consensus expectations. Meanwhile initial jobless claims rose by 137,000 to 853,000 in the week ending 5 December, providing a further indication of the toll taken by the pandemic in the US.

President-elect Biden announced that former Fed chairwoman Janet Yellen will serve as treasury secretary. The appointment was widely applauded across the political spectrum. In addition, markets seemed to feel confident that Yellen will be able to provide another major fiscal stimulus package.

During a two-day summit which ended on 11 December, European leaders agreed on a budget worth EUR 1.8 tn. This includes a EUR 750 bn pandemic recovery fund which will grant monies to hardest hit member states. In addition, agreement on a seven-year budget was reached. This includes funding for very ambitious climate change objectives.

The fiscal package will be partly financed by debt issuance on a European level. The question of European debt issuance has been fiercely debated in the last couple of years. While the recovery fund is clearly earmarked as temporary, it is seen by many as a completely new tool in the tool kit of European politics.

## Monetary policy

On 10 December the ECB held its last monetary policy meeting of the year. The ECB kept its deposit rate unchanged at minus 0.5% and, as expected, increased its pandemic emergency purchase program (PEPP) by EUR 500 bn from EUR 1.35 tn to EUR 1.85 tn. It furthermore extended the timeline for its crisis-fighting tools from June 2021 to March 2022. Christine Lagarde said the PEPP would not be used fully if not required, but could also be expanded. In addition, the ECB extended its bank financing facility until June 2022, whereby banks can borrow at minus 1%, if they carry on providing loans.

## Outlook

The recent increase in numbers of Covid cases and the resulting lockdown measures will slow down the economies in the coming months. We already observe that leading indicators are softening.

We would not exclude the possibility of disappointing news on the rollout of vaccines as well as on economic growth, which could lead to equity market corrections in the coming months — all the more so since equity markets look overbought and equity valuations have become very rich.

Overall, however, we assume that vaccinations will be rolled out successfully. We will probably see measurable results by mid-2021. This is likely to bring about a strong economic recovery in the second half of 2021, as pent-up demand will have grown significantly by then. As a result, we do see an upside for equity markets in 2021. In addition, we expect that this will reinforce the already observed equity market rotation into cyclical and sectors hit hardest by the pandemic.

# ECONOMICS

The recent increasing numbers of Covid cases and the resulting lockdown measures will slow down economies in the coming months. For example, the US ISM softened to 57.5 after 59.3 in line with many other PMIs. US job growth stalled, the additional 245,000 jobs in November being well below consensus expectations. Meanwhile initial jobless claims rose by 137,000 to 853,000 in the week ending 5 December, a further indication of the toll taken by the pandemic.

