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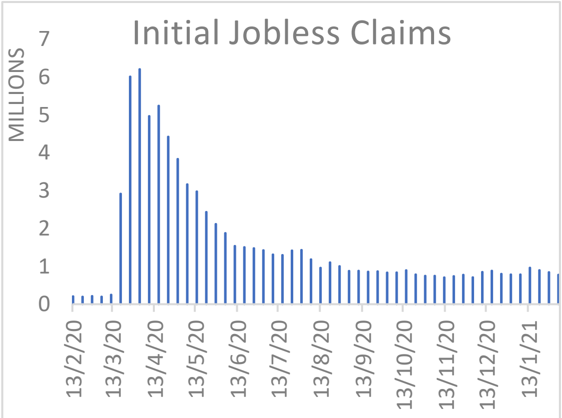
Bi-Weekly Market Report

8th February – 12th February 2021

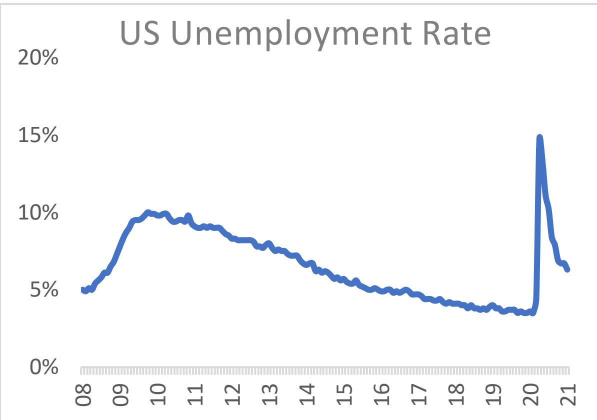
Market Commentary & Outlook



US stock markets rallied, after suffering their worst weekly decline since October two weeks ago, amid better COVID-19 trends, vaccine optimism, monetary and fiscal tailwinds, and signs of renewed strength in the recovery. **The Senate approved a budget plan for President Biden's $1.9 trillion Covid-19 relief package early Friday** without significant support from Republican lawmakers, who threatened to dump the bipartisanship pledged by the new administration.

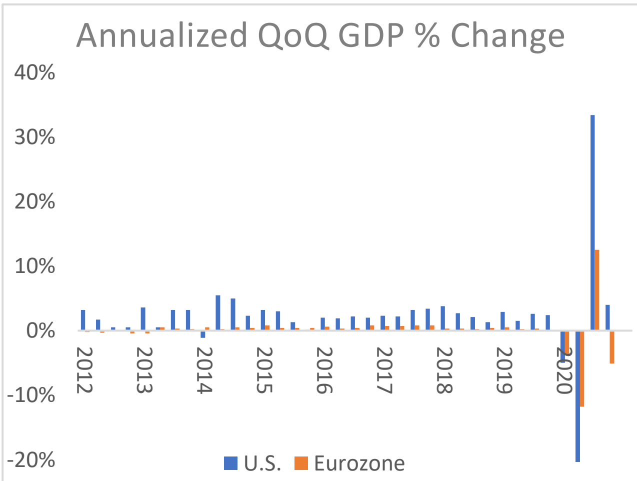
On the economic front, weekly jobless claims totalled 779,000 last week, below the 830,000 estimate, and the lowest since late November. The ISM's gauge of services sector activity rose to its highest level (58.7) since February 2019. According to ISM data, the expansion in the services sector has now matched that in the manufacturing sector, which is less exposed to social distancing measures. **Job growth returned to the U.S. in January, with nonfarm payrolls increasing by 49,000 while the unemployment rate fell to 6.3%,** reflecting a pickup in the number of employed and more people having left the workforce.

In Eurozone, the economy dropped by 0.7% in Q42020, as governments intensified social restrictions to contain a second wave of Covid-19 infections. However, the contraction was less than expected. For the year as a whole, GDP fell by 6.8% compared to 2019. Retail sales also came out better than expected, rising by 2% MoM in December after falling 5.7% in November. Finally, inflation figures surprised to the upside, as the Harmonized Price Index (HICP) rose 0.9% in January, compared with 0.5% expected. **The pace of coronavirus vaccination in Europe remained sluggish but picked up in the UK, where more than 10.5 million people have received a first dose.** The number of daily coronavirus infections also began to drop in some countries after a month of stringent lockdown measures across Europe.



