Market Monthly

January 2020

Highlights

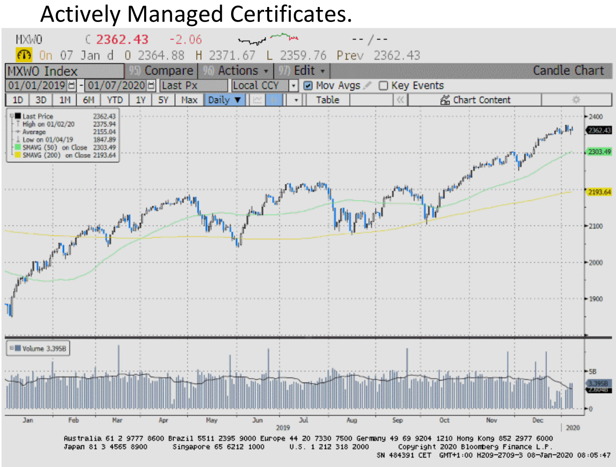
- **Economics:** In the US, the final 3Q19 GDP came in as expected (2.1% vs 2.1%) while US unemployment figures remain strong with unemployment at 3.5% below expectations for November. The Eurozone released their final 3Q19 GDP figures as expected at 1.2%. The October unemployment rate in the Eurozone came in as expected at 7.5%.
- **Inflation:** US core YoY personal consumption expenditure reported for November came in higher than expected at 1.6% (1.5% expected). Expectations for US inflation for 2019 are at 1.5%. The final Eurozone YoY CPI reading for September came in as expected at 1.0% while the 2019 forecast is at 1.2%. The CPI's forecasts for 2019 are: Russia 4.8%; for China 2.3%, Brazil 3.8%; world at 2.9%.
- **Central bank interest rates:** The Fed funds have reduced their upper bound rate from 2.5 to 1.75 in their last three meetings, leaving the possibility of further cuts open. Current expectations for 2020 are keeping these levels. The ECB's tapered asset purchase program has ended at the end of 2018 leaving the markets to anticipate their first rate hike has now turned into a system where it offers partial relief its lenders with the possibility of a rate cut open. EM: China RRR[i] at 13.00%, 12M lending rate at 4.35% and 12M deposit rate at 1.5%. India's repo rate at 5.15%; Russia rate cut again by 25bps to 6.25% and Brazil SELIC 4.50% (50bps cut).
- **Capital market rates:** 10yr US treasury yields has been range bound, but lately have moved lower down to 1.5% as market uncertainties increased., but has become less inverse. The 10yr Bund has moved even lower and remains in negative range around -0.24%. Although EUR bond prices remain supported over the longer term, yields in EUR will remain unattractive for some time.

Tactical Asset Allocation

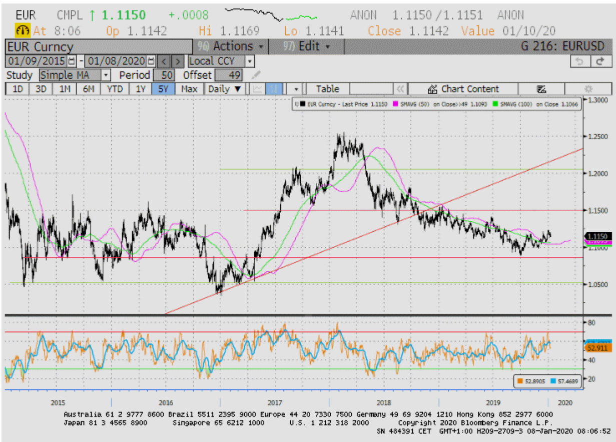
- **Forex:** EURUSD remained sideways, but this time in a lower range 1.10 – 1.12, edging back to the upper range at the end of the month. The median EURUSD forecast is at 1.15 for the end of 2020[ii] and then slightly higher forecast to 1.18 for the end of 2021.
- **Bonds incl. High Yields (U[iii]):** Since near-zero/negative policy rates and negative real rates are seen persisting in Europe for several years, we continue investing in up to 2028 maturities of European DM bonds to improve yield and look for USD bonds with shorter maturities ahead of future rate changes.
- **Equities (N):** Equities have rebounded in December, with the American markets ending the year a tad stronger than the Europeans, but uncertainties revolving around trade tensions between the US and China remain with talks to continue early January.
- **Commodities (N):** Crude Oil (WTI) remained range bound but lately broke above 60$/bbl as sanctions and renewed tensions in the Middle East causing a higher oil price at the moment.

Investment Ideas[iv]

- We remain positioned for a market rebound within our Actively Managed Certificates.



Performance Equity Markets MSCI World 2019[v]



EURUSD Technical Chart, Bloomberg

[i] Required Deposit Reserve Ratio, or the minimum capital Chinese banks must hold with the PBoC. Currently at 14.5%, cut in from 20% at the beginning of 2015
[ii] Source: Bloomberg 07.01.2020 (88 bank contributors)
[iii] How to read: (U) underweight; (N) neutral; (O) overweight
[iv] See rationales on our web page www.aspermontcapital.ch
[v] Return from beginning of the year till current date

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