**Fig. 1: PMIs**

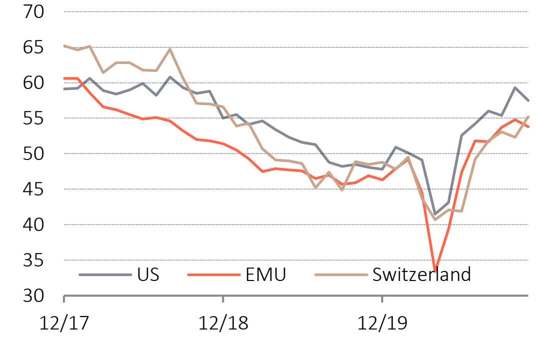



**Fig. 2: PMIs**

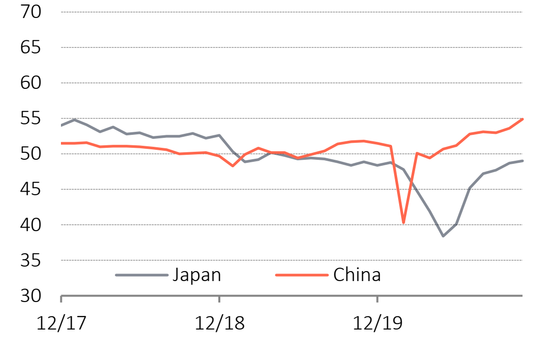



**Fig 3: Consumer price inflation, in % YoY**

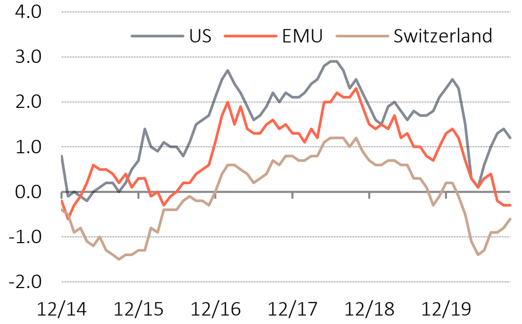



**Fig. 4: Consumer price inflation, in % YoY**

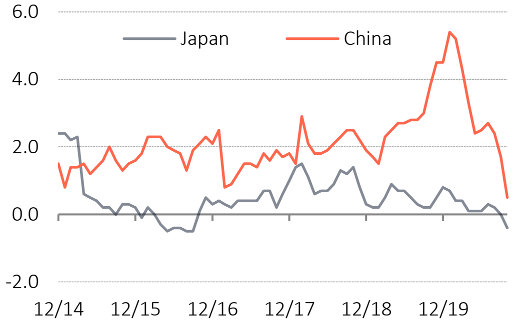



**Fig 5: Unemployment rates, in %**

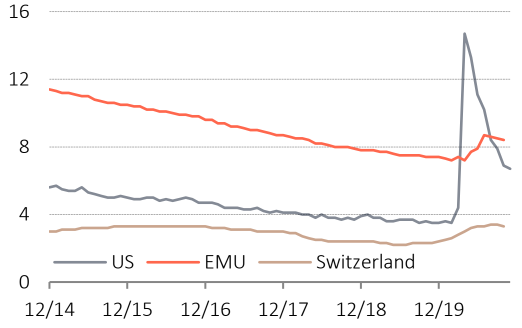
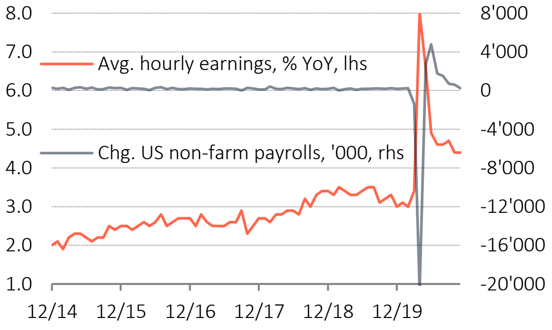



**Fig 6: US labor market**



# FIXED INCOME

Despite the strong rally of risky assets, bond yields remained very stable. German 10-year government bond yields rose slightly by 6 basis points while US yields fell 3 basis points. Although nominal yields remained very stable, inflation expectations went up, by 8 basis points in the US and 18 basis points in Europe. Credit spreads strongly tightened in line with the risk-on environment.

