

# »Fisch View

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## Monthly Update – December 2020

As at 24 November 2020

### Summary

- The global economy is continuing to recover and the positive trends are being confirmed ever more clearly. The sharp increase in Covid-19 infections in the US has so far only had a marginal dampening effect. In addition, case numbers in Europe are decreasing significantly, which should allow for a relaxation of the, in some cases, strict measures some time in the foreseeable future.
- Three very effective vaccines are currently awaiting approval in the US, and two antibody drugs have already been authorised by the US Food and Drug Administration. Global use of these medicines will start before the end of this year.
- The political situation in the US seems to be easing. President Trump, after a protracted period of hesitation, has now formally agreed to an orderly handover of government business.
- Moreover, important key positions in the new administration have been filled. Of particular note is the nomination of former US Federal Reserve Chair Janet Yellen as Secretary of the Treasury. The differences between the US Treasury Department and the Fed regarding some stimulus programmes should thus be resolved. Small- and medium-sized enterprises in particular can breathe a sigh of relief.
- The positive environment is confirmed by a number of short-term leading indicators, such as the copper price, money supply developments and technical market indicators. Although a lot of good news has already been priced into stock markets, we expect the upward trend in equities and corporate bonds to continue, while we have a neutral stance on interest rates. Accordingly, we are selectively increasing risk in our portfolios.

### Highlights and key changes

- Economic growth in the US has so far been only marginally slowed down by the huge second wave of Covid-19. It is particularly noteworthy that unemployment is declining steadily. The housing market also remains in an extremely strong condition and household cash balances are still at a high level. This provides a solid foundation for continued high consumption of goods and a further recovery of the US economy.



- The latest economic indicators also point to a very robust development in China. Meanwhile, many of these indicators are well above pre-crisis levels. China also has a positive influence on many emerging markets. Europe brings up the rear globally, but we see potential for catch-up here. In relative terms, many European companies in previous Covid-19 problem sectors should benefit more from the vaccines and thus a possible end to the pandemic.
- Vaccine logistics are facing major challenges, especially in many emerging markets. However, two of the three vaccines awaiting approval (from Moderna and AstraZeneca) can be transported at normal refrigerator temperatures (instead of minus 70 degrees Celsius). This makes distribution much easier. Moreover, the mRNA vaccines (Pfizer/BioNTech and Moderna) can be produced quickly and in large quantities.
- The favourable global environment is confirmed by various shorter-term indicators. The highly cyclical copper price and that of other industrial metals continue to rise significantly. The oil price is also rebounding. The energy sector is an important factor for global growth.
- Despite this very favourable starting position, there are potential risks. A further fall in the US dollar could push up inflation expectations and long-term interest rates in the US, potentially posing problems for the Fed in the medium term. Loose monetary policy would have to be curbed and the Fed would have less room for manoeuvre.
- However, current trends in the US dollar, inflation and long-term interest rates are still very moderate. In the short term, a weaker dollar could even lead to a successful and desired "reflation" of the system, and thus to more economic growth. Central banks therefore tolerate these trends and will only intervene much later in the cycle, when the markets force the issue or when money multipliers rise too sharply.
- A further problem could be the election outcome in the US state of Georgia, which could potentially result in a Republican majority in the Senate. This could lead to blockades in Congress. However, the majority in the Senate would be very tight, and any progress would depend on the Biden administration's skilful negotiating policy.
- The nomination of former Fed Chairwoman Janet Yellen as Secretary of the Treasury is a signal that the new US president is capable of putting together a top-class and efficient administration. Yellen's election should also resolve the dangerous differences between the Treasury and the Fed. Here, a stimulus programme of up to USD 750 billion for small- and medium-sized enterprises starting in January was at stake. However, only about USD 30 billion has been drawn since the programme was launched. The actual impact on the economy has therefore been limited and a discontinuation would be more damaging to investor psychology than to the real economy.
- The chances for a further government aid package in the US would improve with the election of Janet Yellen. In contrast, the huge European stimulus package worth EUR 750 billion is currently blocked by Poland and Hungary. However, we assume that the European Central Bank (ECB) will use various means (including the expansion of the PEPP securities purchase programme) to bridge the blockade until a political solution is found. In early December the ECB will also go over the books and present new monetary policy measures.
- Market technical indicators signal a positive short-term picture for stock markets. Market breadth is high and a healthy sector rotation is taking place, favouring previous Covid-19 losers, and thus ensuring more realistic valuations. As a result, distortions should progressively dissipate as the previous losers become more expensive, while the winners



come under pressure. On the other hand, the euphoric market sentiment may cause short-term corrections, given that a lot of good news is priced in.

- The trend strength on many markets is currently rather low because positive and negative factors (monetary policy, inflation risks, expectations) partially balance each other out. This could continue for some time.
- Valuations on equity and credit markets are, in part, high in absolute terms. However, the low level of interest rates and high dividend yields compared with money market rates are putting the picture into perspective.
- The overall favourable fundamental, political and monetary environment remains in place, while risks in terms of interest rate and inflation developments are limited for the time being. This dynamic allows us to position ourselves with slightly increased risk exposure in our portfolios.

## Topics “on the radar”

The US dollar could become a drag on global financial markets in the medium term. If the US currency were to weaken too much, this would result in rising inflation rates and higher long-term interest rates, and would hamper the implementation of a continued loose monetary policy. However, this trend is not yet far advanced, as the following graph of the trade-weighted dollar index (DXY) shows. The US currency is still in a process of consolidation and would only resume a downward trend at DXY rates below 90. However, major problems for financial markets are not expected to arise until this reading falls below 85.

**Chart: US dollar tends to weaken and could trigger a chain reaction**





## Summary of *FischView* model outputs

	US	Europe	Japan	Asia ex-Japan	LatAm	CEEMEA	Key:
Equities	+ ↑	+ ↑	+ ↑	+ ↑	+ ↑	+ ↑	++ Strong positive
Government Bonds	o	o	o				+ Positive
Credit IG	+ ↑	+ ↑		+ ↑	+ ↑	+ ↑	o Neutral
Credit HY	+ ↑	+ ↑		+ ↑	+ ↑	+ ↑	- Negative
Convertibles	+ ↑	+ ↑	+ ↑	+ ↑			-- Strong negative
Commodities	Energy:	o	Prec. Met:	+	Indu. Met:	++	

**Notes regarding the table:** Changes from prior month are indicated with ↓ or ↑. i.e. "O ↓" means that the output has weakened from a prior value of + or ++.

The methodology for calculating model outputs, and how the various pieces fit together to form the big picture, is explained [here](#).

Within government bonds, we consider the most important bonds for each region, e.g. German Bunds in Europe, and a representative group of countries for Latin America, Asia ex-Japan and CEEMEA (Central and Eastern Europe, Middle East and Africa).



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