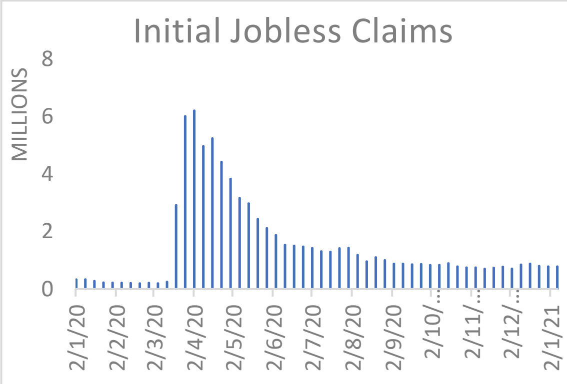
BLACKMOUNT

Bi-Weekly Market Report

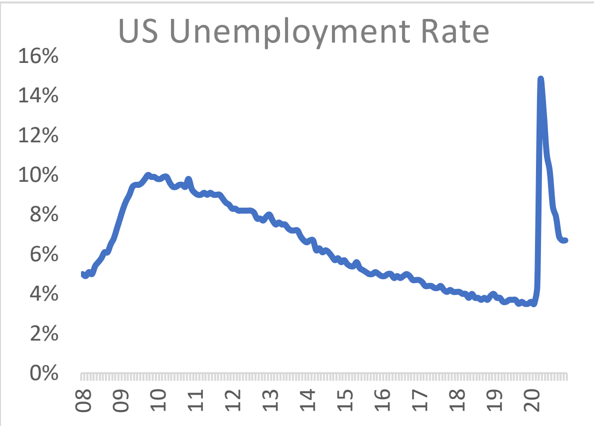
11th January – 15th January 2021

Market Commentary & Outlook



Increased prospects for a sizeable fiscal stimulus under the incoming Biden administration appeared to be the key factor driving last week's gains. Democrats managed to gain control of the Senate, given the tie-breaking vote by incoming Vice President Kamala Harris. The world was shaken on Wednesday when protestors stormed the U.S Capitol. This assault appeared to unsettle markets, but only modestly.

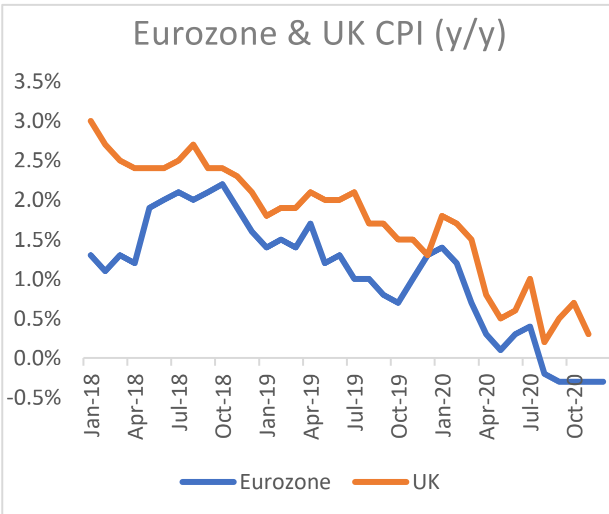
Economic data were mixed last week. ISM manufacturing rose to its highest level since August 2018, reaching 60.7. **The ISM's services sector gauge also surprised on the upside**, hitting 57.2, its highest level in three months. However, the labor market showed signs of a sharp slowdown. Job creation froze in December as restrictions brought on by surging Covid-19 cases hammered virus-sensitive industries, particularly bars and restaurants. **Nonfarm payrolls fell by 140,000, below the consensus forecast for 50,000.** It was the first monthly drop since April. The unemployment rate was unchanged at 6.7%, compared to a 6.8% estimate.



