# «Bull or Bear»

January 2021

- Strongly diverging opinions regarding the outlook of financial markets
- Positive performance of all risk assets
- Increasing risk appetite of investors
- Volatility remains relatively high

## Rising inflation expectations in the USA

At the moment, the outlook for financial markets is discussed very controversial among respected strategists.

Some see a strong economic recovery following successful vaccination measures combined with stable and low interest rates. It is taken as a given that central banks will keep not only the short end but the entire yield curve low by buying bonds to stimulate the economy. This assumption is underpinned by the central banks' statement that an overshooting of inflation will be accepted. Under these ideal conditions, one can rightly assume that financial markets will continue to thrive.

Other strategists see inflation expectations and long-term interest rates, which have already risen in the USA, as a major challenge for the FED. If the economic trend does indeed stabilize, we can expect producer prices to rise even more sharply. Prices for raw materials, freight rates and, in particular, wages for qualified workers have already increased. Under these circumstances, the Fed could be forced to adopt a more restrictive monetary policy. In this context, it is worth recalling the end of 2018, when a reduction in the central bank's purchase programs led to severe setbacks across equity markets. Moreover, the sharp rise in government debt in the wake of the Corona crisis is leading to a huge amount of government bond issuance in the current year, a nice part of which will have to be absorbed by the ongoing central bank purchase programs. When looking at equity markets, the volume of newly issued shares has been outstripped by share buybacks for some months now. It goes without saying that a negative expectation can be derived from these thoroughly valid arguments.

In this extremely contradictory situation, we rely on the tried-and-tested indicators of our Navigator, which together lead to our negative assessment and underweighting of equities and fixed income, a positive assessment and overweighting of liquidity, and a neutral assessment and weighting of alternative investments.

**Assessment Bonds: -**

| | low | | **Yields** | | high |
|---|---|---|---|---|---|
| | - - | - | 0 | + | + + |
| **New** | X | | | | |
| Old | X | | | | |

| | low | | **Spreads** | | high |
|---|---|---|---|---|---|
| | - - | - | 0 | + | + + |
| **New** | | X | | | |
| Old | | X | | | |

**Assessment Equities: -**

| | expensive | | **Shiller PE** | | cheap |
|---|---|---|---|---|---|
| | - - | - | 0 | + | + + |
| **New** | X | | | | |
| Old | X | | | | |

| | low | | **Risk Premium** | | high |
|---|---|---|---|---|---|
| | - - | - | 0 | + | + + |
| **New** | | X | | | |
| Old | | X | | | |

| | Contraction | | **Leading Indicators** | | Expansion |
|---|---|---|---|---|---|
| | - - | - | 0 | + | + + |
| **New** | | | | X | |
| Old | | | | X | |

| | Euphoria | | **Risk-Index** | | Panic |
|---|---|---|---|---|---|
| | - - | - | 0 | + | + + |
| **New** | | X | | | |
| Old | | X | | | |

