

# INVESTMENT OUTLOOK

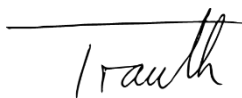
## 04.2021

10 April 2021

As the biggest vaccination program in history continues, the prospect of stronger growth in the second half of 2021 is strengthening. However, the rates of implementing the vaccination campaigns differ vastly. Israel, followed by the US and the UK, have clearly made much faster progress than many European countries. As a result, those rapid-vaccinating countries will be lifting lockdown measures and enjoying economic recovery much earlier.

Bond yields continued to rise in March. Rising yields, however, did not derail the equity market rally, since monetary conditions remain very loose. Real yields (adjusted for inflation) are still clearly negative, even though US growth, for example, is expected to be 5.5-6.5% in 2021.

Despite the overall positive outlook, we remain somewhat cautious due to the slow vaccine rollout in Europe, the risk of a third wave, and the emergence of new mutations of the virus. As a result, we remain neutral on equities.

A handwritten signature in black ink, appearing to read 'Trauth', written over a horizontal line.

**Thomas Trauth**

CEO – IMT Asset Management AG

# THE GLOBAL VACCINATION RACE

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## Financial markets

Equity markets rallied in March. Especially cyclical stocks like energy, financials, materials, and industrials performed very well. As a result, European equity indices, which have a higher weight of cyclicals, outperformed the US. While the S&P500 rose 4.2%, the MSCI Europe edged 6.1% higher and the German DAX even 8.9%. A stronger USD, rising US yields, and slower growth in China provided headwinds for emerging markets assets. As a result, the MSCI Emerging Markets Equity Index fell 1.7% in March.

The short end of the curve remains well anchored, as central bank are committed to keeping rates low at least until 2023. However, inflation expectations and, in turn, nominal bond yields continued to climb in March. Inflation expectations rose by about a quarter percentage point in the month, reaching almost 2.3% in the US and 1.4% in Europe. US 10-year yields rose to 1.75% at the end of March, up from 0.9% in January. Credit spreads tightened as investors favored risky assets.

The price of gold fell further in March. Oil and industrial metals took a breather, falling 3.9% and 2.4% respectively. REITS continued to rally and gained 5.8% in March. Listed private equity has been rallying strongly since last October. The pandemic has created very interesting opportunities in private markets.

The USD rallied. The EUR-USD exchange rate reached 1.17 end of March but has recovered since then. The GBP took a similar path against the EUR, strengthening in March but weakening thereafter. The so called safe-haven currencies, especially the CHF and the JPY,

softened as expected in such a strong risk-on environment.

## Covid-19

The virus continues to spread globally, with total cases reaching 135 m and 2.9 m deaths. The largest vaccination campaign in history is underway. So far almost 750 m doses have been administered. The speed of the rollout differs hugely though (see Fig. 33). Most people living in low-income countries have extremely limited access to vaccines. The speed of the rollout in Europe is much slower than for example in the US. In the meantime, new, more contagious virus variants may lead to a third wave. As a result, many countries have introduced stricter lockdown measures.

## Macroeconomics

In March leading growth indicators strengthened further. A notable exception was China, as the Chinese government has tightened policy over the last couple of months. While Europe's services PMIs remained sluggish, the US services ISM index reached a record high at 63.7, up from 55.3. Also US non-farm payrolls improved across industries in March, adding 916,000 new jobs in the month. This reflects the fact that the US vaccination program is far ahead of the European programs. Expectations are that once economies open again in the second half of 2021, a strong pent-up demand will boost growth. The IMF, for example, just recently revised its global growth forecast for 2021 up to 6%.

Just weeks after the US parliament approved President Biden's USD 1.9 tn stimulus plan, he proposed

another USD 2 tn infrastructure program, which would add another massive fiscal growth impulse.

The eurozone inflation rate jumped to 1.3% in March, after 0.9% in February. It still remains clearly below the ECB's inflation target of just under 2%. The increase in prices reflects one-off effects, like the year-on-year effect of rising energy costs and the reversal of Germany's value-added tax reductions. Those effects will vanish in the next 12 months. The fact that core inflation, which excludes volatile food and energy prices, fell from 1.1% to 0.9%, shows that so far there are no signs of broad-based demand-driven inflation pressure.