In Europe, a flash estimate of consumer prices showed that Eurozone inflation fell for a fifth straight month in December, with consumer prices falling 0.3% YoY. However, a core measure excluding food, energy, tobacco, and alcohol showed a 0.2% uptick in inflation, the same as the previous month. **In Germany, better-than-expected industrial production and trade figures, and solid factory orders data, hinted that the economy may have expanded in Q4.** Industrial output rose 0.9% in the month versus a consensus forecast of 0.7%. Exports grew 2.2%, beating a forecast for 1.0% growth and a monthly increase of 0.8% in October. Imports climbed 4.7%, compared with 0.3% in the previous month.

Looking forward in the year, if growth in 2021 is still affected by the Covid-19 pandemic, at least in the first half of the year, unemployment will remain high, inflation will remain low, and as a result fiscal deficits will linger higher and the policies of central bank monetisation of public debt will be extended. **Economic recovery in US and Europe may take time, and growth in 2021 could be lower than the consensus forecast.** In Asia, the situation looks more positive, as the economic recovery has already started in Q2 2020.

The World Bank's January 2021 Global Economic Prospects report forecasts global economic growth of 4.0% in 2021, following the 4.3% contraction in 2020. The World Bank slashed GDP growth targets for about half of the countries worldwide. The latest 2021 global forecast was revised from its earlier 4.2% growth target. The World Bank said, in a worst-case scenario, if infections accelerate or the vaccination process is delayed, global growth could be as low as 1.6%. It believes that the trajectory of the coronavirus and debt accumulation represent the two major variables in its forecasts. The World Bank forecasts a 5.3% contraction for Japan's economy in 2020 and 2.5% GDP growth in 2021. In comparison, in 2021, the U.S. GDP is expected to be 3.5%, the eurozone GDP 3.6%, and China's economy could expand 8%.



Rue Rodolphe-Toepffer 8
1206 Geneva, Switzerland
+41 22 552 4772

Equities

U.S major indexes reached new highs last week, despite the astonishing assault on the U.S. Capitol. Small-caps outperformed large-caps, while value stocks outpaced growth shares. **Energy stocks led the gains within S&P 500 Index**, amid higher oil prices. **Financials also posted solid gains**, as long-term interest rates moved higher and Fed allowed a resumption of share repurchases in Q1 2021.

Exhibit 1: World Stock Market Returns			
Index	**Price**	**WtD**	**YtD**
US S&P 500	3,824.68	1.83%	1.83%
MSCI Europe ex-UK	163.58	2.42%	2.42%
UK FTSE All-Share	3,880.43	5.63%	5.63%
Japan TOPIX	1,854.94	2.78%	2.78%
MSCI Asia ex-Japan	695.51	5.00%	5.04%
MSCI EM	1,353.53	4.78%	4.76%

Source: Barchart.com

Stocks are up nearly 70% from last year's low, reflecting the market's forward-looking nature. **The gains are likely not exhausted,** but this rally has priced in expectations for a fairly robust rebound this year. **Disappointment and political/policy fears will likely generate more volatility compared with the last several months.** Market valuations have been stretched, leaving less cushion for error as we move forward.

In 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	67.49	0.01%	0.01%
Consumer Discretionary	168.79	4.98%	4.98%
Consumer Staples	66.90	-0.82%	-0.82%
Energy	41.42	9.29%	9.29%
Financials	30.92	4.88%	4.88%
Healthcare	117.39	3.48%	3.48%
Industrials	89.61	1.20%	1.20%
Materials	76.51	5.69%	5.69%
Real Estate	35.66	-2.46%	-2.46%
Technology	130.76	0.57%	0.57%
Utilities	62.33	-0.59%	-0.59%

Source: Barchart.com, Select Sector SPDR Funds

European stocks advanced amid hopes that coronavirus vaccines and a possibly enormous U.S. stimulus package would prompt an economic recovery. **The pan-European STOXX Europe 600 Index ended 3.04% higher**, with major indexes also posting solid gains. Germany's DAX Index rose 2.41%, France's CAC-40 Index surged 2.80%, and Italy's FTSE MIB Index climbed 2.52%. The UK's FTSE 100 Index outperformed its European peers, ending the week 6.39% higher. **FTSE 100 posted its biggest rally since the vaccine breakthrough of early November.** The index benefited as well from a rise in oil prices, as it has a heavy weighting to energy groups such as Royal Dutch Shell and BP that benefit from higher crude prices.

