

Better than expected leading economic indicators

August 2020

- PMI data show economic expansion
- Strong performance of all risk assets
- Equities are less underweighted, liquidity less overweighted

Fiscal and monetary measures show positive effects

We were surprised by the real economic success of the unlimited fiscal and monetary measures, which led to a somewhat more positive assessment of the outlook for equity markets. Global PMI data in the industrial and services sectors are back in an expanding range. Of course, it will take several years to close the output gap created by the pandemic, but the negative economic momentum has been stalled by the extraordinary interventions. The central banks will continue to do everything in their power to keep interest rates at low and unattractive levels for fixed income investors. At the same time, further fiscal measures are in the pipeline and it can be assumed that the economic development will continue to stabilize.

As a result of the current situation, the leading economic indicators now make a neutral rather than a negative contribution to our navigator's assessment and therefore our outlook for the stock market has improved again. On the other hand, all other indicators remain unchanged.

Sound Capital Investment Navigator

Valuation Bonds: -													
		low	Yields			high			low	Spreads		high	
		--	-	0	+	++			--	-	0	+	++
New		X					New			X			
Old		X					Old			X			

Valuation Equities: -													
		expensive	Shiller PE			cheap			low	Risk Premium		high	
		--	-	0	+	++			--	-	0	+	++
New		X					New			X			
Old		X					Old			X			

Leading Indicators													
		Contraction	Leading Indicators			Expansion			Euphoria	Risk-Index		Panic	
		--	-	0	+	++			--	-	0	+	++
New				X			New				X		
Old			X				Old				X		

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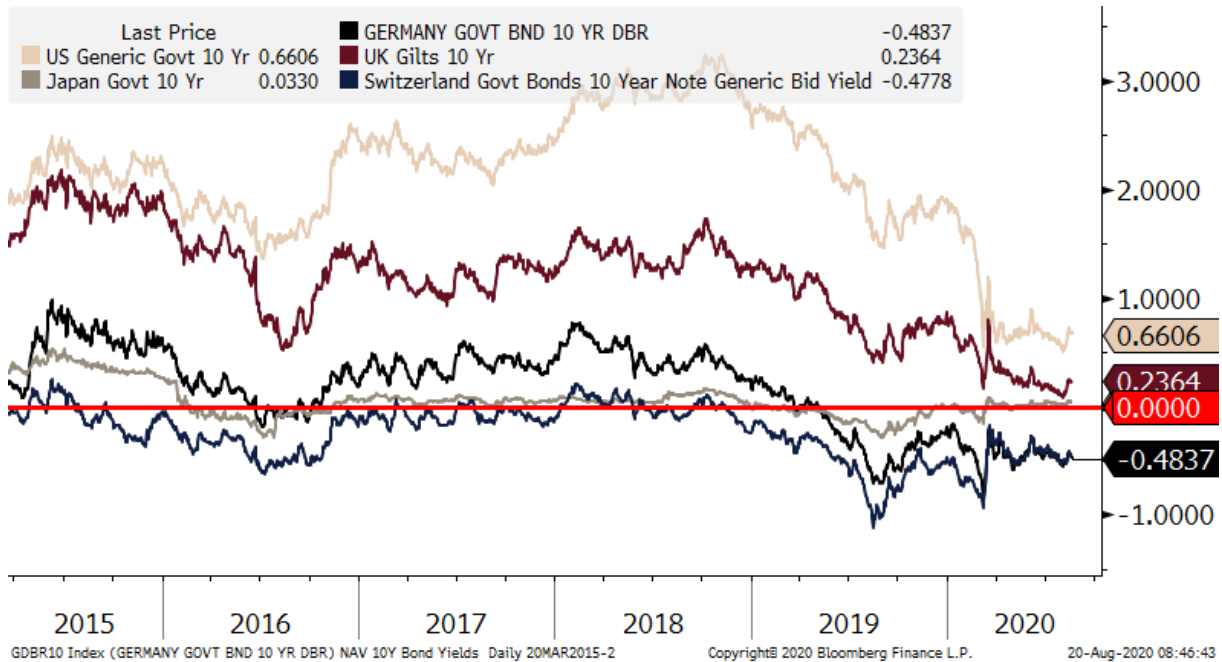
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We reduced our underweight in equities by reducing the overweight in liquidity. Fixed income investments remain underweight, while alternative investments remain neutrally weighted.