In UK, **the Bank of England kept interest rates unchanged at 0.1%, and also maintained the purchase plan at £895 billion.** The Bank has slashed its growth forecast for 2021 (5% compared to 7.5% three months ago). **The BoE said it expected the UK economy to recover swiftly over the year and return to its pre-pandemic size by Q1 of 2022.** The Bank's Governor Andrew Bailey has cited the possibility of negative rates throughout the last year but seems to have cooled on them recently. However, the MPC did reveal that it would take six months for the Bank to implement negative rates if it pursued the policy.

For the week ahead, US will release its January inflation figures on Wednesday. Any pickup in inflationary pressures will likely support the U.S. dollar and weigh on riskier assets. The focus will then shift to the weekly jobless claims on Thursday, ahead of consumer sentiment figures on Friday. **In Europe, investors will get a better sense of the UK economy with the publication of the GDP of the year 2020.** Also, German industrial production and trade figures for December are due out on Monday and Tuesday. We should expect both data sets to influence both the EUR and the European majors. On Friday, industrial production figures for the Eurozone will also provide direction.



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Equities

U.S major indexes reached new record highs last week, helped by fiscal stimulus plans and vaccine optimism. **Energy stocks performed best**, as oil prices reached their highest level in over a year, **while healthcare stocks lagged.** Casinos, gaming software and consumer electronics retailers led the upside among all industry groups.

Exhibit 1: World Stock Market Returns			
Index	**Price**	**WtD**	**YtD**
US S&P 500	3,886.83	4.65%	3.48%
MSCI Europe ex-UK	163.86	3.78%	2.60%
UK FTSE All-Share	3,709.95	1.87%	0.99%
Japan TOPIX	1,890.95	4.54%	4.78%
MSCI Asia ex-Japan	717.20	4.73%	8.32%
MSCI EM	1,395.35	4.95%	8.00%

Source: Barchart.com

It seems that the Reddit-induced turmoil is over, as the social media-harmonised "short squeeze" aiming hedge funds with short positions in GameStop and a few other companies subsided. GameStop's share price colossal increase has reversed, and the deleveraging of equity long/short funds is also done. **The S&P 500 is trading at historically high 22 times 2021 earnings.** However, things could continue to rise as earnings are beating estimates by more than 17%, about five times the normal average and on a par with Q3. As of last week, 53% of the companies listed in S&P 500 have reported their earnings results. **The majority of the companies (83%) have managed to beat analysts' forecasts**. For the week, the investors await several earnings reports from Uber Technologies, Cisco Systems, Netflix, PepsiCo, The Walt Disney, Newell Brands, Twitter, DuPont, and Coca-Cola Co among others.

Exhibit 2: US Sectors			
Sector	**Price**	**WtD**	**YtD**
Communication Services	71.41	6.77%	5.82%
Consumer Discretionary	172.23	6.31%	7.12%
Consumer Staples	65.76	2.61%	-2.51%
Energy	42.56	8.24%	12.30%
Financials	30.89	6.70%	4.78%
Healthcare	115.67	0.56%	1.97%
Industrials	88.99	4.98%	0.50%
Materials	73.53	4.09%	1.57%
Real Estate	37.94	3.21%	3.77%
Technology	135.32	4.96%	4.08%
Utilities	63.58	2.32%	1.40%

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 surged for the week, amid hopes of a quicker economic recovery. **The pan-European STOXX Europe 600 Index ended 3.46% higher**, with major indexes posting solid gains. Germany's DAX Index rose 4.64%, France's CAC-40 Index advanced 4.82%, while Italy's FTSE MIB Index outperformed, posting a gain of 7.00%, after Mario Draghi, the former president of ECB, was given a mandate to form a new government. The UK's FTSE 100 Index underperformed its European peers, partly held back by GBP's strength relative to the dollar and some disappointing earnings reports. In Europe, **all cyclical sectors rebounded strongly,** with banks leading the gain, ending the week 10.24% higher.

In China, stocks advanced as investors found support from a continued economic recovery, though Sino-U.S. tensions remained a worry. For the week, the CSI300 soared 2.5%, while the SSE Composite Index rose 0.4%. 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.

