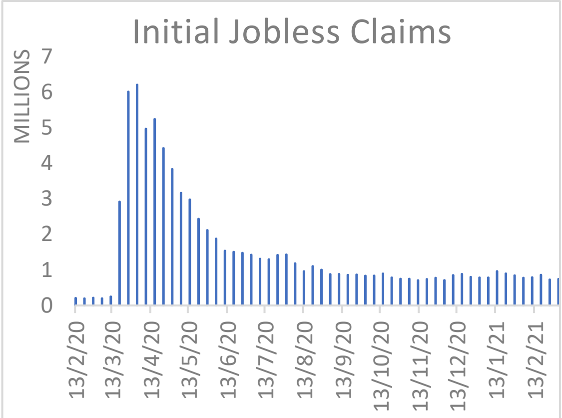
BLACKMOUNT

Bi-Weekly Market Report

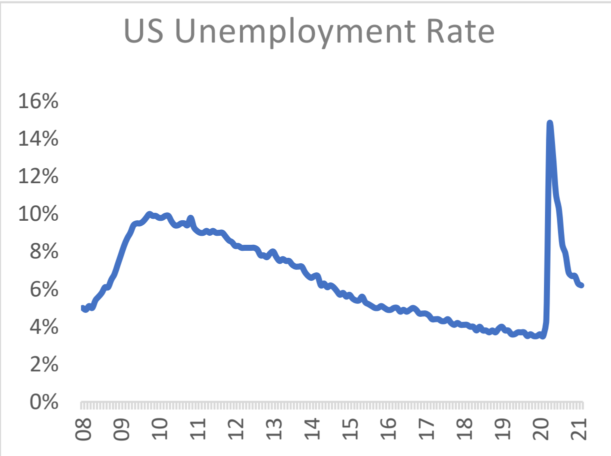
8th March – 12th March 2021

Market Commentary & Outlook

The major US benchmarks finished mixed for the week. Investors seemed divided about whether the rise in longer-term bond yields was due to an upswing in growth expectations or a troublesome rise in inflationary pressures. **On Monday, the federal government began distributing the J&J single-dose vaccine,** and President Biden revealed that new deals with drugmakers meant that every American adult should have access to vaccines by the end of May. **Fed Chairman Powell reiterated his intention to keep easy-money policies in place but provided no sign the central bank will seek to stem a recent rise in Treasury yields,** prompting them to rise further.



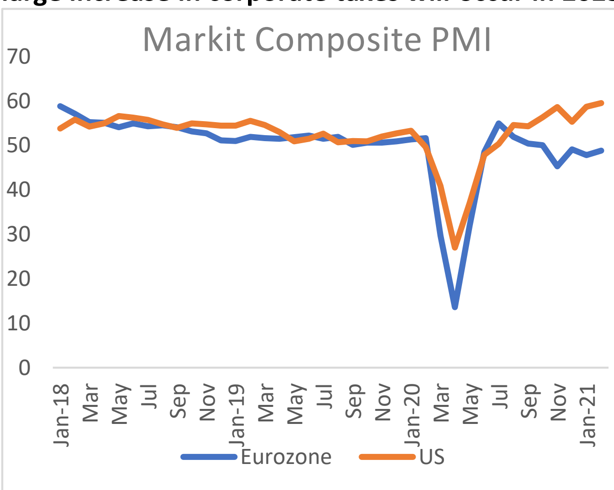
On the economic front, hiring jumped in February as U.S. economic activity picked up with Covid-19 cases gradually dropping and vaccine rollouts providing hope for more growth. **Nonfarm payrolls soared by 379,000** (vs expectations of 210,000 new jobs) **and the unemployment rate fell to 6.2%** (vs forecast of 6.3%). Nearly all the gains came in the leisure and hospitality industry, especially restaurants, reflecting reopening steps in many parts of the country.



A key takeaway from last week, **is the stream of new information released confirming the gap between the U.S. and Europe is widening.** While manufacturing PMIs picked up in both US and Europe (57.9 in Eurozone and 58.6 in U.S.), composite indices revealed serious discrepancies. **The Eurozone has been struggling since September, as its composite PMI remained in contraction territory (48.8 in February),** which is largely attributed to the services sector. (45.7 in February). In U.S., composite PMI reached 59.5 in February, while services PMI reached 59.8. This gap could well persist or even widen as the Eurozone economy is still fragile amid the ongoing lockdowns, while vaccinations are very slow, and the recovery fund money still has not been distributed.

