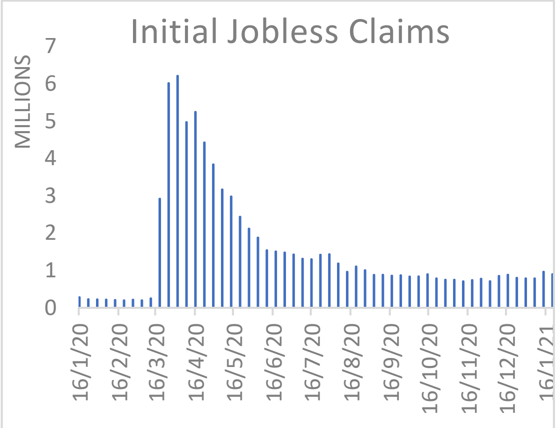
BLACKMOUNT

# Bi-Weekly Market Report

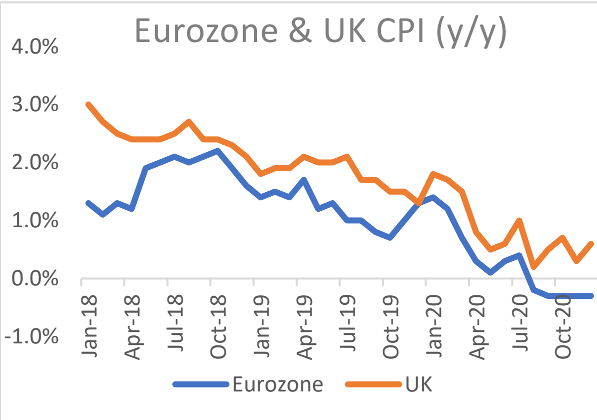
25th January – 29th January 2021

## Market Commentary & Outlook

**In US, the inauguration of Joe Biden went off without any problem last Wednesday.** The new President dedicated it first day in the implementation of a strategy to fight against the Covid-19. Joe Biden is also trying to push through a $1.9 trillion stimulus program that many congressional Republicans do not like, and the economy may not need. **On the economic front,** weekly jobless claims retreated from a multi-month high but remained elevated, at 900,000, while IHS Markit's preliminary manufacturing and services PMI in January surprised on the upside. The housing sector remained in great shape, with existing home sales and housing starts at their highest levels since 2006. Industrial sales rose 0.8% in November, while retail sales rose 2.9% YoY.

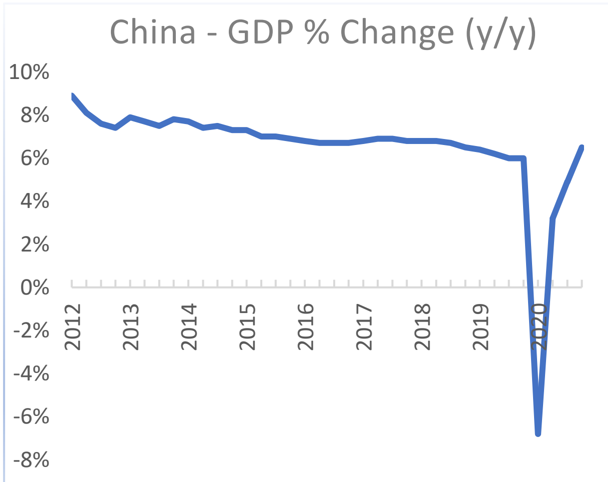



**In Europe**, governments continued to extend lockdown measures amid concerns about the spread of highly infectious mutations of the coronavirus. EU leaders hesitated to enact an EU-wide travel ban but warned that stricter lockdowns measures are likely to stay due to the new strains of the virus. On the economic front, **December PMIs suggested a decline in overall activity,** the third consecutive contraction in activity, as renewed lockdowns weighed on services. However, **factory output expanded for a seventh month**, though at a slower rate, due to growth in new orders, exports, and backlogs. EU CPI release confirmed the weakness of the latter as it remained at -0.3%. Deflationary pressures were evident across Europe. **However, in UK, inflation edged higher in December on rising transport costs.** The 12-month CPI inflation rate rose to 0.6%.




**In Asia, China's GDP grew 6.5% in Q42020,** beating forecasts, and making the country one of the few globally to register positive growth for the year. YoY GDP growth for Q4 topped expectations, with the Chinese economy expanding 2.3% for the full year. China's fast recovery was fuelled by positive dynamics in the industrial sector and trade, but domestic consumption, one of its key economic drivers, is still considered a weak spot. **The Bank of Japan's policy committee left policy rates unchanged.** The bank's yield curve control includes maintaining rates on current accounts held by financial institutions at -0.1%, buying Japanese government bonds to keep yield on the 10-year bond near 0.0%, and purchasing ETFs and Japanese REITs annually at a pace not to exceed JPY 12tn and JPY 180bn, respectively.

