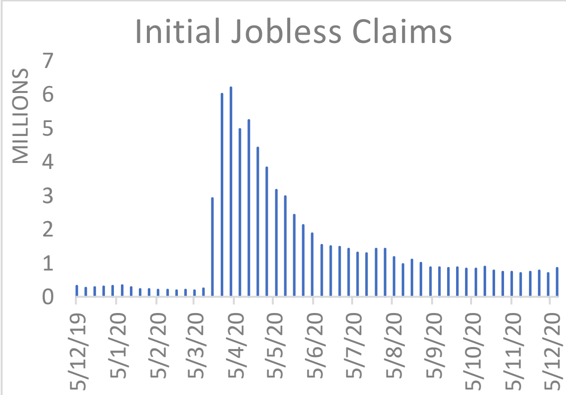
BLACKMOUNT

Bi-Weekly Market Report

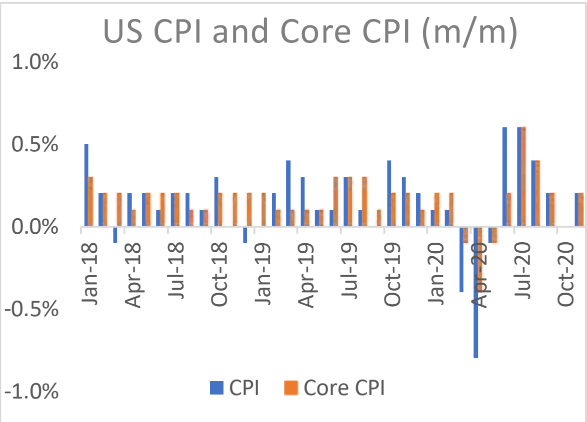
14th December – 18th December 2020

Market Commentary & Outlook



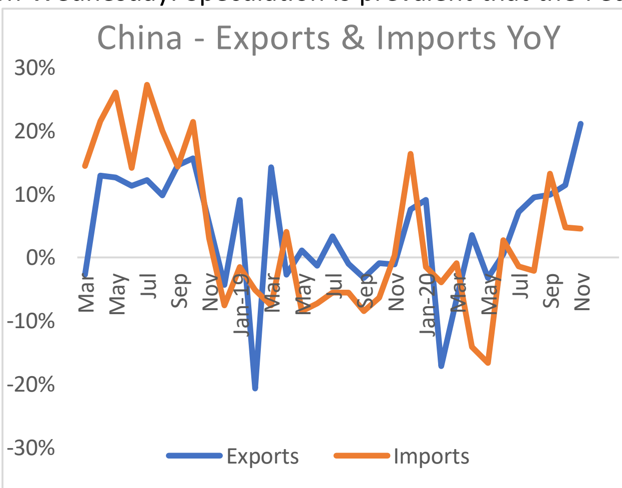
Recent data continue to imply a robust economy, but the recovery has unquestionably shifted into a lower gear amid rising cases. **Medical advisers to the FDA recommended approval of the Pfizer-BioNTech COVID vaccine last week**, clearing the way for FDA emergency authorization. The positive outlook for a subsequent end to the pandemic came against a gloomy set of current milestones, however. A foreseen post-Thanksgiving surge sent hospitalizations to new highs, while daily U.S. deaths from the virus surpassed 3,000 for the first time.

Stimulus talks took centre stage yet again last week, as a bipartisan group of lawmakers released the broad outlines of a $908 billion package, down considerably from Democrats' $2 trillion pre-election proposal. Leaders on both sides expressed continuing reservations about the proposal, however, while other lawmakers insisted that any package also include a new set of direct payments to individuals. President Donald Trump signed a one-week stopgap funding bill to avert a government shutdown. The short-term spending bill extends government funding by a week to December 18 and is aimed at giving lawmakers more time to reach an agreement on Covid relief and broader funding legislation for the new fiscal year. **On the economic front**, the effect of the latest wave of infections was most evident in **weekly jobless claims, which soared from 716,000 to 853,000**, the highest level in nearly three months.