In China, stocks surged amid a positive economic sentiment. For the week, the CSI300 advanced 5.5%, while the SSE Composite Index rose 2.8%. 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, more predictable Sino-U.S. relationship, and higher potential growth in Asia.

In Japan, stocks advanced for the week. **The Nikkei 225 Stock Average** climbed 2.5%, recording another multi-decade closing high. Large-cap TOPIX Index and the TOPIX Small Index, broader measures of Japanese stock market performance, also posted solid gains.

Exhibit 3: US Top 5 Risers and Fallers	
Stock	**Weekly Performance**
L Brands Inc.	25.71%
Albemarle Corporation	24.80%
TechnipFMC plc	24.47%
Flir Systems Inc.	20.08%
Freeport-McMoRan Inc.	19.72%
Stock	**Weekly Performance**
Aimco	-7.77%
Alexandria Real Estate Equities Inc	-6.91%
Coca-Cola Company	-6.86%
Atmos Energy	-6.47%
Western Digital Corp.	-6.45%

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

Fixed Income

Exhibit 1: Fixed income Government Bond Returns			
Index	**Current Price**	**WtD**	**YtD**
Global	692.07	-0.53%	-0.53%
US	2,490.30	-1.14%	-1.14%
UK	313.02	-1.54%	-1.54%
Japan	141.07	-0.11%	-0.11%
Germany	259.86	-0.26%	-0.26%
Italy	319.45	0.21%	0.21%
Spain	312.48	0.06%	0.06%
France	283.52	-0.15%	-0.15%

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 increased above 1% to highest levels since March, which lead to a steeper yield curve. The broad municipal bond market proved resilient despite the sell-off in U.S. government bonds.

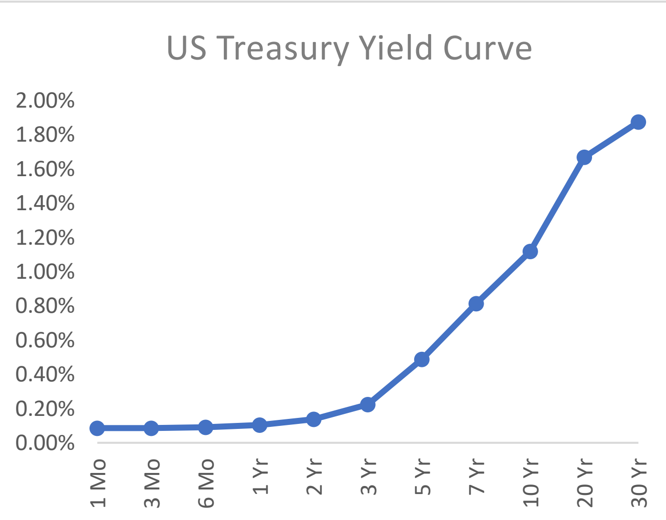
The high yield market followed the gains in equities over much of the week. Several issuers came to the market with new deals, and according to traders of T.Rowe Price exchange-traded funds were active buyers. **Credit has performed wll since the beginning of the year** with a positive total return of 0.1% on senior bank and Non Financials Senior bonds (but -0.8% on investment grade in $) and 0.3% to 0.9% on High Beta thanks to the tightening of credit spreads across most segments. **The primary market was extremely active with nearly €20 billion in new corporate and financial issues.** Investors exhibited strong appetite for these deals with orders books reaching €51 billion. **In 2020, we had a new record in terms of corporate issues at almost €490 billion,** as the liquidity and debt market crisis at the end of March, urged corporations to accumulate larger liquidity buffers. According to Natixis, corporate issuance for 2021 is expected to reach €450 billion, an 8% drop from 2020.

