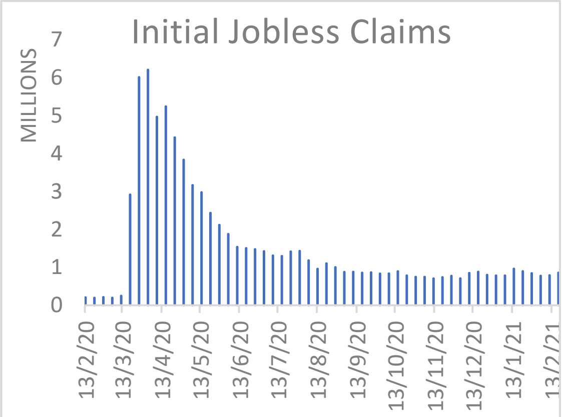
BLACKMOUNT

Bi-Weekly Market Report

22nd February – 26th February 2021

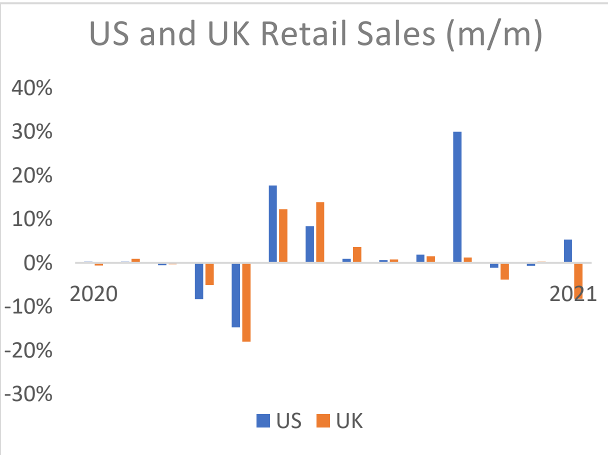
Market Commentary & Outlook

US stock markets rose in the beginning of the week, amid expectations for further fiscal stimulus, continued easy monetary policy, a better-than-expected Q4 earnings season, and progress in battling the coronavirus. **Stocks pulled back on Thursday due to concerns regarding rising rates.** Despite the recent rise in inflation, **the fundamental outlook remains favourable, and the market's high degree of optimism may not be misplaced.**

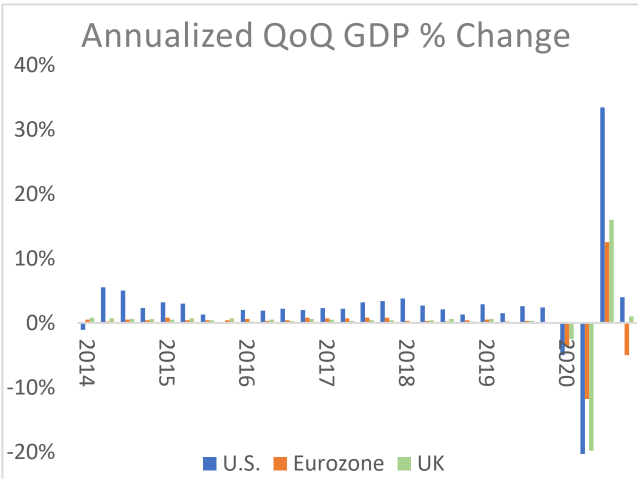


On the economic front, jobless claims jumped to a four-week high, indicating the labor market is experiencing fresh setbacks even as the coronavirus pandemic shows signs of receding, Initial jobless claims totalled 861,000 last week, above the 773,000 estimate. **In the U.S. retail sales accelerated sharply in January by 5.3%,** well above consensus expectations for a 1.1% gain, **backed by additional government aid paid out in December to fight the Covid effect.** U.S. homebuilding tumbled in January amid rising lumber prices, though a surge in permits for future construction implied the housing market remains supported by lean inventories and historically low mortgage rates. **Producer prices (PPI) increased by 1.3% MoM in January, marking the biggest increase since December 2009.**

In Eurozone, the pace of Eurozone economic contraction decelerated in February. The latest PMI data revealed that business activity in the Eurozone dropped for a fourth consecutive month in February, although the pace of contraction slowed as a stronger-than-expected pickup in manufacturing offset a continuing decline in services. Manufacturing, services, and composite flash PMIs came in at 57.7 (vs 54.8 in Jan), 44.7 (vs 45.4 in Jan), and 48.1 (vs 47.8 in Jan) respectively. **The Q4 GDP figures were revised slightly higher to -0.6% QoQ (vs -0.7% in the preliminary estimate) and -5% YoY (vs -5.1%**). Investor sentiment climbed, with the Eurozone ZEW index rising 11.3 points in February to 69.6 points. **On the political front,** PM Mario Draghi's new unity government in Italy received overwhelming support from both houses of Parliament. **In UK**, PM Boris Johnson said that England's lockdown would be eased in "stages" based on a "cautious and prudent approach." The latest UK health data revealed that the number of coronavirus cases in UK dropped to their lowest levels since early October.