**Fig.7: 2Y government bond yields**

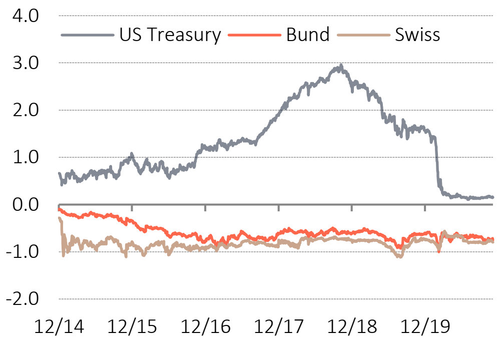



**Fig. 8: 10Y government bond yields**

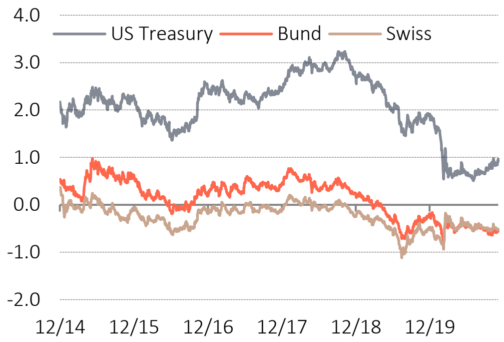



**Fig 9: 10Y break-even inflation**

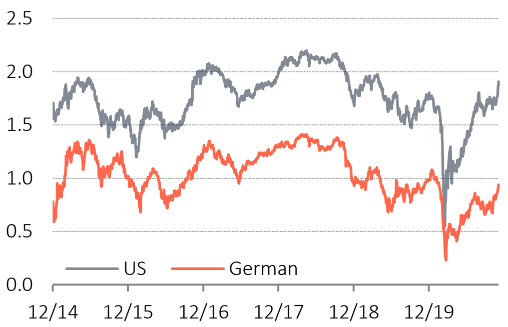



**Fig. 10: Credit spreads, 5Y credit default swaps**

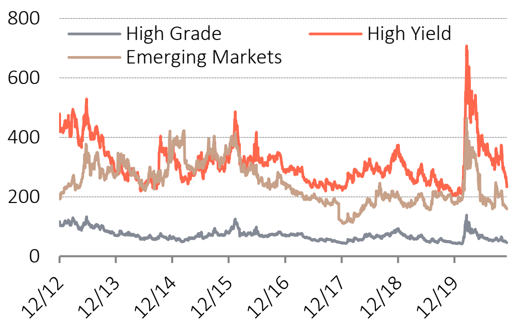



**Fig 11: Money market spreads (3M-2Y)**

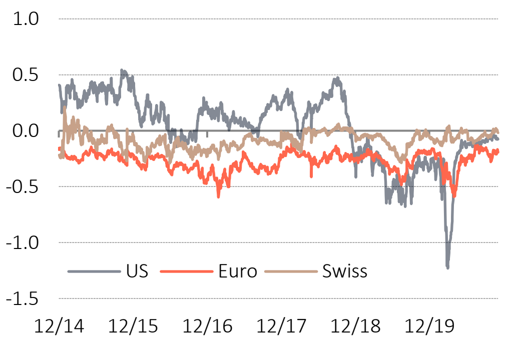
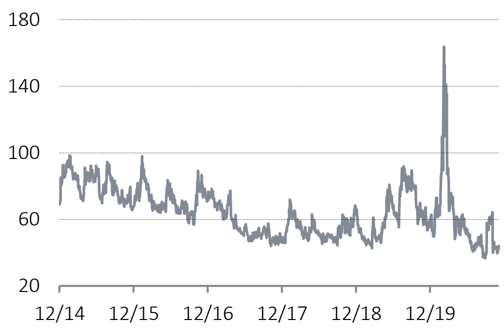



**Fig 12: Merrill Lynch volatility index (MOVE)**



# EQUITIES

November was an exceptionally strong month for equity markets. The S&P500 index rose 10.8%, the German DAX by 15.0% and the Emerging Markets index by 9.2%. In addition, we observed a strong equity market rotation. Cyclical sectors like industrials, financials, and energy, which have been laggards in recent years, clearly outperformed. This reflects the optimistic view of market participants that economies will rebound next year.