### **Outlook**

Global growth will accelerate significantly over the course of the year. The International Monetary Fund is forecasting global economic growth of 6% in 2021. This is made possible by huge economic stimulus programs and further advances in vaccination campaigns, which make it possible to relax the lockdown measures. In addition, the major central banks have

committed to continuing their expansionary monetary policy through 2023. In this environment, risky assets, especially stocks, will continue to benefit.

At the same time, however, we are keeping an eye on the risks that still exist. The fight against the virus is not yet won. A third wave is expected in many countries, which could lead to further strict lockdown measures in the next few months. In addition, the virus is always producing new mutations, making the situation even more difficult. If inflation expectations continue to rise, this could lead to a renewed, possibly sharp increase in interest rates and trigger a stock market correction.

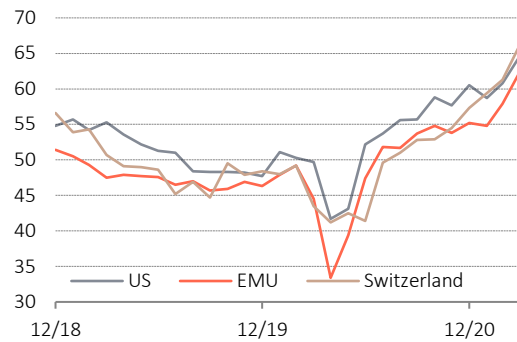
In weighing up the opportunities and risks, we remain neutral in terms of equities and expect cyclical sectors to continue to outperform. We are underweight in high-yield bonds, as the risk-return ratio seems unattractive to us. We maintain the overweight in insurance-linked bonds, as this asset class is largely uncorrelated to the interest rate and equity markets.

# ECONOMICS

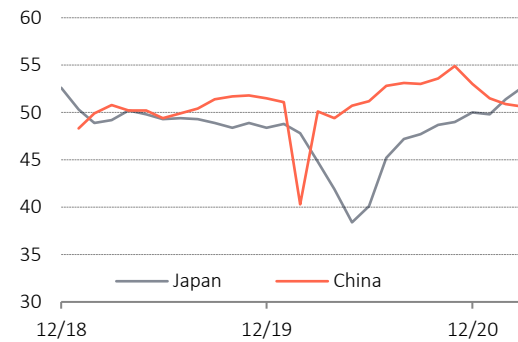
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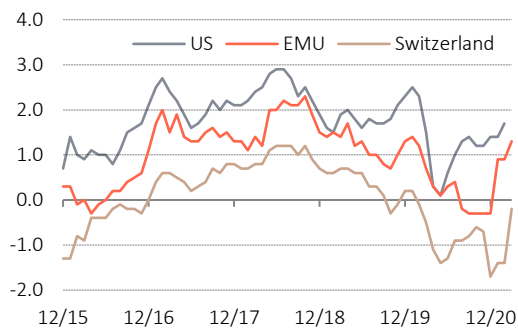
**Fig. 1: PMIs**



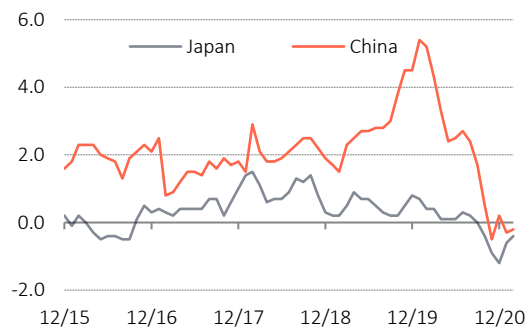
**Fig. 2: PMIs**



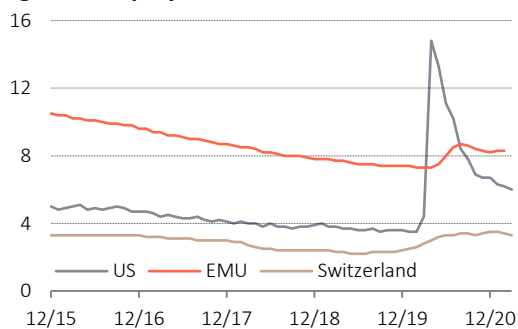
**Fig 3: Consumer price inflation, in % YoY**



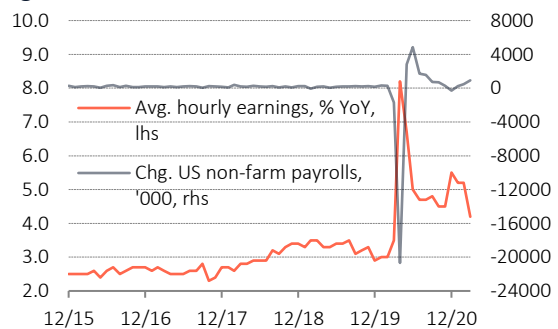
**Fig. 4: Consumer price inflation, in % YoY**