In UK, the government published its budget to Parliament. Fiscal policies will remain to be expansive for some time. Measures to reduce the ballooning deficit were also announced for 2023. **Emergency measures to support the economy,** such as the furlough scheme, **are being extended.** According to RBC Capital Markets, the measures represent a boost of some 2.5% to the UK's GDP. **However, a large increase in corporate taxes will occur in 2023 as the rate will increase from 19% to 25% in 2023.**

For the week ahead, US will release its **inflation numbers, which could affect severely both fixed income and equities.** On Thursday, **the ECB meeting will take place**. The key question is whether ECB is worried enough to describe the increase in yields as an unwarranted move that should be resisted, or whether the situation is not hopeless enough yet to hit the panic button. In other words, will the ECB signal it is 'ready to act' or is it just 'monitoring the situation'? **Eurozone will be on spotlight as investors will evaluate data** regarding investors' sentiment (Sentix index), industrial production, and new estimate of Q4 Eurozone GDP.



Equities

U.S major indexes ended mixed for the week, underprforming other major indices, amid an increase in longer-term interest rates. **Nasdaq Composite posted its third week of decline and is now down YTD.** The rise in rates again weighed on growth stocks, while value stocks posted gains. **Energy stocks performed best**, hitting their highest levels in over a year, as oil prices continued their upward trajectory. **Technology shares were broadly weak, while consumer discretionary stocks continued to be dragged lower by Tesla.**

Exhibit 1: World Stock Market Returns			
Index	**Price**	**WtD**	**YtD**
US S&P 500	3,841.94	0.81%	2.29%
MSCI Europe ex-UK	162.01	0.47%	1.44%
UK FTSE All-Share	3,771.73	1.87%	2.67%
Japan TOPIX	1,896.18	1.70%	5.07%
MSCI Asia ex-Japan	691.72	-0.27%	4.47%
MSCI EM	1,339.31	0.00%	3.66%
Source: Barchart.com			

Some of the hottest technology stocks and funds of recent months have fallen into bear market territory. **Clean energy funds**, which were last year's best-performing funds, **are also in bear market territory**, along with some of the highest-flying stocks in the technology and biotech sectors. For instance, **Tesla extended its slump for a fourth consecutive week,** erasing $234 billion in market value. Most U.S. EV stocks fell steeply amid news of more competition from legacy carmakers. Additionally, **the market continues to punish in priority the most expensive segments:** the IPO and SPAC indices have erased their gains with a drawdown of 20% now underway.

Exhibit 2: US Sectors			
Sector	**Price**	**WtD**	**YtD**
Communication Services	73.37	2.52%	8.73%
Consumer Discretionary	156.82	-2.69%	-2.46%
Consumer Staples	64.70	2.21%	-4.08%
Energy	52.95	9.97%	39.71%
Financials	33.71	4.33%	14.35%
Healthcare	113.02	0.36%	-0.37%
Industrials	93.44	3.12%	5.52%
Materials	75.31	2.39%	4.03%
Real Estate	36.84	-1.34%	0.77%
Technology	128.95	-1.33%	-0.82%
Utilities	59.68	2.26%	-4.82%
Source: Barchart.com, Select Sector SPDR Funds			

European stocks ended higher for the week, supported by the hope that easing restrictions applied to curb the coronavirus' spread and supportive monetary and fiscal policies could set the stage for an economic recovery. **The pan-European STOXX Europe 600 Index ended 0.91% higher**, with major indexes posting solid gains. Germany's DAX Index rose 0.97%, France's CAC-40 Index climbed 1.39%, while Italy's FTSE MIB Index advanced 0.51%. The UK's FTSE 100 Index outperformed most of its European peers, gaining 2.27%, lifted by finance minister Rishi Sunak's annual budget. **UK domestic-focused stocks were boosted overall by the larger-than-expected fiscal support measures**, with homebuilders performing best.

In China, stocks ended lower for the week, amid rising U.S. yields and inflation expectations, while a parliamentary meeting set conservative growth target. For the week, the CSI300 fell 1.2%, while the SSE Composite Index lost 0.2%. **The CSI 300 Banks Index has risen 12% so far this year** and is trading near the highest since 2007 even as price-to-book ratios remain at just over a half of its 14-year average. Appetite for Chinese bank stocks is growing as investors are looking for cheaper pieces of the market.

In Japan, **major indexes ended mixed for the week.** Nikkei 225 Stock Average declined 0.35%, while the broader equity market benchmarks, the large-cap TOPIX Index and the TOPIX Small Index, finished the week with modest gains. Energy explorers lead gains among industry groups, while real estate stocks fell.