**Fig. 13: MSCI equity indices – major regions**

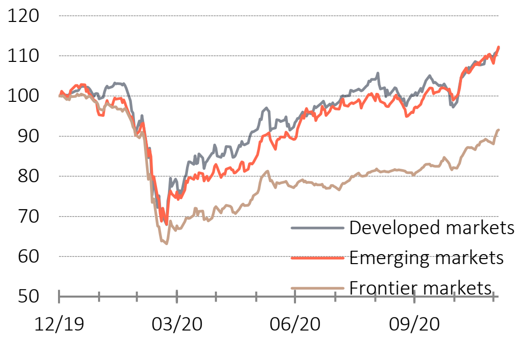



**Fig.14: Equity indices – major developed markets**

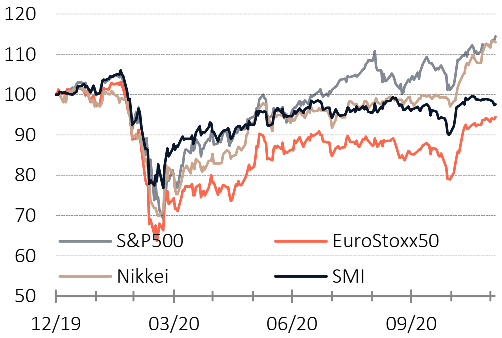



**Fig 15: Equity indices – major emerging markets**

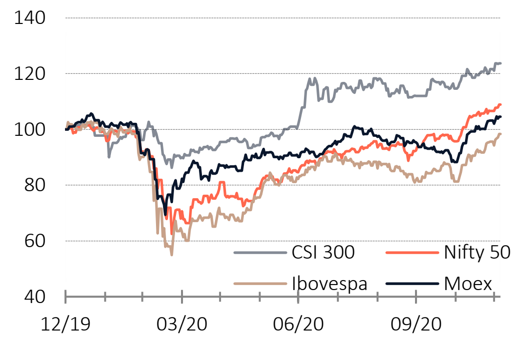



**Fig. 16: Sector performance, MSCI Europe, YTD**

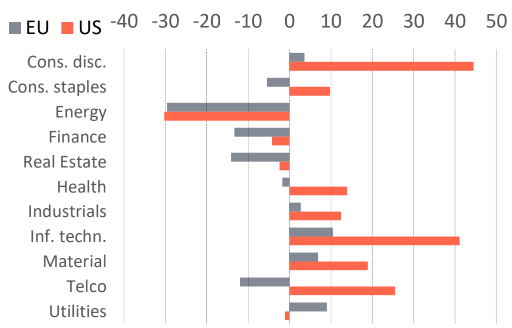



**Fig 17: Price-earnings ratios**

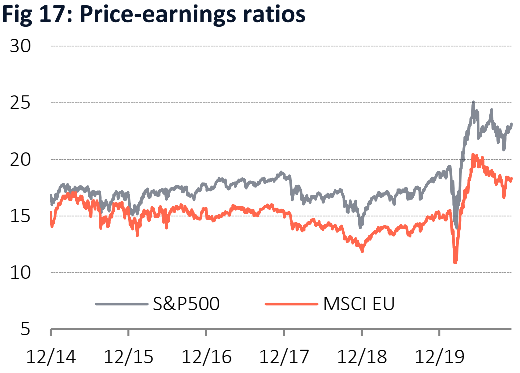
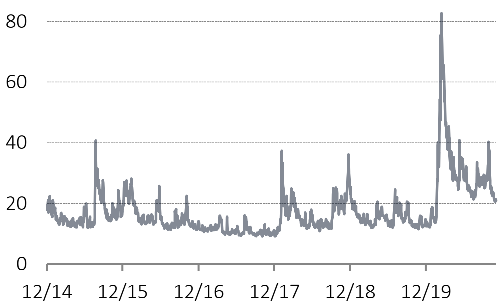



**Fig 18: Equity volatility – S&P500 VIX index**



# ALTERNATIVE INVESTMENTS

The price of gold continued to fall in November, losing 5.4%. In contrast, cyclical commodities like oil and industrial metals surged, by 27% and 10% respectively. Global REITS recovered strongly and gained 10%. Meanwhile the major listed private equity index climbed by 15.5%.

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**Fig. 19: Gold price, USD/oz**


**Fig.20: Brent oil price, USD/bl**


**Fig 21: Bloomberg commodity indices**

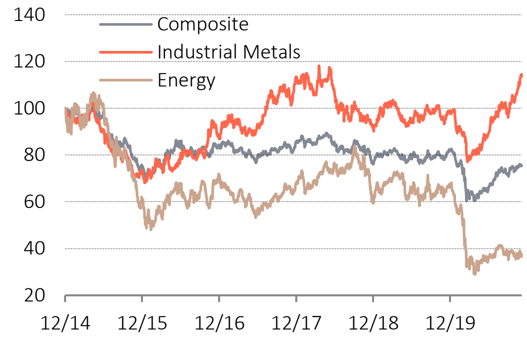



**Fig. 22: HFRU hedge fund indices**

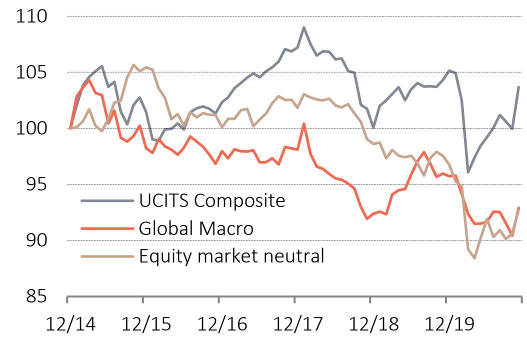



**Fig 23: FTSE EPRA/NAREIT global REITS index**


**Fig 24: LPX global listed private equity**

# CURRENCIES

The USD remained on the weak side and fell vis-à-vis most major currencies, losing 1.5% against the EUR and 0.5% against the CNY. The GBP came under strong selling pressure at the End of November as it became apparent that Brexit talks are likely to fail.