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



**Fig 6: US labor market**

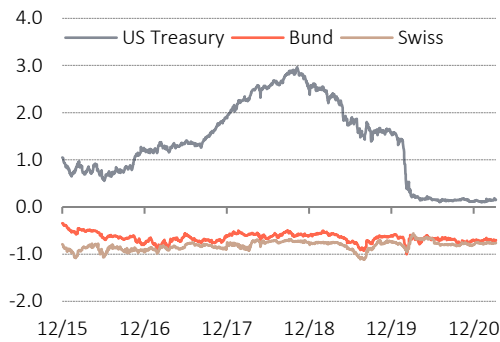


# FIXED INCOME

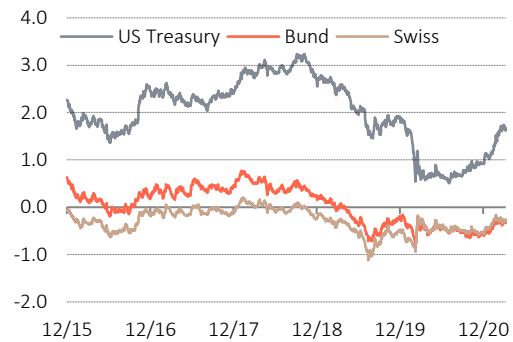
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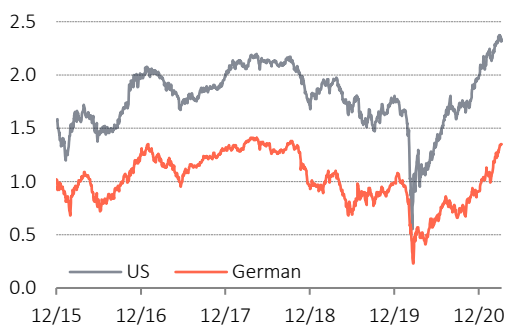
**Fig.7: 2Y government bond yields**



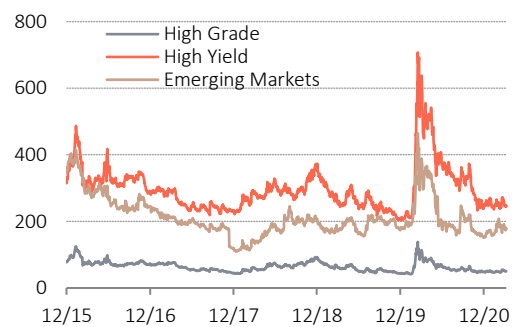
**Fig. 8: 10Y government bond yields**



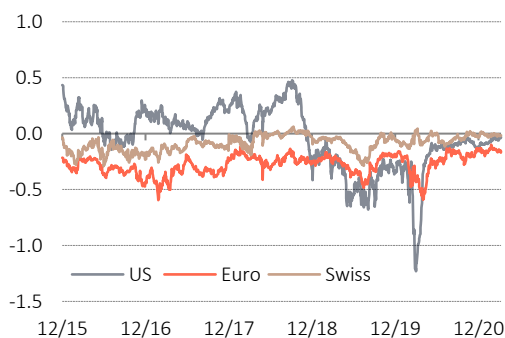
**Fig 9: 10Y break-even inflation**



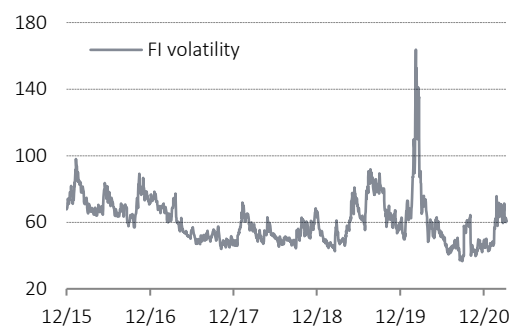
**Fig. 10: Credit spreads, 5Y credit default swaps**