For the week ahead, US will release its **durable goods orders** for January on Thursday, alongside the **second estimate of GDP** for Q4. **Personal consumption and income numbers**, as well as the **core PCE price index** for January, are all out on Friday. **The highlight of the week** will be the **semi-annual testimony by Fed Chairman Powell** before Congress. The testimony is tied to the publication of Fed's semi-annual monetary policy report so there could be significant guidance on how the Fed is expecting the path of monetary policy developing. **In UK**, PM Boris Johnson will outline on Monday his plans for gradually reopening the economy. **In Eurozone,** the main economic releases to watch out for are the **IFO institute's monthly German business confidence survey** and **Eurozone money supply data.**



Equities

U.S major indexes ended mostly lower, underprforming other major indices, amid an increase in longer-term interest rates. The small-cap index, Russell 2000 was the worst performer, falling more than 1%. **Energy stocks performed best**, as oil prices continued their upward trajectory. **The increase in interest rates bolstered bank shares** by improving lending margins and helped value stocks outperform growth stocks. On the contrary, **it weighted on fast-growing technology stocks** by increasing the discount rate on future earnings.

Exhibit 1: World Stock Market Returns

Index	Price	WtD	YtD
US S&P 500	3,906.71	-0.71%	4.01%
MSCI Europe ex-UK	165.18	-0.17%	3.42%
UK FTSE All-Share	3,769.95	0.40%	2.62%
Japan TOPIX	1,928.95	-0.25%	6.89%
MSCI Asia ex-Japan	736.06	0.36%	11.16%
MSCI EM	1,430.03	0.08%	10.68%

Source: Barchart.com

With earnings season winding down, more than 80% of companies in the S&P 500 have reported their earning results. With the current data, results as of last week have been robust, **with sales up 2.3% YoY and profits up 3.6% from the same quarter in 2019** when the economy was running at full tilt, according to FactSet. **The return to sales and earnings growth**, following three straight quarters of contraction, **has come ealier than many analysts had anticipated**, supported by government stimulus and looser monetary policy from Fed. As recently as the start of 2021, analysts had been expecting Q4 revenues to drop 1.4% .

Exhibit 2: US Sectors

Sector	Price	WtD	YtD
Communication Services	72.48	-0.71%	7.41%
Consumer Discretionary	169.62	-0.41%	5.50%
Consumer Staples	64.94	-1.14%	-3.72%
Energy	46.18	3.38%	21.85%
Financials	32.41	2.82%	9.94%
Healthcare	114.42	-2.45%	0.86%
Industrials	90.98	0.75%	2.74%
Materials	75.04	0.96%	3.66%
Real Estate	38.09	-0.73%	4.18%
Technology	136.05	-1.83%	4.64%
Utilities	61.41	-1.93%	-2.06%

Source: Barchart.com, Select Sector SPDR Funds

European stocks ended mixed for the week, as encouraging quarterly earnings were offset by rising inflation. **The pan-European STOXX Europe 600 Index ended 0.21% higher**, with major indexes posting mixed results. Germany's DAX Index fell 0.40%, France's CAC-40 Index advanced 1.17%, while Italy's FTSE MIB Index retreated 1.17%. The UK's FTSE 100 Index outperformed most of its European peers, gaining 0.52%. **Over half of STOXX Europe 600 companies have published the results.** While almost two-thirds of companies have beaten consensus EPS estimates, less than half have beaten sales estimates. **This suggests a respectable number of earnings beats have been driven by margins coming in ahead of expectations owing to companies cutting costs.**

In China, stocks ended the week on a mixed note, as The People's Bank of China (PBOC) drained RMB 260 billion from the financial system, which dampened buying momentum. For the week, the CSI300 fell 0.5%, 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.

In Japan, **Nikkei 225 topped 30,000 for the first time in more than 30 years.** For the year-to-date period, the Nikkei index is ahead 9.38%. The broader equity market benchmarks, the large-cap TOPIX Index and the TOPIX Small Index, finished the week with modest losses.