**Fig. 25: EUR-USD exchange rate**

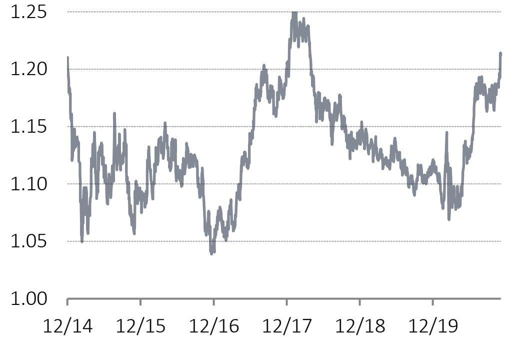


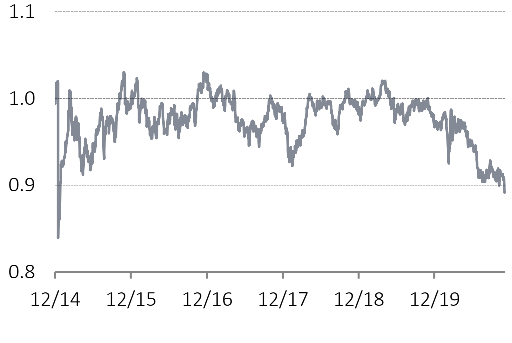

**Fig. 26: GBP-USD exchange rate**


**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 second wave is showing its full impact. The number of new daily cases rose to almost 700,000, which brought the total number of cases worldwide to almost 71 m by 10 December. The US still has the highest number of cases worldwide. The additional effect of the Thanksgiving weekend will be seen in the next couple of days. On a positive note, the first vaccines have been administered, but it will take at least until mid-2021 to reach a significant vaccination coverage. Sanofi and GlaxoSmithKline experienced a setback in their vaccine development and had to delay the rollout.