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



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

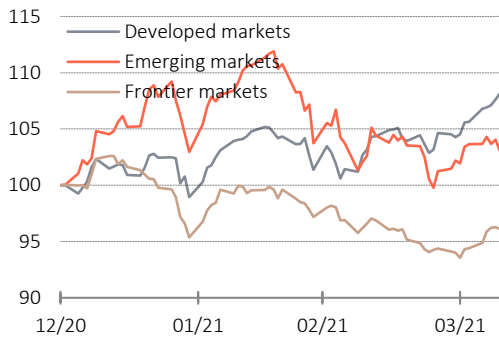


# EQUITIES

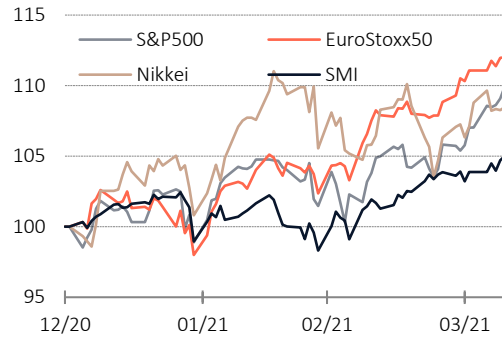
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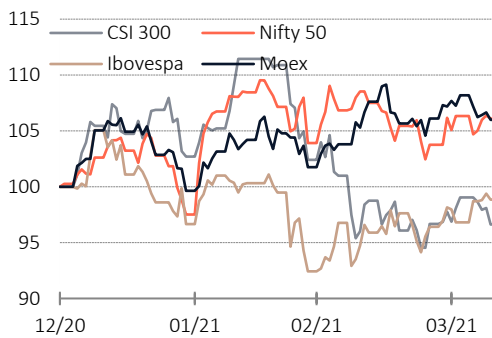
**Fig. 13: MSCI equity indices – major regions**



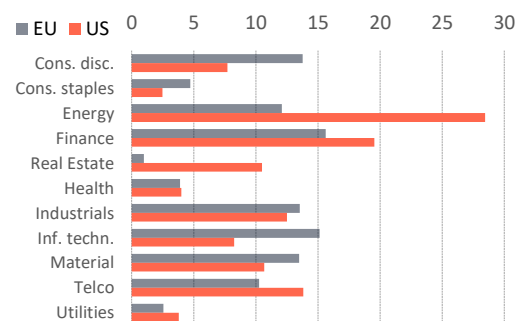
**Fig.14: Equity indices – major developed markets**



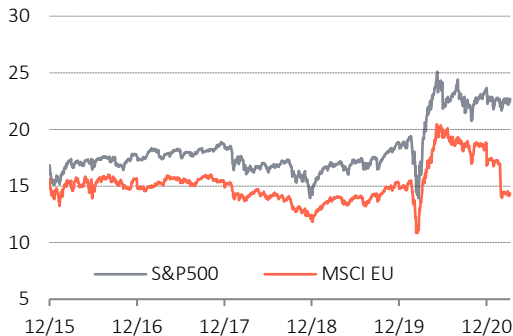
**Fig 15: Equity indices – major emerging markets**



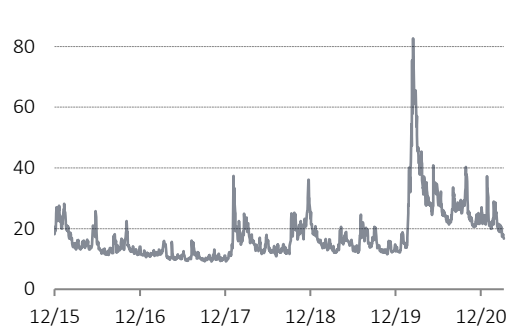
**Fig. 16: Sector performance, MSCI Europe, YTD**



**Fig 17: Price-earnings ratios**



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



# ALTERNATIVE INVESTMENTS

The price of gold fell further in March. Oil and industrial metals took a breather, falling 3.9% and 2.4% respectively. REITS continued to rally and gained 5.8% in March. Listed private equity has been rallying

strongly since last October. The pandemic has created very interesting opportunities in private markets.