**For the week ahead, the main event will be the Fed meeting on Wednesday.** There is no scope for policy changes, and since this is one of the smaller meetings without new economic forecasts, any market reaction will come down to Chairman Powell's comments. Investors will also get a better sense of the U.S. economy with the first release of US Q4 GDP, consumer confidence, and personal income and spending data. **This week's first release for Q4 GDP in US is forecast to reveal a 4.2% growth, according to a Bloomberg survey.** Goldman Sachs now expects US GDP to increase 6.6% this year, with the unemployment rate falling down to 4.5% by the end of the year from 6.7% in December. In Europe, France and Spain are expected to show quarterly growth contractions as a result of pandemic-related lockdowns, with Germany set to barely avoid contraction.

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## Equities

**U.S major indexes reached new highs last week,** amid hopes for significant new stimulus under the Biden administration**. Communication services shares performed best**, lifted by a sharp gain in Netflix following its report of remarkably large subscriber gains in Q4. Technology stocks also outperfomed S&P 500, **while energy shares lagged as oil prices fell back on a surprising rise in U.S. inventories.**

| Exhibit 1: World Stock Market Returns | | | |
|---|---|---|---|
| **Index** | **Price** | **WtD** | **YtD** |
| *US S&P 500* | 3,841.47 | 1.94% | 2.27% |
| *MSCI Europe ex-UK* | 162.86 | 0.37% | 1.97% |
| *UK FTSE All-Share* | 3,786.06 | -0.47% | 3.06% |
| *Japan TOPIX* | 1,856.64 | 0.00% | 2.88% |
| *MSCI Asia ex-Japan* | 718.46 | 3.10% | 8.51% |
| *MSCI EM* | 1,392.85 | 2.56% | 7.80% |

Source: Barchart.com

**The earnings season kicked off last week.** US top banks have all now released their financial results for the past year. **Wall Street's core business is booming.** Goldman Sachs's trading operation reported its highest annual revenue in a decade, helping the bank to more than double its Q4 profit. JPMorgan Chase and Morgan Stanley also reported big jumps in their investment banking and trading units after a huge year for bond issues, I.P.O.s and M.&A. deals. **However, other banks with big consumer-lending arms did not perform the same**, with Bank of America, Citigroup and Wells Fargo lagging in terms of profit growth. Banks have added a considerable amount of money to their provisions against credit losses, a sign that they remain on guard against a potential wave of defaults. **For the week, the investors await several earnings reports,** from Apple, Tesla, Facebook, Microsoft, Comcast, Mastercard, McDonald's, Visa, Boeing, American Airlines, Verizon and Starbucks among others.

| Exhibit 2: US Sectors | | | |
|---|---|---|---|
| **Sector** | **Price** | **WtD** | **YtD** |
| *Communication Services* | 68.84 | 5.44% | 2.02% |
| *Consumer Discretionary* | 170.10 | 2.59% | 5.80% |
| *Consumer Staples* | 65.07 | -0.85% | -3.53% |
| *Energy* | 42.07 | -1.59% | 11.00% |
| *Financials* | 30.34 | -1.94% | 2.92% |
| *Healthcare* | 117.59 | 0.53% | 3.66% |
| *Industrials* | 88.51 | -0.36% | -0.05% |
| *Materials* | 74.38 | -1.27% | 2.75% |
| *Real Estate* | 36.82 | 1.32% | 0.71% |
| *Technology* | 132.83 | 4.25% | 2.16% |
| *Utilities* | 62.84 | -0.24% | 0.22% |

Source: Barchart.com, Select Sector SPDR Funds

**Goldman Sachs strategists in a Jan. 8 forecast said they expect S&P 500 EPS to grow by 31% in 2021 after falling by 17% in 2020.** The 2021 forecast was 2% higher than they projected before Democrats took control of the Senate in the Jan. 5 runoff elections. S&P 500 EPS would grow in this projection by an additional 10% in 2022, when Goldman sees tax increases going into effect.