Exhibit 3: US Top 5 Risers and Fallers

Stock	Weekly Performance
Freeport-McMoRan Inc.	20.04%
Carnival Corp.	19.37%
Royal Caribbean Cruises Ltd.	16.62%
HollyFrontier Corp.	15.24%
Norwegian Cruise Line Holdings	14.06%
Stock	**Weekly Performance**
Perkinelmer Inc	-9.15%
Hologic Inc	-8.79%
Henry Schein Inc	-8.22%
Synopsys Inc	-8.22%
Wabtec Corp	-8.16%

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

Fixed Income

Exhibit 1: Fixed income Government Bond Returns			
Index	**Current Price**	**WtD**	**YtD**
Global	678.22	-0.82%	-2.52%
US	2,458.94	-0.73%	-2.39%
UK	298.54	-1.89%	-6.09%
Japan	140.36	-0.28%	-0.61%
Germany	254.70	-0.91%	-2.24%
Italy	316.99	-0.97%	-0.56%
Spain	305.31	-1.08%	-2.24%
France	276.13	-1.14%	-2.75%

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 surged for the week amid expectations of increased fiscal and monetary stimulus together with hopes of an economic upswing added momentum to the reflation trade. **The 10-year U.S. Treasury yield rose above 1.3% for the first time in a year and the curve steepening gathered pace.** The 30-year U.S. yield also rose, touching a one-year high of 2.1%.

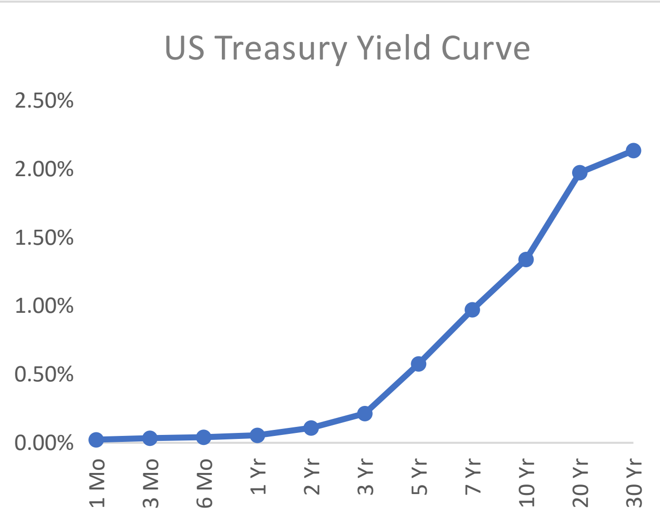
High yield bonds experienced weakness as investors weighed stimulus and vaccine optimism against the prospects for higher inflation and the impact rising rates could have on the economy. HY funds reported negative flows. **Investment grade bonds were particularly weak,** as the increase in interest rates weighted on total return**.** Spreads on senior bank, Tier 2 and subordinated insurance bonds remained unchanged, delivering a negative **total return of -0.1 to -0.3%.** Additionally, spreads in Non-Financials Senior and IG in $ tightened by 1bp and 3bp respectively, but failed to offset the rise in interest rates. (-0.3% for Non-Financials Senior and -0.6% for IG in $).

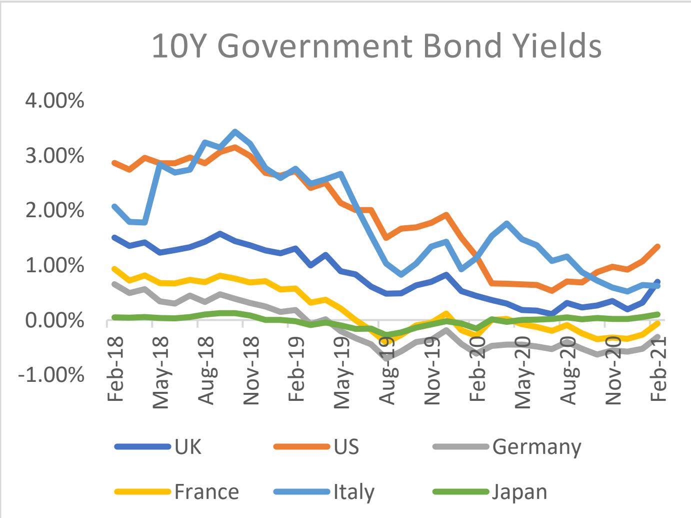
Higher yield default rates dropped slighlty in January according to the latest figures published in Moody's. The overall default rate dropped from 6.8% at the end of 2020 to 6.7% at the end of January. Moody's also slashed its forecasts for High Yield default rates in 2021 (5.4% in the United States and 2.7% in Europe). **The primary market was active with nearly €13bn in new corporate and financial issues.** Investors exhibited strong appetite with orders books reaching €29bn, an average oversubscription rate of 2.3x for financials, and 3x for corporates.