Exhibit 3: US Top 5 Risers and Fallers	
Stock	**Weekly Performance**
L Brands	21.17%
Coty Inc.	19.94%
MGM Resorts International	19.92%
Tapestry Inc.	18.75%
Under Armour	18.50%
Stock	**Weekly Performance**
Clorox Co	-8.69%
DXC Technology Company	-8.01%
DaVita Inc.	-6.98%
Qualcomm Inc.	-6.68%
International Paper Company	-6.52%

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

Fixed Income

Exhibit 1: Fixed income Government Bond Returns			
Index	**Current Price**	**WtD**	**YtD**
Global	681.37	-0.92%	-2.07%
US	2,480.57	-0.61%	-1.53%
UK	305.31	-2.25%	-3.96%
Japan	140.87	-0.01%	-0.25%
Germany	257.70	-0.63%	-1.09%
Italy	318.89	0.70%	0.04%
Spain	309.61	-0.32%	-0.86%
France	280.46	-0.56%	-1.23%

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 advanced for the week amid prospects of a large additional injection of economic stimulus from the Biden administration, along with the stronger global growth expected as vaccination drives gather pace. **The sell-off in the 30-year Treasuries has pushed the US yield curve to its steepest level in more than five years** (difference between the 30-year Treasury and the shorter-term 5-year note). The gap between 10-year and 2-year Treasury yields, another widely watched portion of the curve, reached its widest point since 2017.

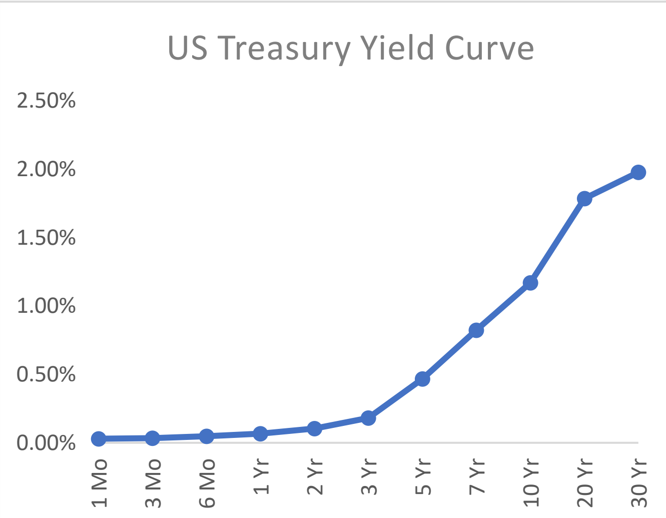
The high yield market followed the gains in equities over the week, recovering from weakness amid the cooling of the short squeeze trading volatility. Several issuers came to the market with new deals. High Beta credit posted positive total returns. Euro high yield hybrid bonds and subordinsted insurance gained 0.6% to 0.7%, while bank AT1 gained 1.2%, as the spread tightening outweighted the surge in risk-free interest rates. **Investment-grade corporate bond credit spreads tightened** as several companies reported generally reassuring Q4 earnings and investors monitored fiscal stimulus developments. **However, the increase in interest rates weighted on total return for IG** (-0.2% for Non-Financials Senior and -0.4% for IG in $).

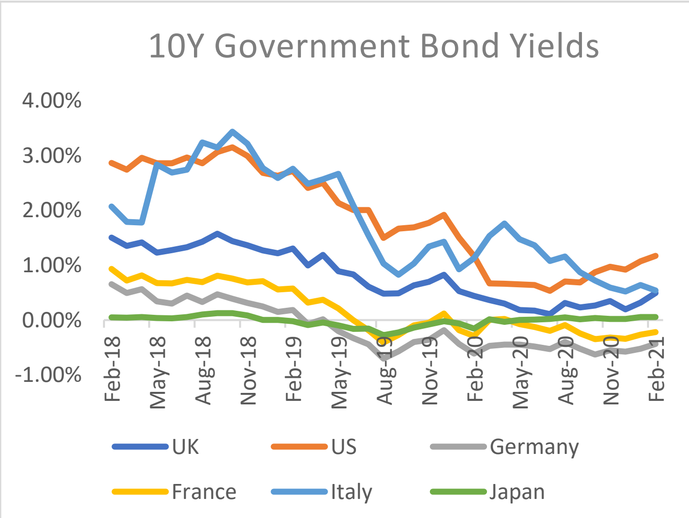
Exhibit 2: Fixed Income Sector Returns			
Index	**Current Price**	**WtD**	**YtD**
US Treasuries	2,480.57	-0.61%	-1.53%
Euro Government	262.26	-0.25%	-0.88%
Global Inflation Linked	393.39	-1.02%	-1.94%
Global Investment Grade	302.53	-0.60%	-1.58%
Emerging Markets Debt	927.09	0.51%	-0.71%
US High Yield	500.72	0.70%	1.08%
Euro High Yield	317.62	0.80%	1.25%

