Market Monthly

September 2021

Highlights

- **Economics:** As corona virus slowly fades away from the headlines, timing of cutting down of stimulus measures is crucial. Both expansive monetary and fiscal politics is put into test, as USA federal debt is piling up and inflation rates are on multiple year highs. That's why last FED meeting with announcement of reduction of bond purchase program and debate in Congress about proposal to temporary raise debt ceiling level started to affect equity markets adversely. Historically, month of September is negative, but decline of 5% after 6 consecutive months of growth put a question of economy recovery sustainability, although unemployment rate of 5.2% and job creation figures are still healthy. Europe is facing 15 year high inflation rate of 3.6% in the month where elections in Germany showed that ruling CDU doesn't have potential without chancellor Merkel. Despite win, Social Democrats have to face real battle in gathering coalition partners, as difficult choice in finding long term energy solution finally emerges, and Russia can push their Nord stream agenda. Unemployment rate slightly dropped to 7.6%. Beside energy crisis, Chinese facing debt crisis on real estate markets, and Industrial PMI for the first time since corona slipped to contraction zone.

- **Inflation:** September survey value for USA CPI is expecting to be on August level – 5.3%, but now the effect finally starts to materialize on bond markets. In Eurozone, inflation rate of 3.6% is highest in last 15 years, while for the other countries data are: China 0.8%, Russia 7.4%, Brazil 10.25%, India 5.3%.

- **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. Even ECB start to send hawkish signals and plans to reduce asset purchase program at first, while Bank of China confirmed key policy rate of 3.85%.

- **Capital market rates:** Trend from August continued, and yields started to accelerate on mid of month, both 10Y Treasuries/Bunds added 15bps and finishing month on 1.45%/-0.20% levels respectively.

Tactical Asset Allocation

- **Forex:** Elections in Germany and pressure on both equity/fixed income market make dollar gain 2% vs Euro in September, reaching year high value of 1.16 spot in the end of the month.

- **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.

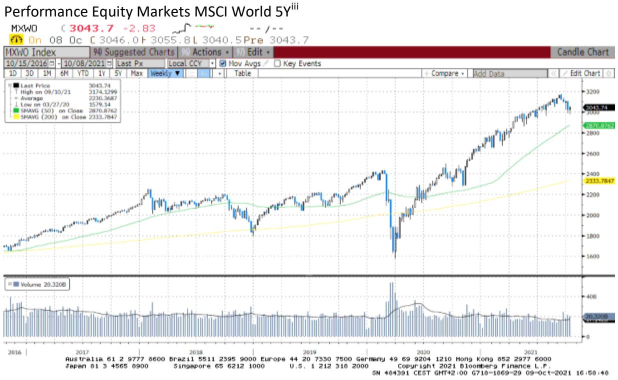
- **Equities (O):** As yields started to increase, growth stocks faced significant correction of close to 10%. Valuation models are now favorizing value stocks, which revenues are not skewed toward future years. In our opinion, sell off can not be fully justified, as most of the stimulus measures will remain and energy crisis temporary overshoot inflation.

- **Commodities (N):** Other asset classes declined, but oil prices reached 7 year high and almost hit $80/barrel. OPEC members decided to maintain gradually increase of supply, while the Britain/Norway can not ramp up the production due to situation in North Sea thus putting demand pressures to shape the price. Also, natural gas price is skyrocketing as all storage capacities are almost depleted.

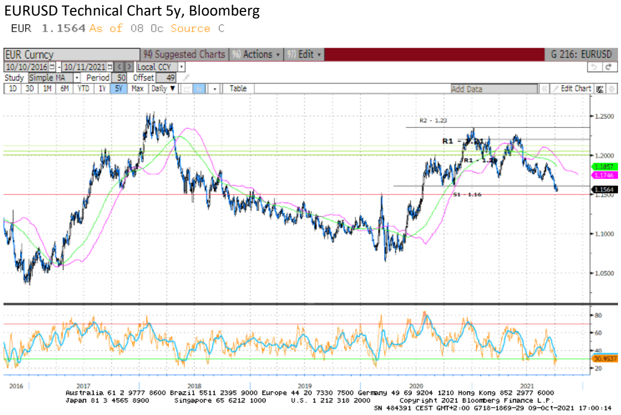
Investment Ideas[ii]

- We recommend selective investment in IT stocks, particularly in USA, as the sequence of events clearly exhibit March 2021 pattern after which this sector overperformed in summer months.

Performance Equity Markets MSCI World 5Y[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