Sound Capital AG
Claridenstrasse 19
P.O. Box
CH-8022 Zurich

Tel +41 44 206 25 25
Fax +41 44 206 25 00

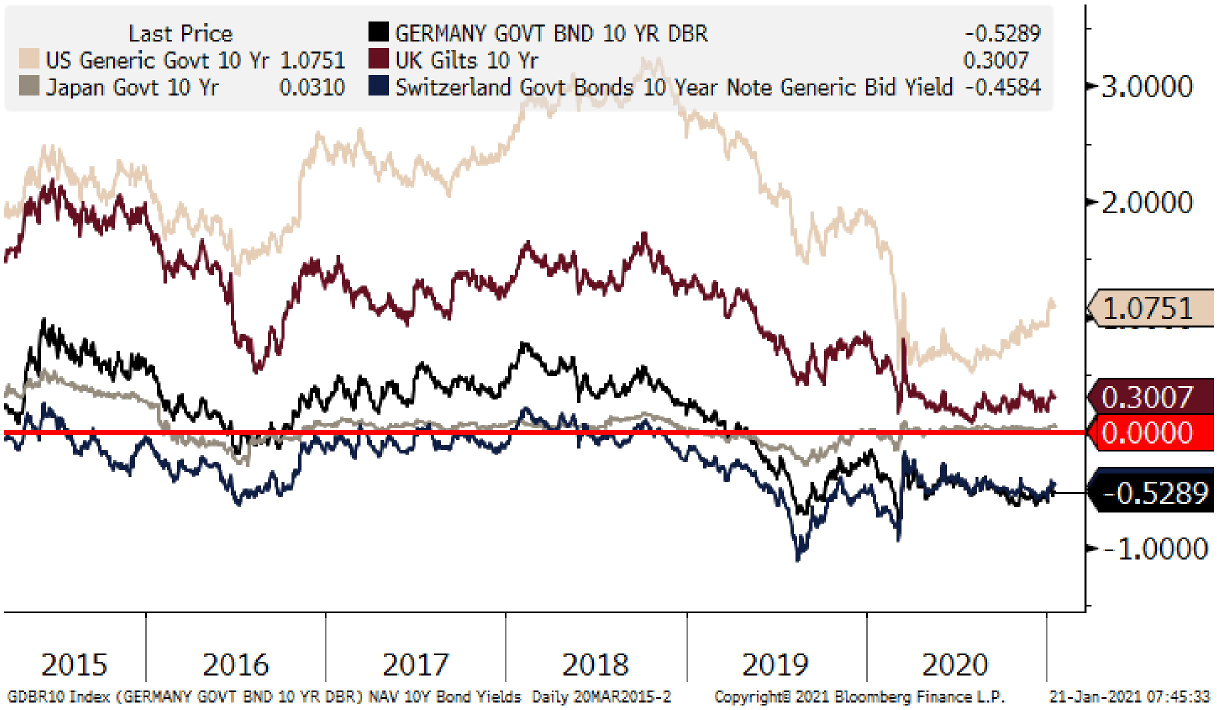
welcome@sound-cap.com
www.sound-cap.com

We have made no changes to the asset classes, while we have downgraded US equities to underweight from neutral.

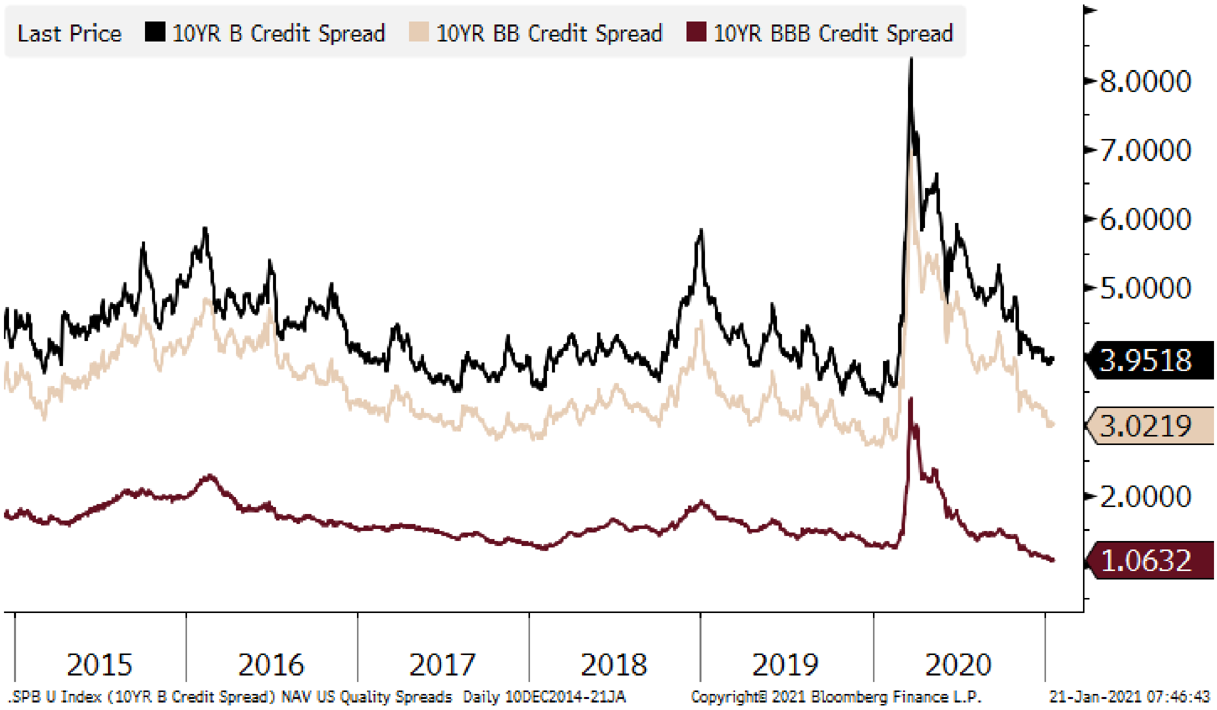
## Interest rate level (indicator --) / Spreads (indicator -)

Assessment unchanged / Assessment unchanged

Sovereign interest rates are still at an extremely unattractive level.



Continued inflows into high-yield U.S. corporate bonds have pushed their credit spreads lower. As a result, the asset class is even more unattractive. Credit spreads on investment grade bonds have fallen below January 2020 levels and are trading at their lowest levels since the financial crisis.