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

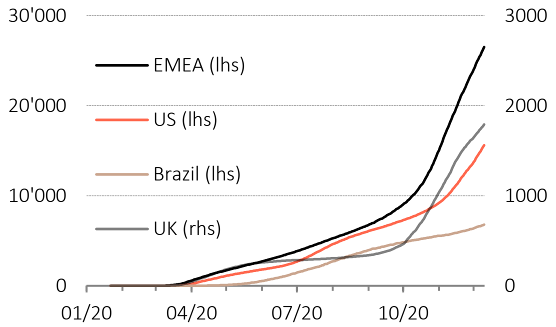



**Fig. 32: New cases per day (7-day average)**

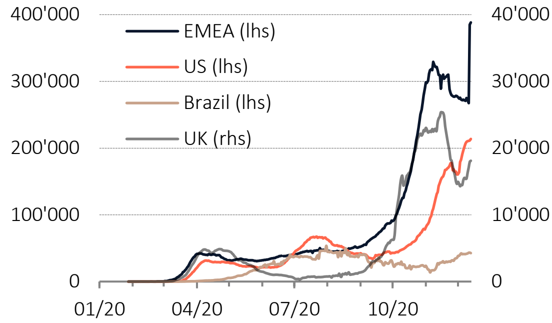



**Fig 33: US bankruptcy index**


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

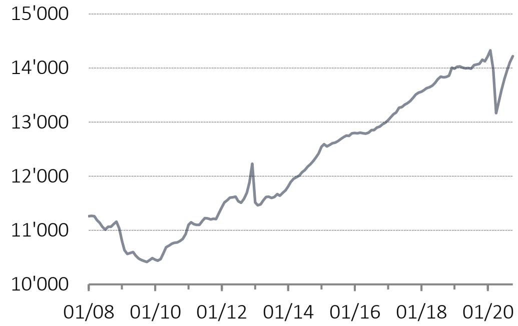



**Fig 35: Central bank total assets, indexed**

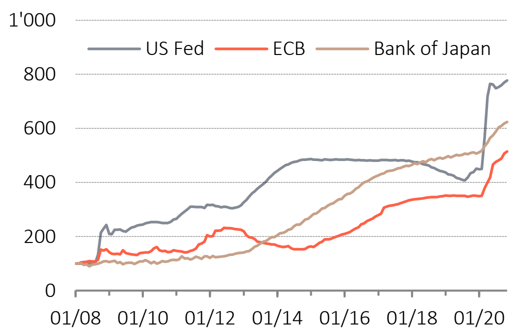
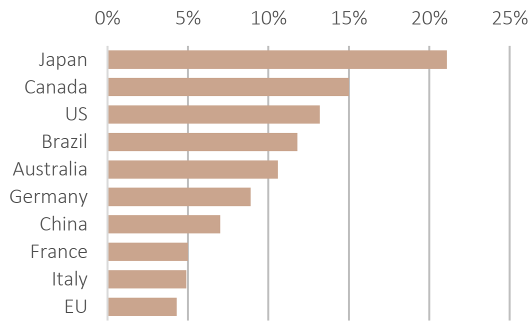