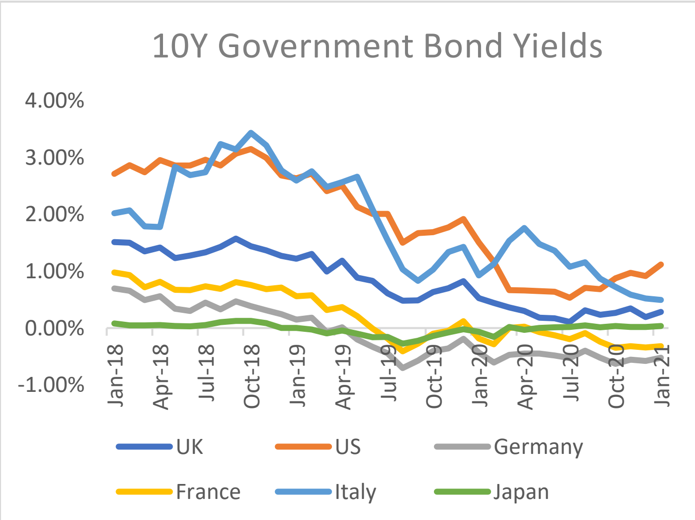
Exhibit 2: Fixed Income Sector Returns			
Index	**Current Price**	**WtD**	**YtD**
US Treasuries	2,490.30	-1.14%	-1.14%
Euro Government	264.42	-0.06%	-0.06%
Global Inflation Linked	395.16	-1.50%	-1.50%
Global Investment Grade	304.74	-0.87%	-0.87%
Emerging Markets Debt	924.98	-0.93%	-0.93%
US High Yield	496.53	0.23%	0.23%
Euro High Yield	315.61	0.61%	0.61%

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

Core eurozone bond yields rose as hopes that coronavirus vaccines and the U.S. stimulus package could boost the economy. However, weaker-than-expected eurozone inflation data and continuing concerns about the coronavirus' resurgence limited the rise in yields. **Peripheral eurozone bond yields fell during the week, moving inversely to core markets.** UK gilt yields rose as demand for high-quality government bonds fell. **ECB announced that its bond-buying programme would be prolonged to March 2022 and be increased to a total amount of €1.85 trillion.** The main question remains whether ECB will further extend this policy. If not, it could lead to an increase in long-term interest rates and in peripheral country yield spreads.

China's 10-year government bond was relatively unchanged, rising two basis points to 3.21%. Chinese bonds remain appealing to foreign investors in today's ultralow yield world and have grown more accessible to outside investors after recent reforms.





Rue Rodolphe-Toepffer 8
1206 Geneva, Switzerland
+41 22 552 4772

FX & Commodities

The U.S. dollar ended slightly higher for the week, supported by surging Treasury yields, as US inflation expectations have exceeded 2% and the 10-year U.S. yield is at the highest level since March at more than 1%. **The overall sentiment is that U.S. dollar will further depreciate this year**, particularly after the Democrats won the US Senate, which will result in a higher fiscal deficit.

FX	WEEKLY CLOSE	WtD	YtD
DOLLAR INDEX	90.07	0.16%	0.16%
EURUSD	1.2218	0.67%	0.05%
GBPUSD	1.3563	-0.79%	-0.79%
EURGBP	0.9005	1.46%	0.84%
USDJPY	103.93	0.71%	0.71%
EURCHF	1.0818	0.71%	0.08%
USDCHF	0.8854	0.03%	0.03%
AUDUSD	0.7759	0.71%	0.71%
USDCAD	1.2680	-0.37%	-0.37%
USDTRY	7.3713	-0.88%	-0.88%
USDRUB	73.8150	0.03%	0.03%
USDCNY	6.4750	-0.77%	-0.77%

EUR/USD ended higher for the week, largely impacted from USD sharp decline on Tuesday. Given the strong dollar bear trend, Fed keeping the liquidity tap open and policy rates on the floor, the recent Brexit deal, and hopes for a 2H21 recovery, EUR/USD could likely stay bid. However, a boost in risk aversion could push the pair lower, and even below 1.20.