**European stocks ended mixed for the week,** as U.S. economic stimulus worries, and revived coronavirus concerns capped gains. **The pan-European STOXX Europe 600 Index ended 0.17% higher**, with major indexes posting mixed returns. Germany's DAX Index rose 0.63%, France's CAC-40 Index lost 0.93%, and Italy's FTSE MIB Index fell 1.31%. The UK's FTSE 100 Index fell 0.60%, partly held back by GBP's strength relative to the dollar and fears that the strict coronavirus lockdown would not end anytime soon. **Travel and leisure stocks came under pressure**, amid concerns over fresh travel restrictions in Europe. Banks, oil & gas and mining also retreated for the week.

| Exhibit 3: US Top 5 Risers and Fallers | |
|---|---|
| **Stock** | **Weekly Performance** |
| *Ford Motor Company* | 17.19% |
| *Pulte Corporation* | 14.50% |
| *Netflix Inc.* | 13.49% |
| *PACCAR Inc.* | 12.13% |
| *D.R. Horton Inc* | 12.04% |
| **Stock** | **Weekly Performance** |
| *National Oilwell Varco Inc.* | -9.08% |
| *Devon Energy Corporation* | -9.04% |
| *Coty Inc.* | -8.26% |
| *The Bank of New York Mellon* | -7.99% |
| *IBM Corp.* | -7.62% |

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

**In China, stocks surged amid strong economic data and on hopes of warmer U.S.-China relations under President Biden.** For the week, the CSI300 advanced 2.0%, while the SSE Composite Index rose 1.1%. 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.

## Fixed Income

| Exhibit 1: Fixed income Government Bond Returns | | | |
|---|---|---|---|
| Index | Current Price | WtD | YtD |
| *Global* | 689.32 | 0.06% | -0.92% |
| *US* | 2,494.26 | 0.06% | -0.99% |
| *UK* | 312.23 | -0.31% | -1.79% |
| *Japan* | 140.99 | -0.11% | -0.16% |
| *Germany* | 259.42 | -0.27% | -0.43% |
| *Italy* | 314.38 | -0.97% | -1.38% |
| *Spain* | 310.19 | -0.48% | -0.68% |
| *France* | 282.17 | -0.38% | -0.63% |

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.

**Treasury yields remained mostly stable over the week.** Positive economic data helped to offset downward pressures on yields from the Fed's Treasury purchases. The broad municipal debt market outpaced Treasuries for much of the week.

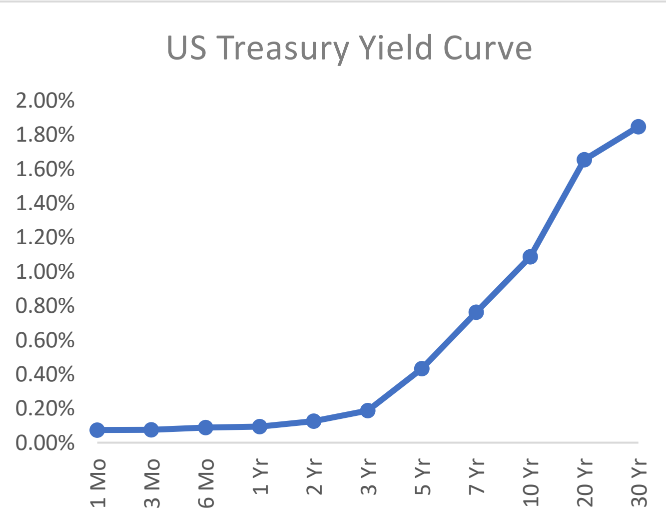
**The high yield market followed the gains in equities over much of the week.** Several issuers came to the market with new deals. **However, HY funds in U.S. dollar have seen outflows in the first three weeks of 2021 of $2.4 billion in total,** compared to net inflows of $2.5 billion and $3.7 billion for the same period in 2020 and 2019 respectively. On the contrary**, investment-grade funds in U.S. dollar continued to have inflows** at an notable pace with $20.6 billion since the beginning of the year compared to $14 billion for the same period in 2020, and net outflows of $4.7 billion in 2019.

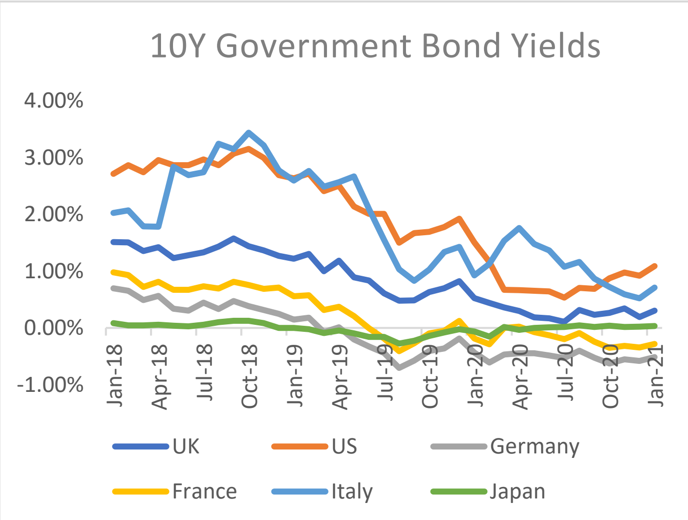
**The primary market was active with nearly €10 billion in new corporate and financial issues.** Investors exhibited strong appetite for these deals with orders books reaching €32 billion and oversubscription rates of 4x for corporates and 2.6x for financials. **In 2020, we had a new record in terms 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* | 2,494.26 | 0.06% | -0.99% |
| *Euro Government* | 262.54 | -0.52% | -0.77% |
| *Global Inflation Linked* | 395.18 | -0.03% | -1.49% |
| *Global Investment Grade* | 304.76 | 0.16% | -0.86% |
| *Emerging Markets Debt* | 921.41 | 0.27% | -1.31% |
| *US High Yield* | 497.58 | 0.07% | 0.44% |
| *Euro High Yield* | 316.03 | 0.28% | 0.74% |