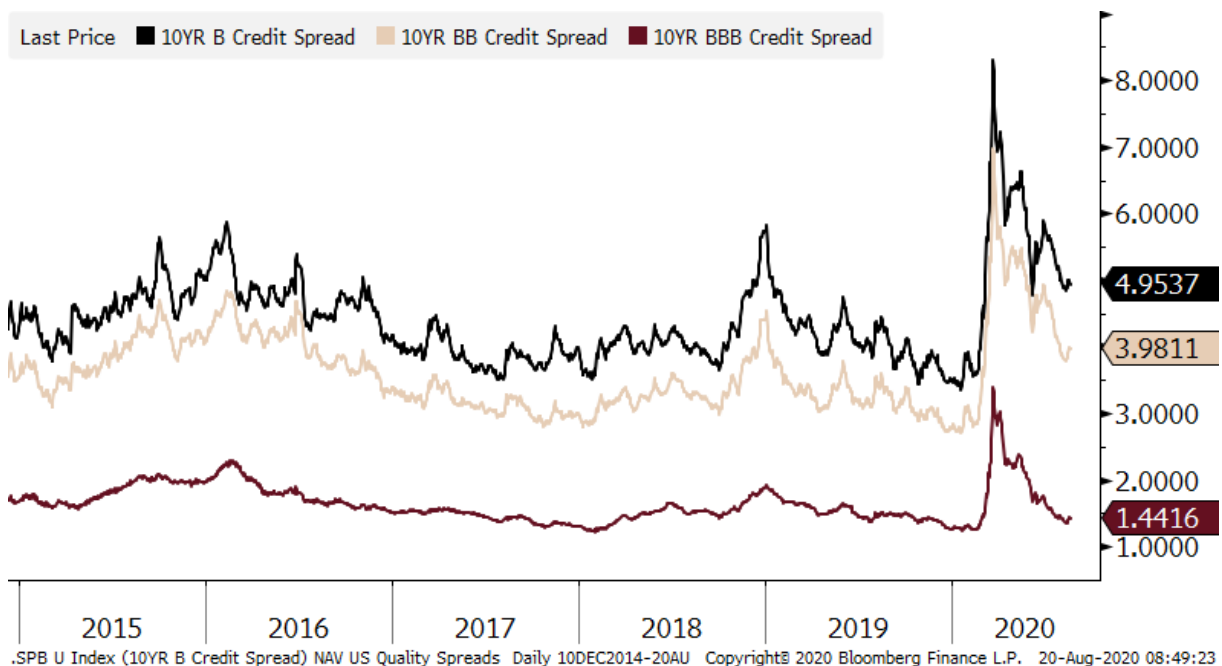
Interest rate level (indicator --) / **Spreads** (indicator 0)

Assessment unchanged / Assessment unchanged

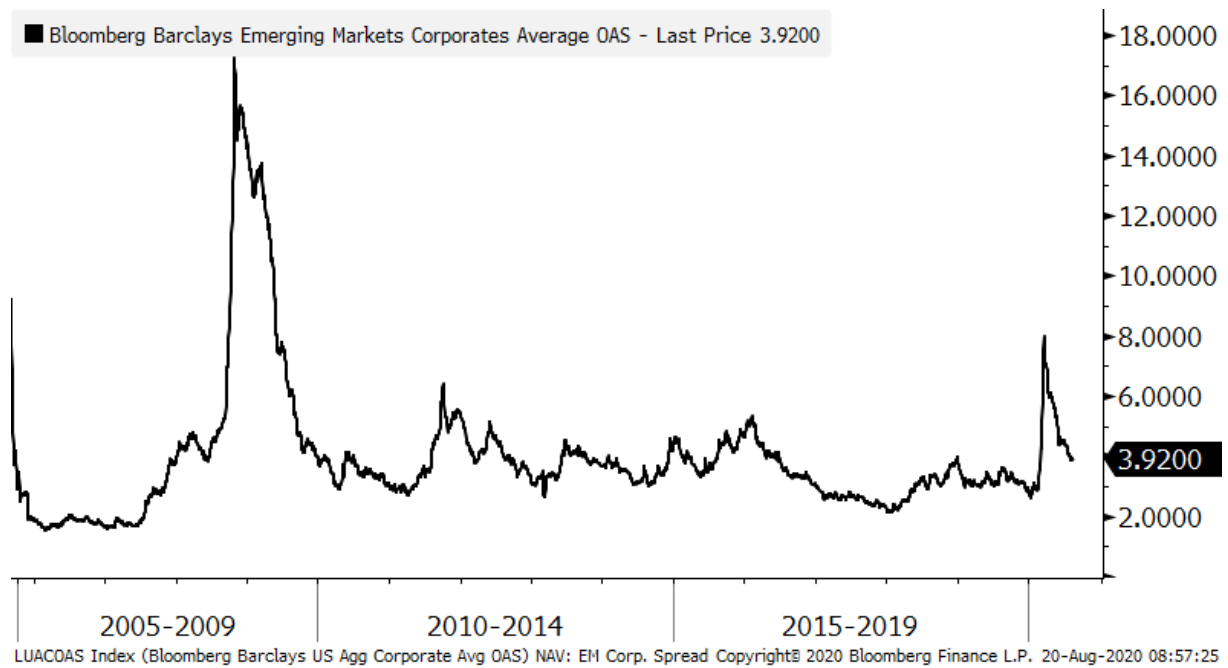
The interest rates on government bonds are still at an extremely unattractive level.