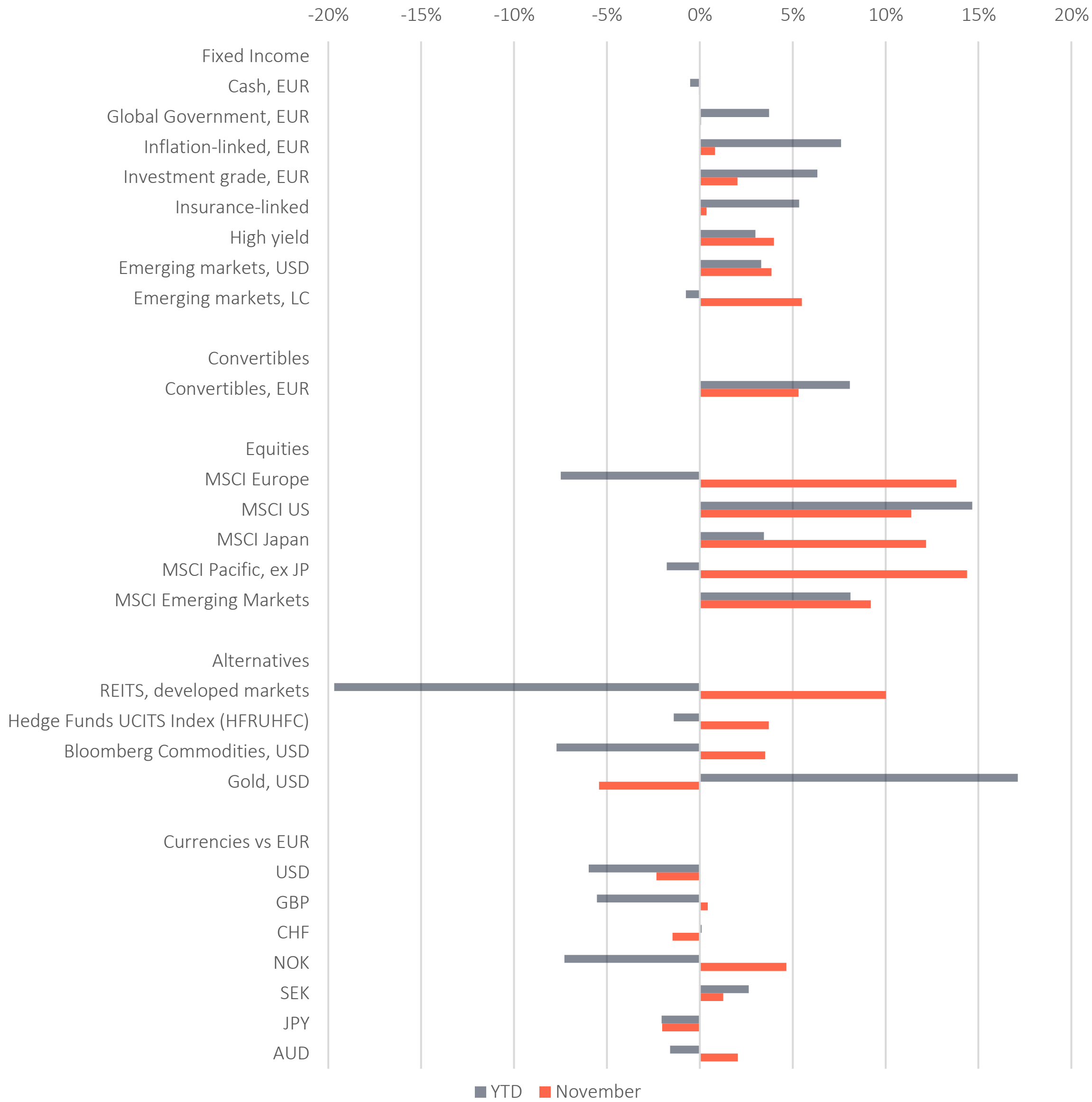

**Fig 36: COVID-19 fiscal stimulus as of June 2020, % of GDP (Source: Statista)**



# ASSET ALLOCATION

November was an exceptionally strong month for risky assets. Government bonds nevertheless performed marginally positively. Gold, however, sold off and lost more than 5%. Commodities performed strongly in general, driven especially by cyclical commodities like industrial metals and energy. The USD continued to depreciate.

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

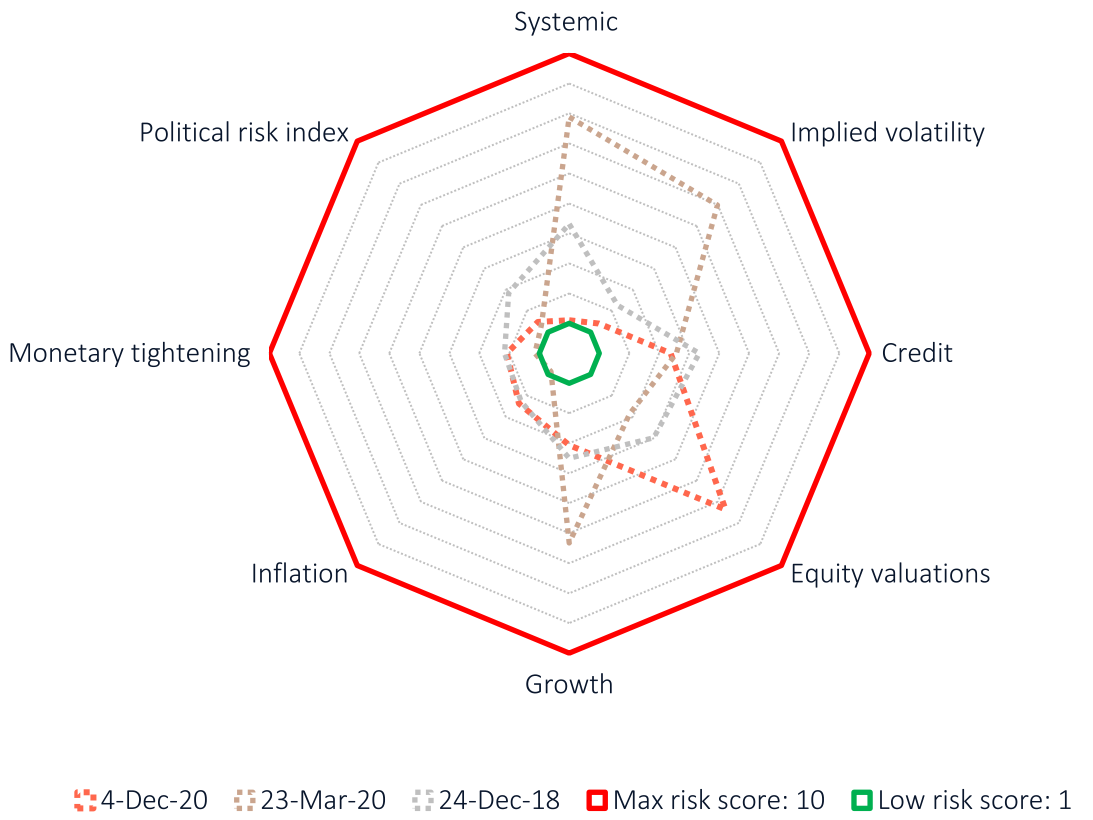


# RISK MONITOR

The risk landscape remains little changed compared to previous months. Equity valuations have gone up a bit more while growth risks have subsided somewhat. Most other risk indicators remain very low compared to historical averages. Monetary conditions especially remain very loose with no change expected in the near future.

**Fig. 38: IMT Risk Monitor**

23-Mar-20 Pandemic
24 Dec 2018: 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.*