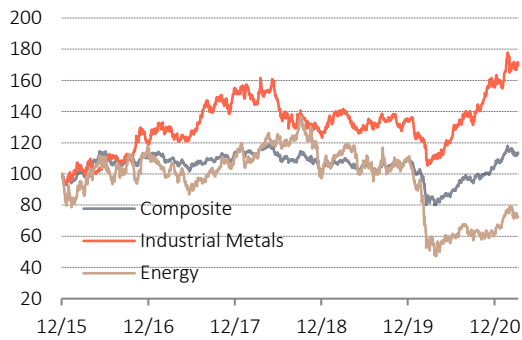
**Fig. 19: Gold price, USD/oz**



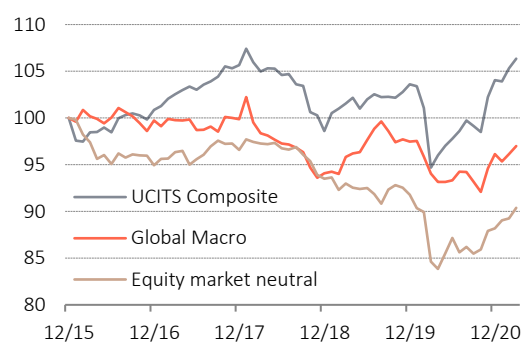
**Fig.20: Brent oil price, USD/bl**



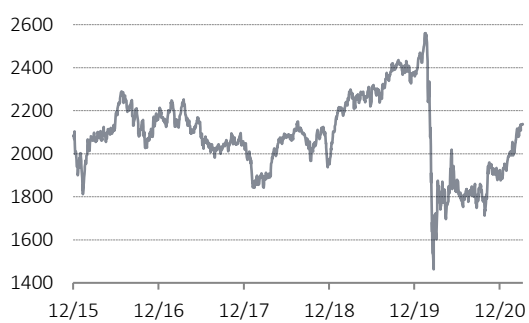
**Fig 21: Bloomberg commodity indices**



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



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



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



# CURRENCIES

The USD rallied. The EUR-USD exchange rate reached 1.17 end of March but has recovered since then. The GBP took a similar path against the EUR, strengthening in March but weakening thereafter. The so called

safe-haven currencies, especially the CHF and the JPY, softened as expected in a strong risk-on environment.

**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**



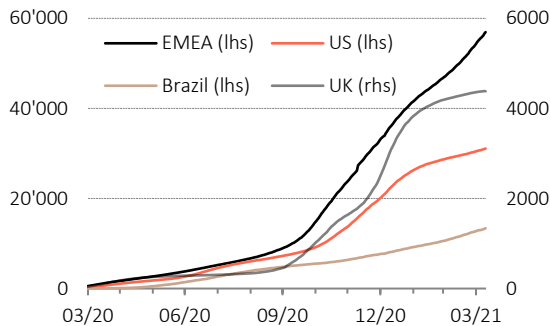


# COVID-19

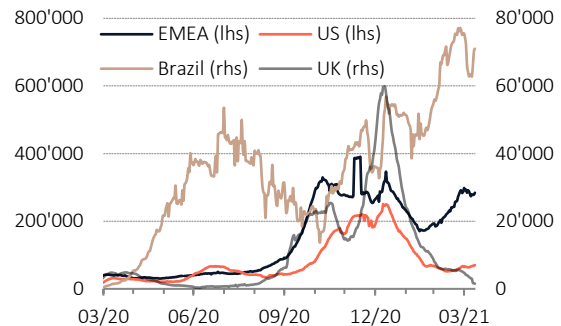
The virus continues to spread globally, with total cases reaching 135 m and 2.9 m deaths. The largest vaccination campaign in history is underway. So far almost 750 m doses have been administered. The speed of the rollout differs hugely though (see Fig. 33). Most people living in low-income countries have

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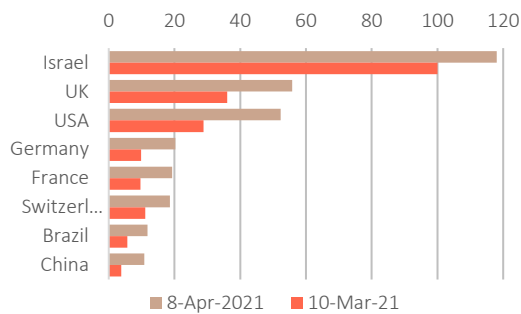
**Fig. 31: Total Covid-19 cases (x 1000)**



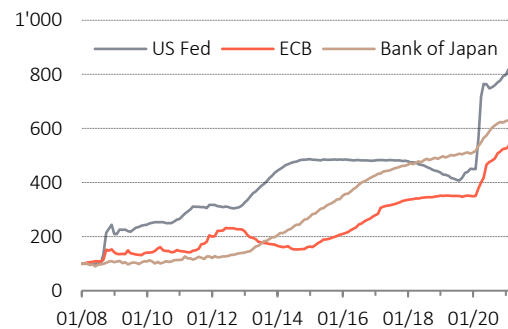
**Fig. 32: New cases per day (7-day average)**