The credit spreads for investment grade corporate bonds have fallen sharply, particularly due to central bank intervention. They no longer offer an attractive reward for the underlying risk. In some way, the Federal Reserve has started to nationalize the fixed income sector by purchasing large sums in the open market. We shy away from recommending a switch to lower quality debtors due to increased default risks.



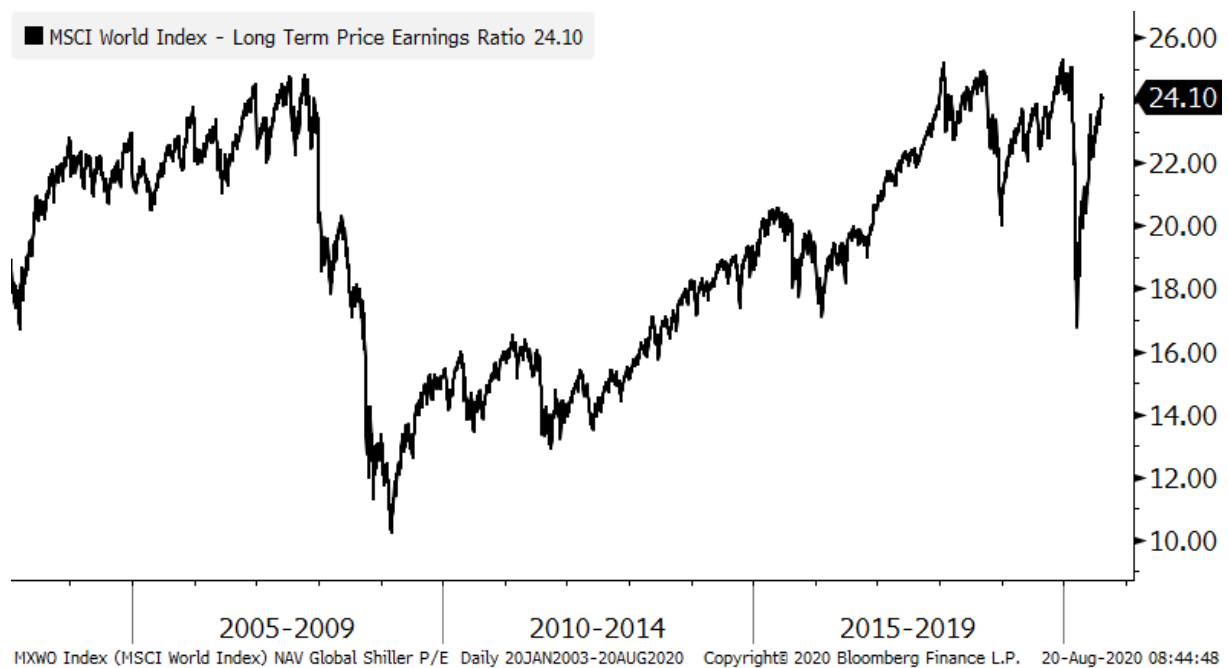
Nevertheless, credit spreads on emerging market corporate bonds are relatively attractive and the market represents a somewhat less distorted picture with regards to credit risk.

