Market Monthly

August 2021

Highlights

- **Economics:** After strong corporate results, in August most investors in USA watched closely on fiscal/monetary measures. Proposal for massive $500bn infrastructure spending plan from Biden administration was accepted, keeping steam of American economy while FED continues with dovish approach. As coronavirus variations increased contagious rates, more investors are shifting back towards growth stocks, which can absorb negative effect from potential new wave given the ability to implement work for home policy. Unemployment rate decreased to 5.2% but the last job report in August missed expectations indicating peaking of economy. Europe is now focused on incoming Germany elections in September, where possible swing of ruling CDU can occur, as Social-Democrat party leading in polls. PMI numbers are still in the 60 territory, however due to floods in Germany, GDP growth rate for 2021 is adjusted downwards. Unemployment rate in Eurozone fell below 8% to 7.6%. After turbulent month in which new regulative related to data privacy, dispersion of wealth and online content kicked in, Chinese export and import data for August showed surge in both export/import figures thus offsetting partially negative trend on financial markets.

- **Inflation:** As the August value for USA CPI is expecting to be on July level – 5.4%, FED is clearly successful in maintaining temporary overshoot in inflation without impact on bond market. In Eurozone, inflation rate of 3% is highest in last 7 years, while for the other countries data are: China 0.8%, Russia 6.7%, Brazil 9.7%, India 5.6%.

- **Central bank interest rates:** In last meeting, FED announced start of the tapering by the end of 2021, current corridor 0-0.25% will be maintained and possibly extended in 2022. High inflation rate now forces ECB to reduce asset purchase program at first prior to moving key rates to positive zone, while Bank of China confirmed key policy rate of 3.85%.

- **Capital market rates:** After reaching bottom in the first week of August, 10Y treasury yields increased by 15bps to 1.30%. Similar absence of volatility is registered on Bunds where yields improved by less than 10bps to -0.4%.

Tactical Asset Allocation

- **Forex:** After briefly going below 1.17 spot, EUR/USD pair returned to beginning of the month value of 1.18, where weaker dollar was caused by increasing interest on carry trading in emerging markets in second half of August.

- **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.

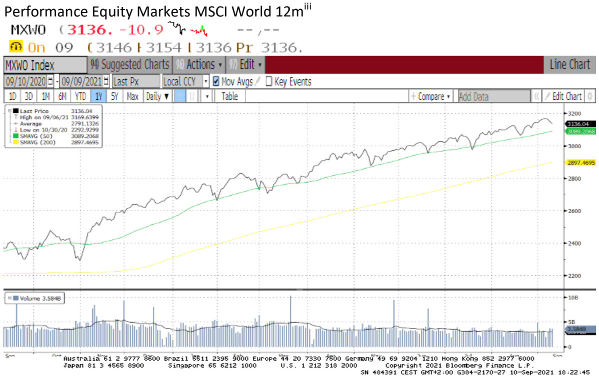
- **Equities (O):** Chinese tech stocks, especially involved in gaming industry suffered from new regulation limiting time spent on this activity, while companies from luxury segment of consumer discretionary sector took a hit also. As mentioned, in recent months investors interest is shifting again towards growth stocks.

- **Commodities (N):** Downtrend movement in oil price continued until mid of August, declining more than 10%, after price recovered most of the losses and finished month at $69/barrel. Lot of noise on market was caused by USA trying to force more production from OPEC, who maintained very gradual increase, while Ida typhoon in the end of August also pushed price up.

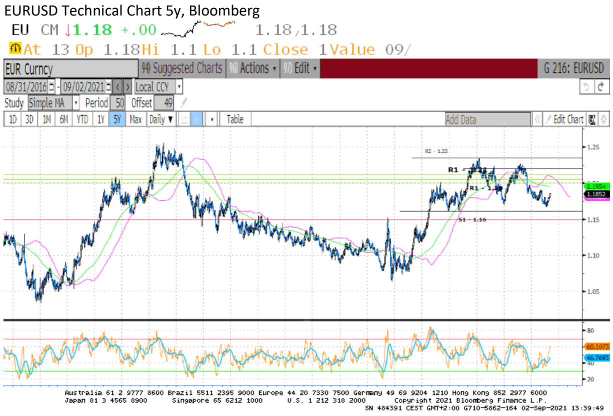
Investment Ideas[ii]

- In our opinion, investors oversold Chinese IT stocks, and created opportunity to build position.

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