ASPERMONT
FINANCIAL SERVICES

Market Monthly

December 2021

Highlights

- **Economics:** Initially the negative signals came from the omicron type of the coronavirus and the high inflation readings caused an early month correction in the markets. Positive and robust economic data added to the yearend rally and ending the year on a positive note, a year marked by a global vaccination campaign, global supply shortages and rising inflation. Job reports indicate an improved 4.2% unemployment rate in USA, approaching pre-pandemic levels, but inflation concerns are offsetting benefits. In Europe, economical numbers, although stabilizing, are still behind USA, including unemployment rate of 7.3%. On the PMI side, both the USA and Europe see numbers in the mid and high 50's while China hovers around 50 on their PMI figures. China cracked down on their tech sector and also saw the default of one of their biggest property developers, Evergrande, that wiped out $1tn of market capitalization.
- **Inflation:** November value for USA CPI continued to rise, reaching 6.8% (+0.1%). Europe is slightly better, holding at 4.9%. Those values are highest in multiple decades, but not enough to trigger aggressive reaction from monetary authorities just yet, but talks are under way. Other readings, all stable, were as follows: China 2.3%, Russia 8.4%, Brazil 10.7%, India 4.9%.
- **Central bank interest rates:** The FED is looking at ending their asset buying program earlier than first planned and are considering starting raising interest rates at the beginning of 2022 and throughout the year, if needed, in an effort to fight the rising inflation. The ECB on the other hand decided to ramp up their Asset Purchase Program temporarily and are planning to scale it back after March while also raising their inflation forecast. While China is taking a supportive fiscal stance for 2022, seeing that the economy is projected to slow.
- **Capital market rates:** The yield curve stayed stable although inflation has risen. US treasury yield increased by 10 bps bringing the 10y yield to 1.5. 10Y Bunds reacted very similarly with its yields going to -0.18.

Tactical Asset Allocation

- **Forex:** EUR/USD traded sideways for the whole of December staying I the range of 1.125 and 1.135.
- **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 (U):** Equities dipped in the first week of December to then rally into the year end with most indices finishing the year on or near the year high. We saw especially strong European tech and energy sectors in December while health care stocks, especially ones with a Covid exposure, rallied even more.
- **Commodities (N):** After the decrease in oil price at the end of November down to $66/barrel due to demand concerns and releasing of China inventories, oil recovered to end the year at $75/barrel.

Investment Ideas[ii]

- Continuing to take profit, and waiting for attractive entries on value stocks, at the same time stay in overweight cash for the time being.

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