In Europe, the EU passed the €1.8 trillion budget, which contains a €750 billion coronavirus recovery fund, for 2021 to 2027 after Hungary and Poland dropped their objections to tying payments to rule of law principles. **The ECB also announced updated economic forecasts, now projecting a contraction of 7.3% in GDP for 2020** (decline of 8% previously), with growth expected to rebound next year to 3.9%. **On the Brexit front,** talks between Boris Johnson and Ursula von der Leyen failed to break the deadlock over a UK-EU trade deal, but both agreed to "go the extra mile" and continue discussions beyond Sunday's initial deadline. A post-Brexit trade and security deal could be sealed as early as this week after Boris Johnson made a key concession last weekend. **In China, exports increased at their fastest pace this year in November**, with rising global demand for China's goods pushing its trade surplus to the highest monthly level on record. Exports in USD rose by 21.1% YoY last month.

On the week ahead, the biggest highlight will be the FOMC on Wednesday. Speculation is prevalent that the Fed will either offer guidance on or adjust its bond-buying program as soon as this meeting. **The majority view is that it will ultimately shift its purchases -- now totalling about $80 billion a month in Treasuries -- more to longer maturities**, if needed. Preliminary December PMIs will also be published in US and Europe, with consensus expectations rather stable compared to last month. China will report data on November retail sales, industrial production, and fixed investment. In UK, the BoE meeting and the ongoing negotiations between EU and UK will be the main events to focus. **Other data include the inflation figures in Eurozone, the first estimate of Q4 GDP in US, and US durable goods orders.**



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Equities

U.S major indexes reached new highs on Wednesday but pulled back to end the week mixed. The small-cap Russell 2000 Index outperformed the large-cap S&P 500 Index for the fifth straight week and posted a modest gain. **Energy was the sole sector that recorded gains,** while financials, info tech, and real estate shares underperformed.

Exhibit 1: World Stock Market Returns

Index	Price	WtD	YtD
US S&P 500	3,663.46	-0.96%	13.39%
MSCI Europe ex-UK	156.01	-0.73%	-2.38%
UK FTSE All-Share	3,680.43	-0.59%	-12.30%
Japan TOPIX	1,782.01	0.34%	3.52%
MSCI Asia ex-Japan	644.51	0.42%	16.61%
MSCI EM	1,257.66	0.53%	12.83%

Source: Barchart.com

The week was also remarkable for the IPOs of Airbnb and DoorDash, two of the largest to date in 2020. Shares in both internet companies rose sharply once trading began. According to Renaissance Capital, 2020 is on track to be the highest volume and busiest IPO year since at least 2014.

Heading into 2021, corporate profits, a key determinant of long-term returns, are forecast to grow more than 20%. So far, S&P 500 earnings have proven more robust than originally anticipated, bolstered by aggressive cost-control measures, the easing of credit conditions by central banks, and the U.S. equity market's lean towards technology and healthcare companies.

Exhibit 2: US Sectors

Sector	Price	WtD	YtD
Communication Services	66.94	-0.06%	24.82%
Consumer Discretionary	156.3	-1.09%	24.62%
Consumer Staples	67.32	-0.46%	6.89%
Energy	41.12	1.21%	-31.51%
Financials	28.46	-1.79%	-7.54%
Healthcare	111.68	-0.76%	9.64%
Industrials	88.77	-0.49%	8.96%
Materials	70.9	-1.23%	15.43%
Real Estate	36.27	-2.84%	-6.21%
Technology	124.3	-1.38%	35.60%
Utilities	62.24	-0.27%	-3.68%

Source: Barchart.com, Select Sector SPDR Funds

European stocks tumbled amid concerns about increasing numbers of coronavirus cases in major economies and uncertainty surrounding a post-Brexit trade deal and U.S. stimulus measures. **The pan-European STOXX Europe 600 Index ended 1.00% lower**, with major indexes also posting solid losses. Germany's DAX Index lost 1.39%, France's CAC-40 Index fell 1.81%, and Italy's FTSE MIB Index plunged 2.15%. The UK's FTSE 100 Index outperformed its European peers, ending the week almost flat. **Domestic U.K. stocks underperformed, especially Brexit-sensitive sectors such as housebuilders.** Travel and leisure shares came also under pressure. **Stoxx 600 Banks Index lost 6.2% last week**, as European regulators are considering whether to cap dividend payments for only the strongest lenders in the first nine months at about 20% of profit.