Exhibit 3: US Top 5 Risers and Fallers	
Stock	**Weekly Performance**
Diamond Energy Services Inc	23.08%
Fox Corp.	22.27%
Discovery Communications Inc.	21.16%
Devon Energy Corp.	18.90%
APA Corp.	17.84%
Stock	**Weekly Performance**
Enphase Energy Inc.	-18.47%
Tyler Technol	-13.46%
Twitter, Inc.	-13.12%
Tesla, Inc.	-11.48%
Monolithic Power Systems Inc	-11.11%
Source: http://www.sectorspdr.com/	

Fixed Income

Exhibit 1: Fixed income Government Bond Returns			
Index	**Current Price**	**WtD**	**YtD**
Global	665.51	-1.04%	-4.35%
US	2,431.72	-0.81%	-3.47%
UK	296.87	0.95%	-6.62%
Japan	140.70	0.75%	-0.37%
Germany	254.48	0.11%	-2.33%
Italy	314.00	-0.10%	-1.50%
Spain	304.07	0.04%	-2.64%
France	275.78	0.06%	-2.88%

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 after new data showed a big jump in employment in February. Additionally, Fed Chairman Powell provided no sign the central bank will seek to curb a recent rise in Treasury yields, prompting them to rise further. **The 10-year U.S. Treasury yield jumped to 2021-high of 1.62% before pulling back.**

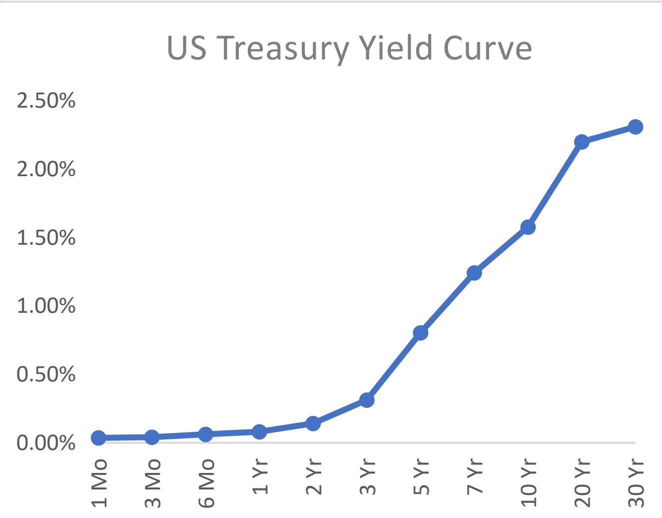
High yield bonds experienced weakness after Powell's comments. On a positive note, OPEC's decision to maintain current production levels instead of the widely expected increase supported energy companies. **Investment-grade bonds came also under pressure.** A major ETF tracking the U.S. investment-grade corporate bond market (iShares iBoxx Investment Grade Corporate Bond) fell to its lowest since May 2020. **IG bonds tend to have longer durations than those in the junk-rated market.** Therefore are more sensitive to inflation risks, as rising prices erode future value. Overall in US, **the increase in rates weighted on total return for $ credit: -0.2% for $HY and -0.3% for $IG.**

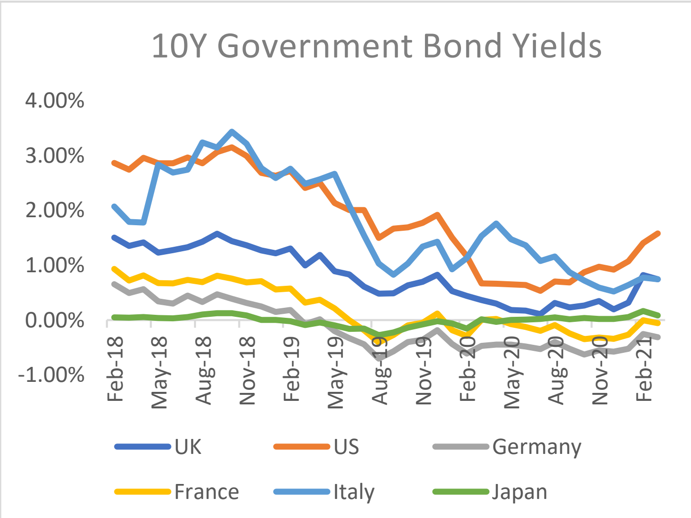
The primary market was active with nearly €10bn in new corporate issues, and €3.75bn in new financial issues. Investors exhibited strong appetite with an average oversubscription rate of 2.3x for financials, and 2.9x for corporates. In other news, **Moody's announced that it has downgraded the long-term rating of Unibial-Rodamco-Westfield to Baa2 (from Baa1)** changing the outlook to stable. The downgrade was largely expected, since the Group announced in February it would trim down its US presence and complete a remaining €3.2 billion worth of European asset disposals before the end of 2022. (instead of 2021).