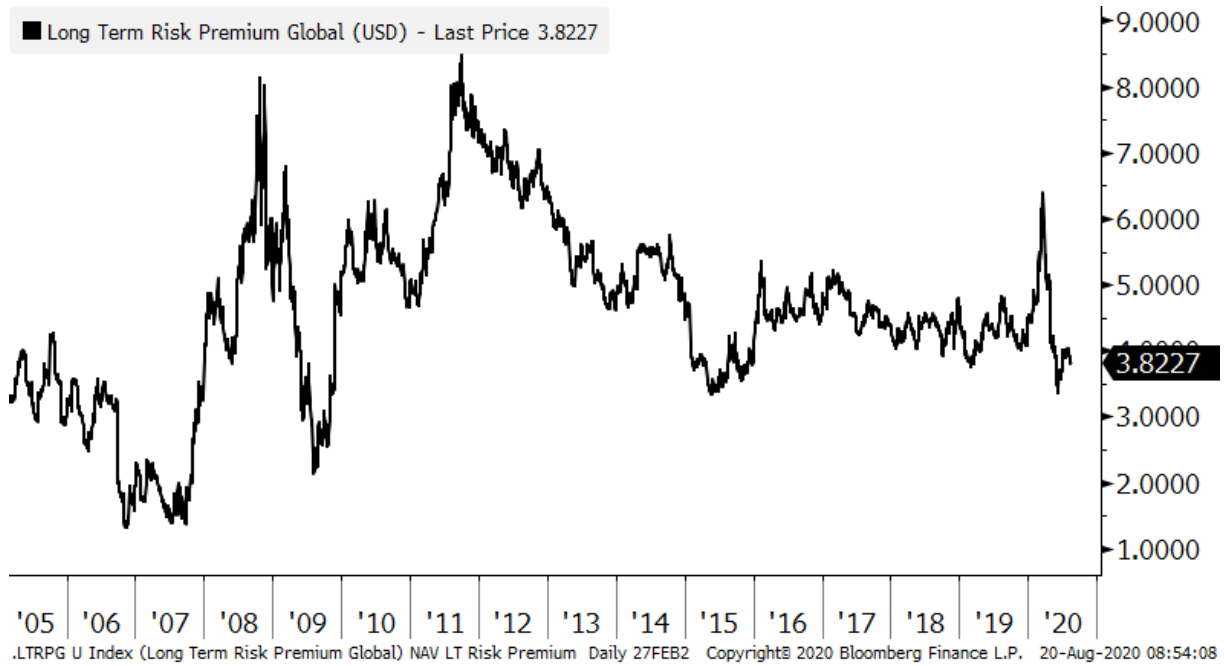


Shiller P/E ratio (indicator --) / Risk premium (indicator -)

Assessment unchanged / Assessment unchanged

The absolute and relative valuation of equities is unattractive, although risk premiums have increased slightly due to lower real yields.

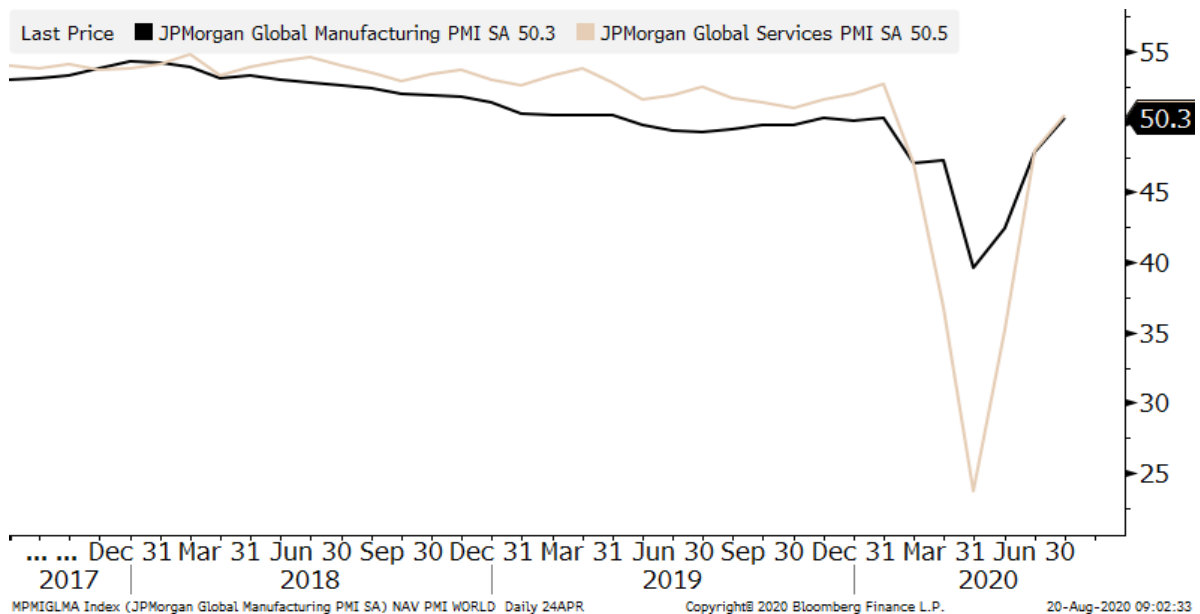




Macro leading indicators (indicator 0)

Assessment increased to neutral from negative

The global PMI manufacturing data for July rose to 50.3 from 47.9 the previous month. The global PMI data for the services sector rose to 50.5 from 48 in the same period. As the pace of economic recovery is slowing down, we are taking a neutral view, despite index levels above 50.



Risk index (indicator +)

Assessment unchanged

The positioning of investors as well as the investment flows still show a rather defensive attitude of investors. For this reason, the contrary risk index remains in positive territory.

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