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** after the ECB indicated that it may not use the full amount available in the pandemic emergency bond-purchasing program—news that the market translated as rather hawkish**. Peripheral eurozone bond yields mostly followed core markets,** although they eased before the ECB's statement, when Italian Prime Minister Giuseppe Conte won a confidence vote in Parliament**. Also in Europe, the steepening of the euro curve has become more noticeable with the long end of the curve underperforming substantially.** The 20-30 year slope, which has been inverted since the beginning of the Covid crisis, is currently testing 0bp. A shift to positive territory may indicate a market that favours future prospects over current struggles.



## FX & Commodities

**The U.S. dollar ended lower for the week,** as the arrival of the Biden administration led to a positive movement in risky assets and currencies. **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 | 90.21 | -0.63% | 0.31% |
| EURUSD | 1.2167 | 0.74% | -0.37% |
| GBPUSD | 1.3686 | 0.74% | 0.11% |
| EURGBP | 0.8888 | 0.01% | -0.47% |
| USDJPY | 103.76 | -0.11% | 0.54% |
| EURCHF | 1.0770 | 0.11% | -0.36% |
| USDCHF | 0.8852 | -0.62% | 0.01% |
| AUDUSD | 0.7716 | 0.18% | 0.16% |
| USDCAD | 1.2733 | 0.01% | 0.05% |
| USDTRY | 7.4106 | -0.84% | -0.36% |
| USDRUB | 75.1500 | 2.51% | 1.84% |
| USDCNY | 6.4810 | 0.02% | -0.67% |

**EUR/USD ended higher for the week, largely impacted from USD's weakness.** 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.

**GBP/USD advanced for the week amid a weaker U.S. dollar.** The pair failed to sustain the break of 1.3712 last week and has eased back. **EUR/GBP ended almost unchanged**, but seems vulnerable to downward pressures, as the successful rollout of the vaccine program across the UK has kept GBP supported, given that the EU has faced significant supply disruptions for a vaccine rollout. From a technical point of view, the pair managed to bounce from the 200-week MA at 0.8835.

**USD/JPY ended almost unchanged for the week.** The pair was rather volatile, as losses from rising exports in Japan for the first time in two years were offset by a positive movement in risky assets. From a technical point of view, the USD/JPY pair is neutral-to-bullish in the daily chart, as it settled above a flat 20-day SMA as technical indicators advance within positive levels.

| Commodities & Commodity Indices | WEEKLY CLOSE | WtD | YtD |
|---|---|---|---|
| S&P GSCI Total Return CME | 2,057.40 | -1.00% | 4.07% |
| Bloomberg Commodity Index | 79.11 | -1.68% | 1.36% |
| WTI Crude Oil Futures | 52.27 | 0.52% | 7.73% |
| Brent Crude Oil Futures | 55.41 | 1.11% | 6.97% |
| US Natural Gas ETF (UNG) | 9.01 | -9.49% | -2.07% |
| Gold Spot | 1,855.50 | 1.47% | -2.24% |
| Silver Spot | 25.48 | 2.78% | -3.34% |
| LME Copper 3Mo | 7,997.50 | 0.61% | 2.98% |
| ETFS Cocoa | 2.671 | -0.52% | -3.66% |
| ETFS Coffee | 0.808 | -3.87% | -2.36% |
| ETFS Sugar | 7.749 | -3.67% | 4.12% |
| ETFS Corn | 0.890 | -3.05% | 6.51% |
| ETFS Soybeans | 23.450 | -4.77% | 3.06% |
| ETFS Wheat | 0.725 | -3.46% | 0.47% |

**Oil prices continued their upward trajectory,** reaching a multi-month high around $55/bbl (brent), despite signs of weakening oil consumption as several countries have announced fresh lockdowns. **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. On the supply side, US producers continue to add rigs in line with the increase in prices.

**Gold and silver prices advanced for the week,** amid expectations that President Joe Biden's administration would increase stimulus measures to deal with the economic fallout of the coronavirus pandemic. Global holdings in silver-backed ETFs hit the highest ever on last Wednesday, according to Bloomberg calculations.

**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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