Exhibit 2: Fixed Income Sector Returns			
Index	**Current Price**	**WtD**	**YtD**
US Treasuries	2,431.72	-0.81%	-3.47%
Euro Government	258.10	0.05%	-2.45%
Global Inflation Linked	387.16	-0.38%	-3.49%
Global Investment Grade	295.86	-1.42%	-3.75%
Emerging Markets Debt	891.03	-0.85%	-4.57%
US High Yield	498.03	-0.13%	0.53%
Euro High Yield	316.88	0.10%	1.01%

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 and peripheral eurozone bond yields climbed as long-term inflation expectations improved. Uncertainty about whether the European Central Bank would act to curb the increase in borrowing costs, combined with the Federal Reserve reiterating its dovish stance, gave yields another boost. **UK gilt yields broadly moved higher**, lifted by Sunak's announcement of the annual budget. **The German 10-year yield continued its fall that began 2 weeks ago and stabilised at -0.3%.** The stabilisation of the 10-year segment put an end to the steepening of the 2- to 10-year segment.





FX & Commodities

The U.S. dollar surged last week, reaching a 3-month high, buoyed by the rise in US treasury yields. **Powell dismissed a scenario that would see inflation overshoot**, hence require a tightening of the Federal Reserve's policy. The rise in US Treasury yields can keep the dollar supported for the short term.

EUR/USD sold off last week, as the jump in US yields was after all enough to take out support at 1.1950**.** This week, ECB will likely continue to stress its determination to maintain a lastingly accommodating monetary policy. Under these conditions, the pair can be expected to fluctuate between 1.19 and 1.20.

GBP/USD has been hit by a rise in US yields. The pair's fall could be considered as risk sentiment / positioning caused correction rather than a shift in the trend. **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.

FX	WEEKLY CLOSE	WtD	YtD
DOLLAR INDEX	91.99	1.22%	2.29%
EURUSD	1.1917	-1.30%	-2.42%
GBPUSD	1.3841	-0.65%	1.24%
EURGBP	0.8607	-0.62%	-3.62%
USDJPY	108.34	1.65%	4.98%
EURCHF	1.1094	1.17%	2.64%
USDCHF	0.9309	2.50%	5.17%
AUDUSD	0.7686	-0.25%	-0.23%
USDCAD	1.2655	-0.66%	-0.57%
USDTRY	7.5348	1.52%	1.31%
USDRUB	74.1100	-0.06%	0.43%
USDCNY	6.4960	0.36%	-0.44%

Safe haven currencies lead the retreat among G10 currencies, with Japanese Yen losing 1.65%, and Swiss Franc 2.50%. JPY traded at 9-month low, with USD/JPY breaking above 108. **The currencies most sensitive to crude oil prices, such as NOK and CAD, performed best,** benefiting from a rise in oil prices as OPEC+ surprised the markets by announcing but a very slight increase in production for April.

Commodities & Commodity Indices	WEEKLY CLOSE	WtD	YtD
S&P GSCI Total Return CME	2,363.47	3.02%	19.55%
Bloomberg Commodity Index	85.86	0.68%	10.01%
WTI Crude Oil Futures	66.09	7.46%	36.21%
Brent Crude Oil Futures	69.36	7.67%	33.90%
US Natural Gas ETF (UNG)	10.08	-2.33%	9.57%
Gold Spot	1,700.10	-1.93%	-10.43%
Silver Spot	25.22	-5.26%	-4.32%
LME Copper 3Mo	8,895.50	-2.00%	14.54%
ETFS Cocoa	2.835	-2.12%	2.25%
ETFS Coffee	0.823	-6.69%	-0.54%
ETFS Sugar	8.381	-1.50%	12.61%
ETFS Corn	0.934	-0.74%	11.78%
ETFS Soybeans	24.745	1.92%	8.75%
ETFS Wheat	0.730	-2.01%	1.16%

Oil prices soared for the week, following Thursday's decision by OPEC and its allies not to increase supply in April and a stronger-than-expected U.S. labor market report that raised expectations for higher future demand. Oil prices briefly rose above $70 a barrel for the first time in 14 months after Saudi Arabia, the world's top oil exporter, said its energy facilities had been attacked on Sunday, targeting "the security and stability" of global supplies. **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.

Gold and silver prices retreated last week, as pressure from US yields increased the opportunity cost of holding gold. Global gold ETFs lost 84.7 tonnes in February., while investors sold 40 tonnes just the last week. **Nickel prices dropped by over 10%,** posting its worst week in 9-1/2 years, after Tsinghshan announced that it will provide 100,000 tonnes of nickel matte to customers from the battery manufacturing sector.

Goldman Sachs Commodities Research has lifted its forecast for returns on commodities to 15.5% over the next 12 months and stated they remained the best inflation hedge. They have also forecasted returns of 6.2% and 15.1% on commodities over three- and six-months respectively on the S&P/GSCI Goldman Sachs Commodity Index (GSCI).

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