In China, stocks plunged amid renewed tensions with the U.S., after a second major index provider (S&P Dow Jones Indices) removed 21 Chinese companies from its benchmarks following a Trump administration executive order. For the week, the CSI300 tumbled 3.5%, while the SSE Composite Index fell 2.8%. However, global investors are positive that Chinese stocks will extend their bull run and that mainland corporate earnings in 2021 will be enhanced by a world economic recovery and more predictable Sino-U.S. relationship.

Exhibit 3: US Top 5 Risers and Fallers

Stock	Weekly Performance
Walt Disney Company	14.00%
Equifax Inc.	13.00%
Occidental Petroleum Corporation	12.37%
Eli Lilly & Company	7.81%
Twitter Inc.	7.77%
Stock	**Weekly Performance**
H&R Block, Inc.	-12.53%
Coty Inc.	-10.84%
Carnival Corp.	-9.08%
Qualcomm Inc.	-8.46%
BorgWarner Inc	-8.40%

Source: http://www.sectorspdr.com/

In Japan, stocks posted mixed results for the week. **The Nikkei 225 Stock Average** fell 0.4%, remaining into positive territory for the year-to-date period (+12.7%). However, the large-cap TOPIX Index and the TOPIX Small Index, broader measures of Japanese stock market performance, posted solid gains.

Fixed Income

Exhibit 1: Fixed income Government Bond Returns			
Index	**Current Price**	**WtD**	**YtD**
Global	691.19	0.48%	8.78%
US	2,519.87	0.60%	7.98%
UK	319.20	2.84%	9.33%
Japan	141.47	0.16%	-0.63%
Germany	262.07	0.85%	3.62%
Italy	318.69	0.55%	7.90%
Spain	313.56	0.73%	4.77%
France	285.32	0.76%	5.01%

Source: Bloomberg.com. All indices are Bloomberg Barclays benchmark government indices. All indices are total return in local currency, except for global, which is in US dollars.

The yield on the benchmark 10-year U.S. Treasury decreased through most of the week amid uncertainty over fiscal stimulus talks in the U.S. Strong industrywide inflows into municipal bond portfolios buoyed the sector's performance, as did light dealer inventories and subdued levels of tax-exempt issuance.

Despite balanced flows and healthy trading volumes, **investment-grade corporate bond credit spreads widened by 4bp** amid macroeconomic concerns. However, **high beta credit spreads tightened by 4bp-6bp**, with an outperformance by $ HY (vs. a 5bp tightening by €HY), the one exception being corporate hybrids, where spreads remained stable. High yield funds reported modest inflows.