Exhibit 2: Fixed Income Sector Returns			
Index	**Current Price**	**WtD**	**YtD**
US Treasuries	2,458.94	-0.73%	-2.39%
Euro Government	258.96	-1.07%	-2.13%
Global Inflation Linked	389.26	-1.45%	-2.97%
Global Investment Grade	301.64	-0.51%	-1.87%
Emerging Markets Debt	915.40	-1.06%	-1.96%
US High Yield	501.95	-0.05%	1.33%
Euro High Yield	318.12	0.09%	1.41%

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 growing reflation expectations in the U.S. weighed on core asset demand. The German 10-year yield reached about -0.32% on Friday—its highest level since June 2020, in line with the swaps, stabilising the swap spread at around -32.5bp. **Peripheral eurozone bond yields largely trailed core markets. Italian bonds underperformed,** increasing the BTP – Bund spread to 97bp. Overall, **all maturities of more than four years rose by 4bp to 9bp**, leading to a steepening of the curve at the long end by 7.5bp for the 2-10 year segment, which reached 49.7bp, close to the 50bp mark last seen in December 2019.





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FX & Commodities

The U.S. dollar ended slightly lower for the week, amid mixed US macroeconomic data. **For the week ahead,** Powell's testimony, whose speech on economic health and the Fed's forward guidance will lead to some short-term volatility in the dollar.

FX	WEEKLY CLOSE	WtD	YtD
DOLLAR INDEX	90.34	-0.12%	0.46%
EURUSD	1.2117	-0.01%	-0.78%
GBPUSD	1.4014	1.26%	2.51%
EURGBP	0.8643	-1.26%	-3.21%
USDJPY	105.43	0.48%	2.16%
EURCHF	1.0859	0.55%	0.46%
USDCHF	0.8962	0.56%	1.25%
AUDUSD	0.7869	1.50%	2.14%
USDCAD	1.2610	-0.66%	-0.92%
USDTRY	6.9580	-1.06%	-6.44%
USDRUB	73.9500	0.58%	0.22%
USDCNY	6.4555	0.02%	-1.07%

EUR/USD endured some dollar strength **and ended almost unchanged for the week.** The pair continued to be led by dollar fluctuations and remained indifferent to the dismal economic situation in Europe. The pair is expected to remain between 1.20 and 1.22. Implied volatility lingers at the historically low 5.9%.

GBP/USD surged for the week and managed to close above 1.40. **EUR/GBP retreated for the week**, falling below 0.87, 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. There is a chance though that GBP could consolidate after its outperformance over the month.

USD/JPY ended higher for the week, -despite falling later in the week- supported by a rise in US yields. **Commodity currencies, such as AUD and CAD, performed well** against a backdrop of reflation trade, benefiting as well from a rise in commodity prices.

Oil prices ended mixed for the week, with the U.S. market taking a weather-related hit late in the week that erased earlier gains. **Oil prices will likely benefit from the rise in risk sentiment.** OPEC is forecasting a record rise in demand this year as vaccines are rolled out, despite current weakness. OPEC+ oil producers are expected to ease restrictions on supply after April given a recovery in prices, OPEC+ sources said and Reuters reported, although any increase in output will be moderate.

Commodities & Commodity Indices	WEEKLY CLOSE	WtD	YtD
S&P GSCI Total Return CME	2,261.05	1.32%	14.37%
Bloomberg Commodity Index	85.30	1.48%	9.29%
WTI Crude Oil Futures	59.26	-0.35%	22.14%
Brent Crude Oil Futures	62.91	0.77%	21.45%
US Natural Gas ETF (UNG)	11.15	4.50%	21.20%
Gold Spot	1,784.60	-2.18%	-5.97%
Silver Spot	27.26	-0.33%	3.41%
LME Copper 3Mo	8,909.50	6.93%	14.72%
ETFS Cocoa	2.719	0.41%	-1.93%
ETFS Coffee	0.825	4.43%	-0.24%
ETFS Sugar	8.598	7.15%	15.52%
ETFS Corn	0.940	1.46%	12.49%
ETFS Soybeans	23.978	0.59%	5.38%
ETFS Wheat	0.738	3.22%	2.34%

Gold and silver prices ended lower last week. However, gold futures climbed back above $1,800 on Monday, with inflation fears helping to elevate prices to their highest settlement in over a week. **Base metals continued their rally last week,** benefited from rising inflation expectations as the US heads towards passing a new stimulus plan, and a weaker U.S. dollar. **Copper prices have also been bolstered by low stocks** which at 211,000 tonnes are at the lowest level since 2008. The demand for base metals will continue to rise over the coming years amid green stimuluses in the US and Europe, and as most countries are seeking to achieve carbon neutral economies.

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, 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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