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 primary market was active with nearly €13.5bn in new corporate and financial issues. Investors exhibited strong appetite with orders books reaching €39bn, an average oversubscription rate of 3x for corporates and financials. Is still evident that there is an appetite for credit, with positive weekly net inflows for both USD HY funds (+$1.3bn), and USD IG funds (+$6.2bn, i.e. more than $30bn YtD)

Core eurozone bond yields rose amid expectations for a pickup in economic growth and better-than-expected Eurozone GDP. The German 10-year yield managed to break out from the -0.60%/-0.50% range, where it had been stuck since late July. **Peripheral eurozone bond yields mostly fell.** In Italy, yields dropped significantly in the middle of the week after Draghi began discussions to form a new government. **In UK,** gilt yields followed core markets and received an additional boost after BoE left monetary policy unchanged.





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FX & Commodities

The U.S. dollar advanced for the week, supported by the strong earnings season and solid macroeconomic figures in US. **The U.S. dollar lost some of its momentum on Friday,** as the market reaction to underwhelming job data was directed to mounting expectations of aggressive fiscal stimulus by Biden.

FX	WEEKLY CLOSE	WtD	YtD
DOLLAR INDEX	91.00	0.52%	1.19%
EURUSD	1.2042	-0.77%	-1.39%
GBPUSD	1.3727	0.12%	0.41%
EURGBP	0.8765	-0.95%	-1.85%
USDJPY	105.36	0.65%	2.09%
EURCHF	1.0823	0.17%	0.13%
USDCHF	0.8988	0.95%	1.55%
AUDUSD	0.7677	0.46%	-0.35%
USDCAD	1.2758	-0.15%	0.24%
USDTRY	7.0488	-3.57%	-5.22%
USDRUB	74.5520	-1.58%	1.03%
USDCNY	6.4664	0.64%	-0.90%

EUR/USD ended lower for the week, largely impacted from USD's strength. EUR/USD was trading below 1.20 for the first time in more than two months, and while it was a widespread dollar momentum that kept putting pressure on the pair of late, the somewhat slow vaccination process in the Eurozone may have begun to have an effect on EUR sentiment.

GBP/USD ended slightly higher for the week and managed to sustain the break of 1.3712. **EUR/GBP retreated for the week**, 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. Additionally, news that BoE ruled out a switch to negative short-term interest rates, urged investors to prolong their expectations for an interest rate cut to next year.

USD/JPY ended higher for the week, supported by a positive movement in risky assets, and the extension of the state of emergency and the weak momentum of vaccination in Japan. **USD/CHF also moved higher for the week**, boosted by an increased appetite for risky assets, and weak confidence indicators and the SNB's downward adjustment of its domestic growth forecasts.

Commodities & Commodity Indices	WEEKLY CLOSE	WtD	YtD
S&P GSCI Total Return CME	2,168.83	4.54%	9.71%
Bloomberg Commodity Index	82.47	2.96%	5.66%
WTI Crude Oil Futures	56.85	9.12%	17.17%
Brent Crude Oil Futures	59.34	7.89%	14.56%
US Natural Gas ETF (UNG)	10.53	11.90%	14.46%
Gold Spot	1,815.20	-1.78%	-4.36%
Silver Spot	26.73	-0.93%	1.40%
LME Copper 3Mo	7,912.50	0.72%	1.89%
ETFS Cocoa	2.732	0.83%	-1.46%
ETFS Coffee	0.806	1.19%	-2.54%
ETFS Sugar	7.993	3.77%	7.39%
ETFS Corn	0.947	0.96%	13.33%
ETFS Soybeans	23.905	1.55%	5.06%
ETFS Wheat	0.719	-3.36%	-0.36%

Oil prices continued their upward trajectory, posting their biggest weekly gain this year, and reaching pre-pandemic levels at a one-year high, boosted in part by expectations for stronger energy demand and production restraint by major oil producers. **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 and silver prices ended lower for the week, amid a stronger U.S. dollar. Silver prices had a roller coaster week. After initially soaring by as much as 13%, prices soon fell. The source of the sharp price increase in silver has been a rallying call on Reddit. Prices have retreated as a result of both an upsurge in margin calls by the CME and a loss of momentum by those who sought to squeeze banks.

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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