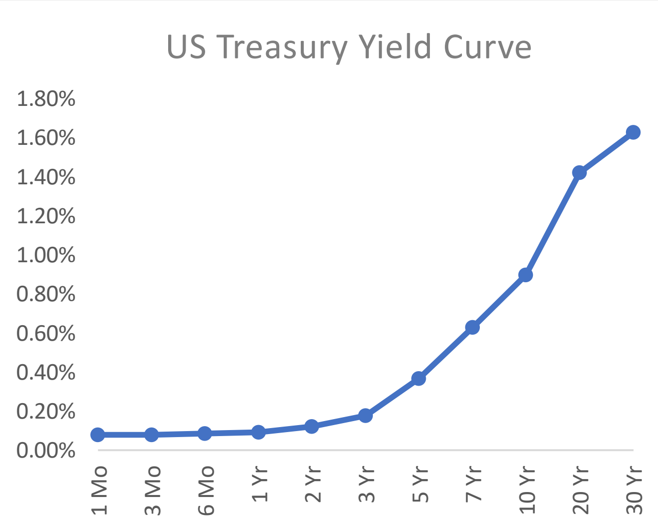
Core eurozone bond yields dropped amid mounting concerns about the possibility of a no-deal Brexit and another injection of stimulus by the ECB, although optimism related to coronavirus vaccines and expectations of further U.S. fiscal stimulus moderated the overall fall. **Peripheral eurozone bond yields broadly followed core markets.** Fitch has confirmed Italy's rating of BBB- with a stable outlook, and Spain's rating of A-, also with a stable outlook. **The ECB increased the overall size of its Pandemic Emergency Purchase Programme (PEPP) by €500 billion to €1.85 trillion** and extended the scheme by nine months to March 2022. In addition, **it extended to June 2022, the period during which banks can access cheaper funds under their Targeted Longer-Term Refinancing Operations (TLTRO).**

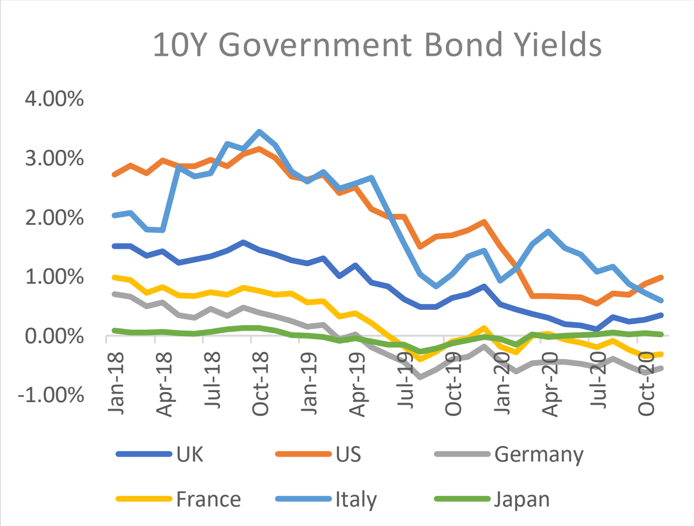
Exhibit 2: Fixed Income Sector Returns			
Index	**Current Price**	**WtD**	**YtD**
US Treasuries	2,519.87	0.60%	7.98%
Euro Government	265.60	0.75%	5.39%
Global Inflation Linked	395.73	0.60%	11.14%
Global Investment Grade	304.81	0.22%	9.44%
Emerging Markets Debt	924.16	0.17%	4.80%
US High Yield	490.70	0.12%	5.07%
Euro High Yield	313.17	-0.04%	2.59%

Source: Bloomberg.com. Global IL: Barclays Global Inflation-Linked; Euro Gov.: Barclays Euro Aggregate Government; US Treas: Barclays US Aggregate Government - Treasury; Global IG: Barclays Global Aggregate - Corporates; US HY: ICE BofA US HY Constrained; Euro HY: ICE BofA Euro Non-Financial HY Constrained; EM Debt: J.P. Morgan EMBIG. All indices are total return in local currency, except for EM and global indices, which are in US dollars

The trend observed in Q32020**,** pointing to an improvement in credit quality continued as well in Q4. It was noted that a **further decrease in the number of LT credit rating downgrades towards their long-run level.** The number of rating upgrades reached a low in Q22020**.**

Primary market is simmering down as we are approaching the year-end. Last week, **there were almost €5bn of corporate deals and around €2bn of financial deals.**





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FX & Commodities

The U.S. dollar ended slightly higher for the week, bouncing on safe haven buying on Friday as risk appetite tumbled due to fears over delayed U.S. fiscal stimulus amid a rise in COVID-19 cases and the mounting likelihood that Britain will exit the European Union without a deal.