**Fig 33: Global vaccination campaign (doses per 100 people)**



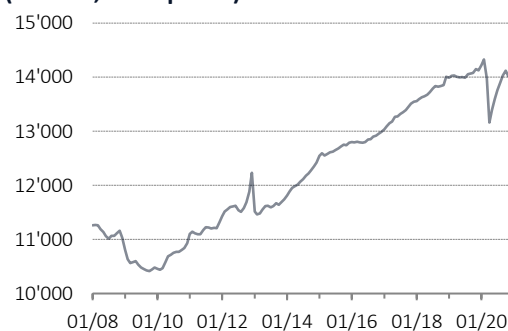
**Fig.34: Central bank total assets (indexed)**



**Fig 35: US bankruptcy index**



**Fig 36: US personal income, excl. transfers (USD bn, 2012 prices)**

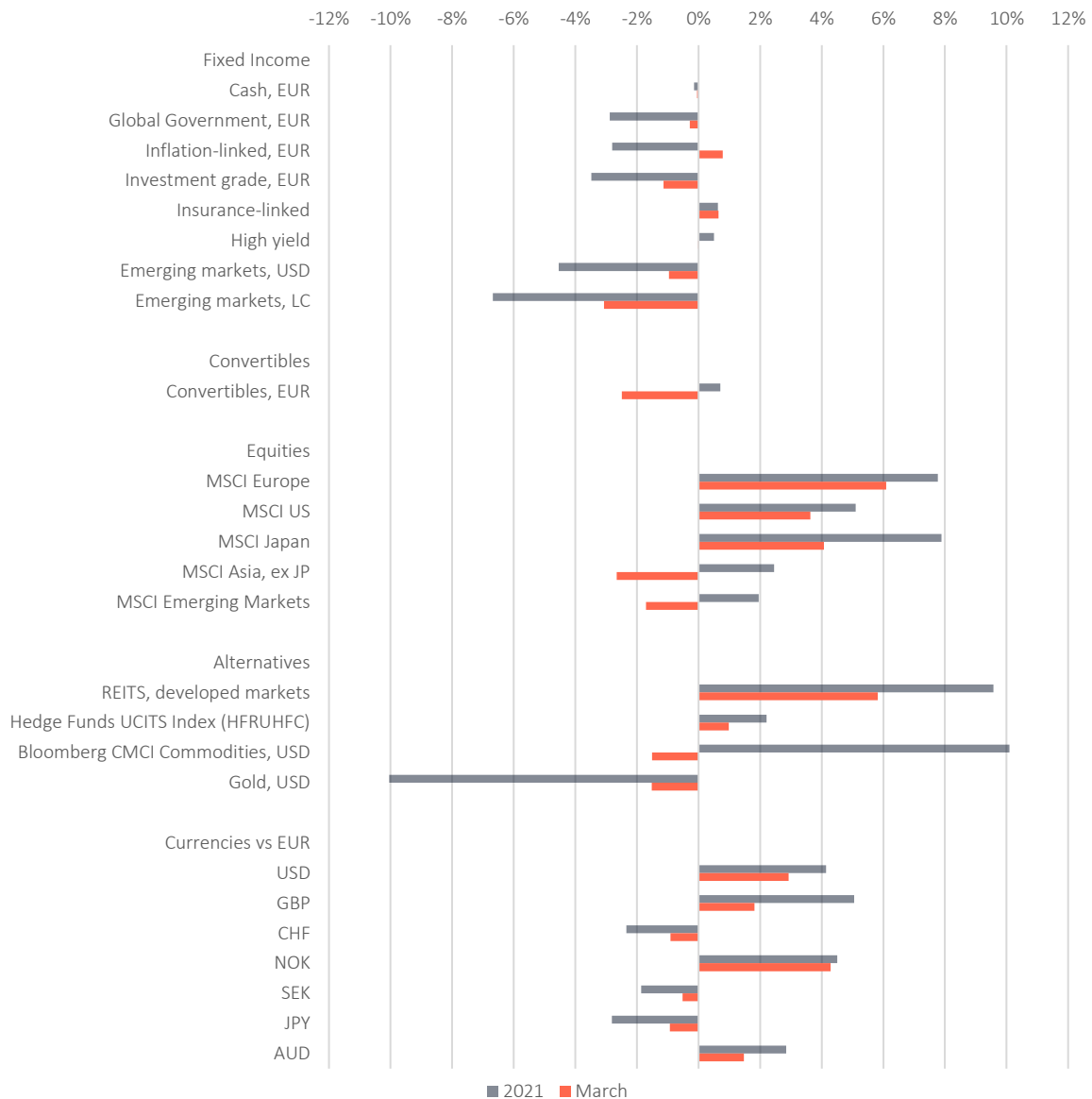


# ASSET ALLOCATION

The economic recovery has been driving asset prices. Risky assets and especially cyclical assets like stocks in the industrial and financial sectors, and commodities, especially energy and industrial metals, outperformed. Safe-haven assets like government bonds, gold, the CHF and JPY lost value.

Rising inflation expectations pushed bond prices down but could not prevent equity markets from performing well. More interest-rate sensitive sectors, like technology stocks, underperformed in recent months.

