ASPERMONT
FINANCIAL SERVICES

Market Monthly

July 2021

Highlights

- **Economics:** Earnings season proved that USA economy is on rising trajectory, given that almost all sectors published historical revenues/profits. Particularly good results were achieved by 5 IT giants, which posted more than a quarter increase in bottom line, although some of them like Apple and Amazon are showing signs of possible slowing down in Q3. Nevertheless, American economy heading towards pre-corona unemployment rates of below 5% and market participants expects approving of infrastructure spending plan of more than $500bn in early August. This almost completely shadows inflation concerns and topping of real estate prices. As key PMI numbers remains in expansion territory, and delta variant of coronavirus don't cause major issues, GDP expected to grow almost 7% for full year. End of July also brought good results of IT/energy/finance segments in Europe, where first sector benefited from chip demand surge. Although Europe is more exposed to coronavirus and there was no fiscal stimulus as it was in USA, 2% increase in GDP for Q2 can be considered as moderate good result. Inflation now exceeds 2% while unemployment rate declined to 7.7%. PMI numbers in China are on the breakeven level, but country still suffers from lack of import expansion, geopolitical risks, increasing internal regulations and very low inflation rate.

- **Inflation:** Price in July increased by 0.5% totaling 5.4% Y-o-Y, however this did not trigger any FED action. Moderate increase in Europe as well to 2.2%, figures for other major economies: China 1.0%, Russia 6.5%, Brazil 9.0%, India 5.6%.

- **Central bank interest rates:** FED meeting in July did not bring any surprise, current corridor 0-0.25% will be maintained in 2021, with gradually lowering asset purchase program. Similar to FED, ECB will not move key rates to positive zone, while Bank of China confirmed key policy rate of 3.85%.

- **Capital market rates:** Even with higher inflation, demand for US Treasuries caused decline of yields in July by almost 30bps on 10Y bonds, from 1.45 to 1.15%. Similar behavior was registered on Bunds where ending month value of yield for 10Y maturity was -0.5%.

Tactical Asset Allocation

- **Forex:** After appreciation in June, EUR/USD pair exhibited low volatility and traded in tight range 1.18-1.19. Swiss franc gained around 1% vs both currencies.

- **Bonds incl. High Yields (U[i]):** 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, as inflation expectations rose recently. Due to improved outlook for US, we search also for US high yield bonds.

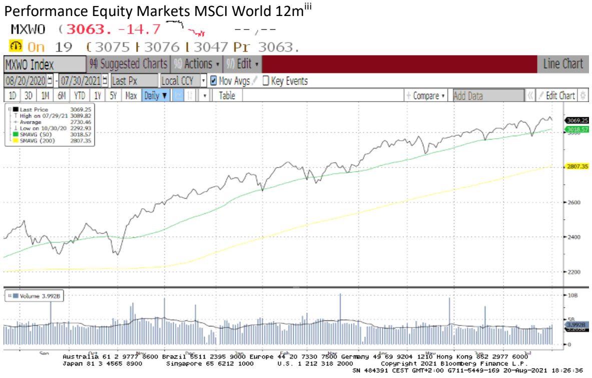
- **Equities (N):** Another month of lower volatility on markets, but with gradient growth path. Earnings season didn't bring clear winners amongst sectors, but from geographical perspective, emerging markets continued to underperform.

- **Commodities (N):** Starting and ending value of barrel was nearly identical ($75/barrel), however volatility during the month price went as low as $65 on open issues between traditional allies UAE and Saudi Arabia. However, as OPEC still keeps gradual increase in supply, positive effects from demand side pushed back price towards 3Y highs.

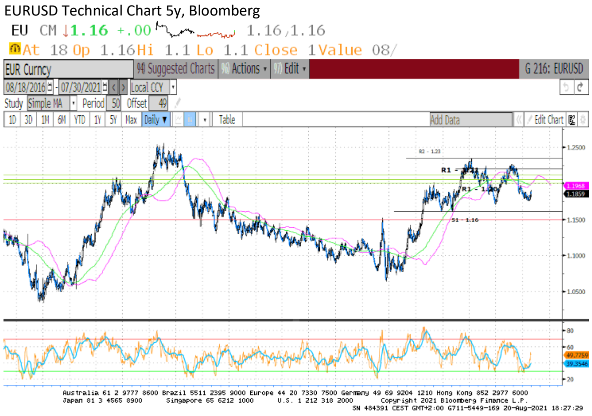
Investment Ideas[ii]

- Summer months usually don't offer extra reward, so we are focused on writing call options. For more risk seeking profile of investors, possible opportunity lies in investing in emerging markets.

Performance Equity Markets MSCI World 12m[iii]



EURUSD Technical Chart 5y, Bloomberg



[i] How to read: (U) underweight; (N) neutral; (O) overweight
[ii] See rationales on our web page www.aspermontcapital.ch
[iii] Return for the last rolling 12m