EUR/USD ended slightly lower for the week but remained solid. Given the strong dollar bear trend, the fact that EU leaders have approved the 2021-27 budget and Recovery Fund, the ECB meeting having passed and the recent extension of the Brexit discussions, EUR/USD could likely stay bid.

EUR/GBP advanced last week amid an increased likelihood of a no deal-Brexit, testing 0.9180. Implied 1W volatility reached 8-month highs of 20%. **However**, GBP surged yesterday after UK and the EU extended discussions on a post-Brexit trade deal beyond the Sunday's deadline. It is a very close call, but analysts believe that UK-EU trade deal is more likely than not.

FX	WEEKLY CLOSE	WtD	YtD
DOLLAR INDEX	90.98	0.11%	-5.80%
EURUSD	1.2108	-0.10%	7.98%
GBPUSD	1.3211	-1.59%	-0.26%
EURGBP	0.9165	1.54%	8.24%
USDJPY	103.95	-0.12%	-4.24%
EURCHF	1.0785	-0.39%	-0.79%
USDCHF	0.8908	-0.31%	-8.00%
AUDUSD	0.7535	1.51%	7.29%
USDCAD	1.2773	-0.06%	-1.68%
USDTRY	7.8575	0.75%	32.01%
USDRUB	73.0538	-1.49%	17.77%
USDCNY	6.5410	0.22%	-6.01%

USD/JPY traded in a tight range and ended the week slightly lower as US yields remained well contained. USD/JPY will likely continue to trade below 105, despite some reasonably large Japanese buying of foreign bonds according to portfolio flow data. Expectations of a global exit from the dollar and a no-deal Brexit could push the pair lower towards the 102 area. **The EUR/CHF tested a low of 1.0740** due to the increased risk of a no-deal Brexit and the new ECB measures that will put pressure on the SNB.

Commodities & Commodity Indices	WEEKLY CLOSE	WtD	YtD
S&P GSCI Total Return CME	1,900.89	1.12%	-26.66%
Bloomberg Commodity Index	74.87	0.76%	-7.44%
WTI Crude Oil Futures	46.78	2.50%	-23.39%
Brent Crude Oil Futures	50.25	3.16%	-23.86%
US Natural Gas ETF (UNG)	9.38	1.08%	-44.37%
Gold Spot	1,839.50	0.08%	21.24%
Silver Spot	23.92	-1.04%	34.00%
LME Copper 3Mo	7,772.50	0.15%	25.89%
ETFS Cocoa	2.785	-0.98%	8.62%
ETFS Coffee	0.710	-0.44%	-24.67%
ETFS Sugar	7.885	2.40%	12.93%
ETFS Corn	0.731	0.14%	-2.31%
ETFS Soybeans	20.265	-0.02%	16.47%
ETFS Wheat	0.695	7.34%	5.13%

Oil prices continued their upward trajectory, boosted by the potential of stabilizing forward demand following widespread vaccination. **Brent crude climbed back above $50 for first time since March.**

Oil prices will likely benefit from the rise in risk sentiment. However, near-term fundamentals remain relatively weak amid restrictions in Europe and US, which could cap any further gains, without leading though to any substantial downside.

Gold prices posted a second consecutive weekly gain as investors thought that a new U.S. COVID-19 relief package was imminent. **Base metals continued their exceptional and global momentum** (Copper +27% YTD, Nickel up 9% last week). Base metals' rise will likely continue as Biden's $2tn plan for Climate Change and Environmental Justice is on infrastructure and renewables and will need a considerable amount of base metals.

For 2021, Goldman Sachs is forecasting a bull market for commodities based on its outlook for a weaker dollar, inflation, and the prospect of further economic and fiscal stimulus. They predicted a 12-month return of 30% on the S&P's Goldman Sachs Commodities Index, recommending long positions on silver, copper, gold, U.S. gas, Brent crude and jet regrade. Additionally, they see upside ahead especially in non-energy commodities like agriculture and metals, quoting tightening supply amid adverse weather conditions and greater demand from China.

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