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



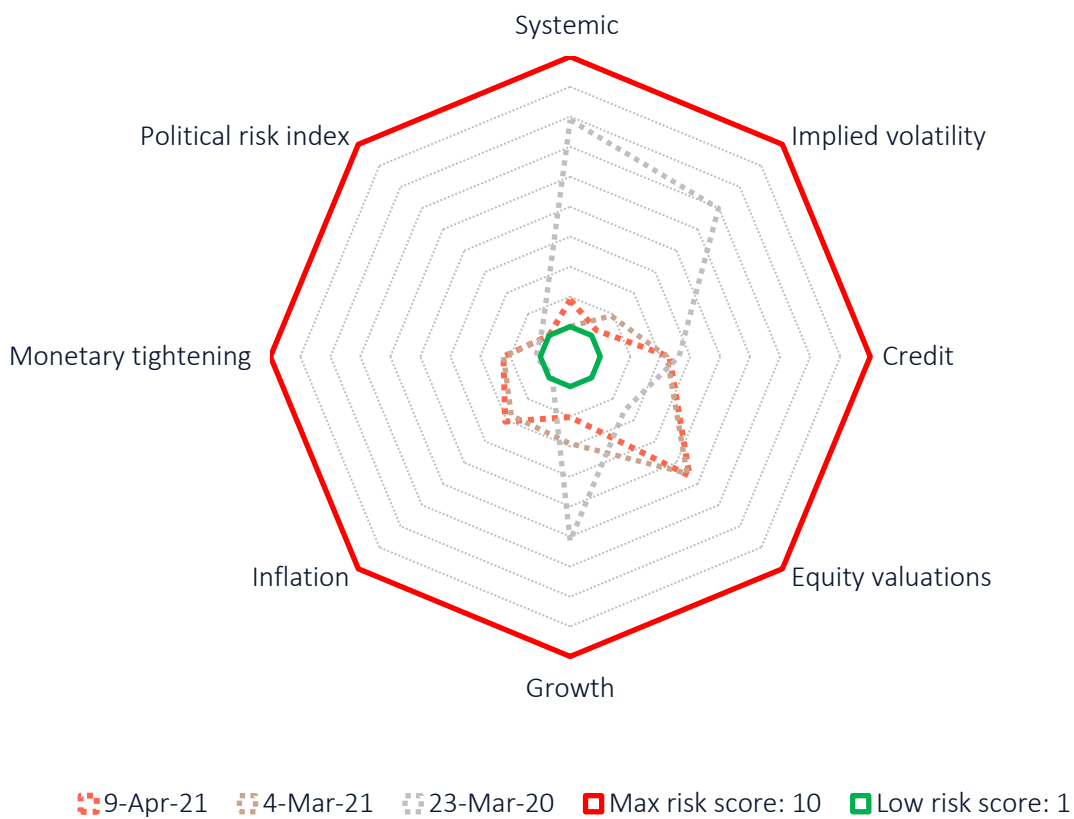
# RISK MONITOR

In comparison with last month, we observed some notable changes. Growth risks further subsided and implied volatility clearly fell. Systemic risks, however, rose somewhat, which is due to global fi-

nancials underperforming the broad equity market. Overall, our risk indicators show a very benign risk environment.

**Fig. 38: IMT Risk Monitor**

23-Mar-2020: Global pandemic  
24 Dec 2018: Growth and monetary tightening fears



# DISCLAIMER

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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>.*