EUR/GBP advanced last week as increased market pricing of negative interest rates from the Bank of England subsequent to fresh lockdown measures in Britain to fight the coronavirus has hurt the pound. **GBP depreciated against USD as well.** Given the broad-based USD weakness in place, GBP/USD seems to have more upside this year, particularly when the speculative GBP/USD positioning remains neutral.

Commodity currencies such as AUD and CAD appreciated the most for the week, driven by the surge in commodity prices (oil, copper, iron ore). On the contrary safe haven currencies, such as JPY and CHF underperformed. CNY hit the highest level since June 2018 at 6.43 yuan per dollar. China's Central Bank decided to intervene in order to limit the currency's appreciation.

Commodities & Commodity Indices	WEEKLY CLOSE	WtD	YtD
S&P GSCI Total Return CME	2,063.40	4.37%	4.37%
Bloomberg Commodity Index	79.66	2.06%	2.06%
WTI Crude Oil Futures	52.24	7.67%	7.67%
Brent Crude Oil Futures	55.99	8.09%	8.09%
US Natural Gas ETF (UNG)	9.75	5.98%	5.98%
Gold Spot	1,850.00	-2.53%	-2.53%
Silver Spot	25.40	-3.64%	-3.64%
LME Copper 3Mo	8,131.00	4.70%	4.70%
ETFS Cocoa	2.6805	-3.32%	-3.32%
ETFS Coffee	0.803	-2.90%	-2.90%
ETFS Sugar	7.710	3.59%	3.59%
ETFS Corn	0.859	2.80%	2.80%
ETFS Soybeans	23.945	5.24%	5.24%
ETFS Wheat	0.719	-0.29%	-0.29%

Oil prices continued their upward trajectory, after Saudi Arabia made a surprise announcement that it was unilaterally cutting oil production by 1 million barrels per day.

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 retreated for the week as risk appetite increased last week. **Base metals continued their exceptional and global momentum** (Copper +4.7%, Iron Ore +5.2%). Base metals rise will likely continue supported by the stimuluses that were set up by a number of economies, and 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.

Important Information

All information contained herein, and any opinions expressed in it is intended solely for the recipient. This document is not and should not be construed as an offer or solicitation to buy or sell any product, security or any other financial instrument. Any opinions expressed in this document are subject to change in that notice.

This document is not based upon detailed analysis by Blackmount of any, market, issuer or security named herein and does not constitute a formal research recommendation, either expressly or otherwise. It is not investment advice and does not take into account the investment objectives and policies, financial position or portfolio composition of any recipient. This document should not be relied upon as authoritative or taken in substitution for the exercise of your own commercial judgement.

This document has been prepared on the basis of economic data, trading patterns, actual market news and events, and is only valid on the date of publication. Blackmount does not make any guarantee, representation or warranty, (either expressly or impliedly), as to the factual accuracy, completeness, or sufficiency of information contained herein. This document has been prepared by the author based upon informational sources believed to be reliable and prepared in good faith.

Blackmount does not make any representation or warranty, express or implied, as to the accuracy, completeness or correctness of this information. Blackmount does not accept any liability for any loss or damage, howsoever caused, arising from any errors, omissions or reliance on any information or views contained in this document.

The value of any securities mentioned in this document may move up or down, and the value of securities denominated in other currencies will also be subject to fluctuations in the relevant exchange rates. Securities issued in emerging markets are typically subject to greater volatility and risk of loss.