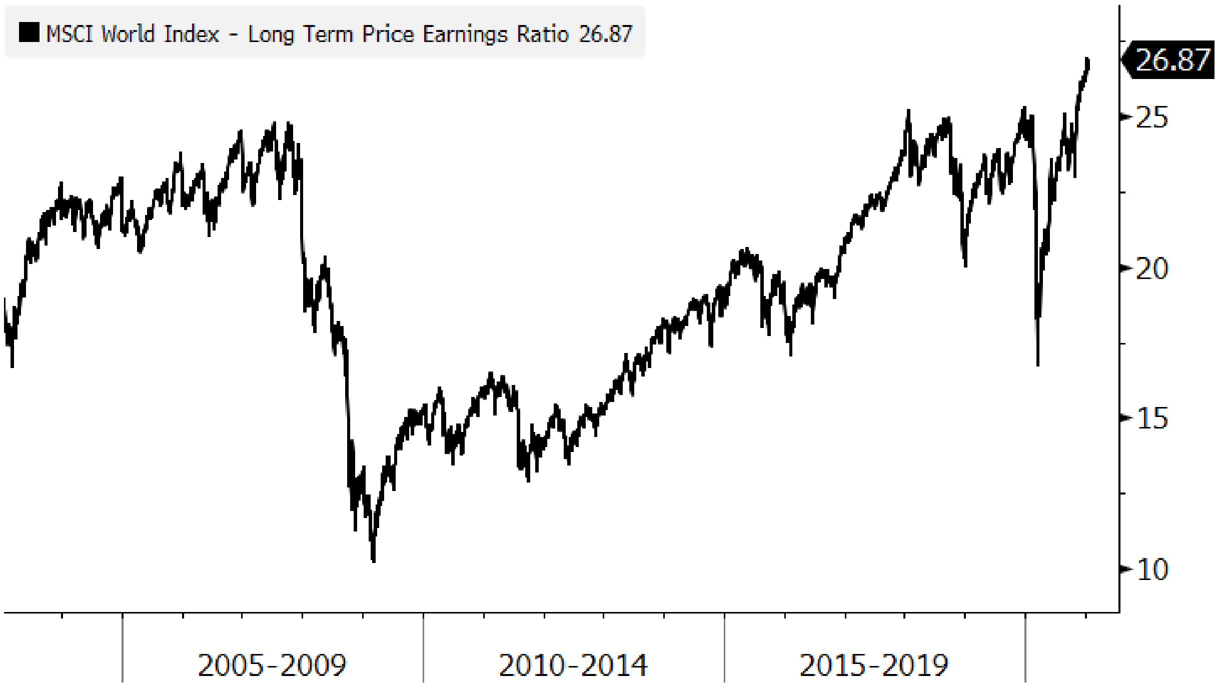



Emerging market bond spreads are still attractive in relative terms and are the main reason why we continue to favor them in the fixed income space.

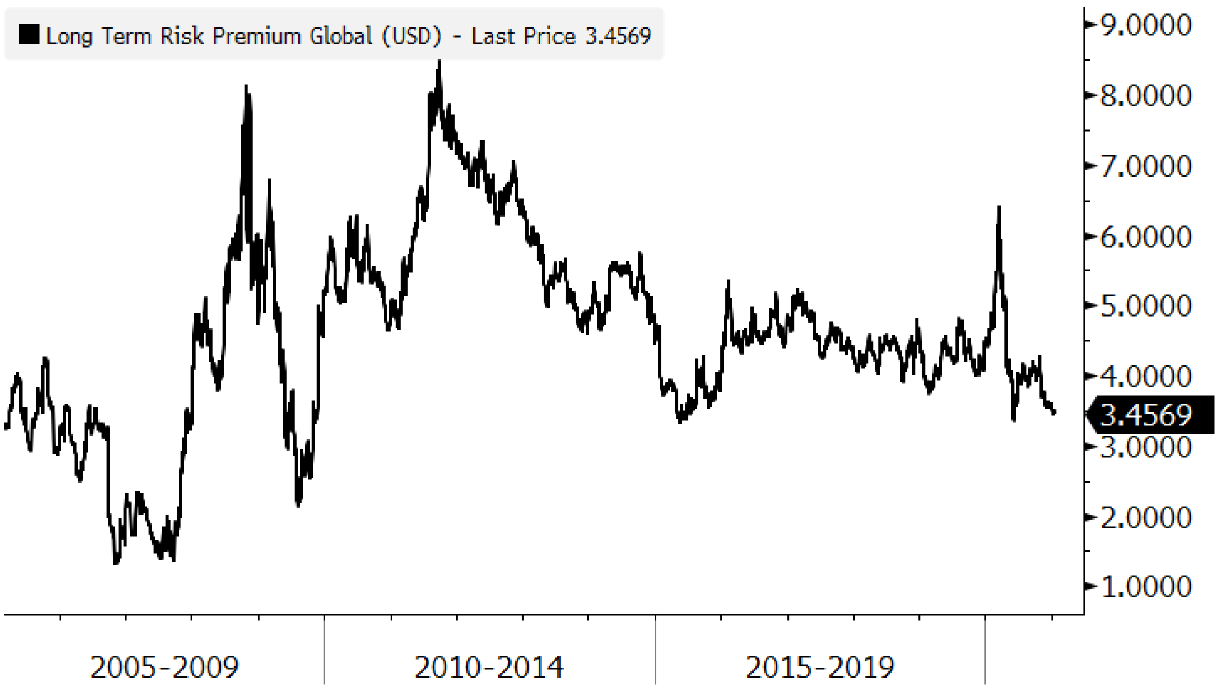
## Shiller P/E ratio (indicator --) / Risk premium (indicator -)

Assessment unchanged / Assessment unchanged

The absolute valuation of the stock markets has become even more expensive, while risk premiums (both due to the rise in the stock markets) have also fallen further. Hence, equities continue to be unattractive in relative terms as well.




MXWO Index (MSCI World Index) NAV Global Shiller P/E Daily 20JAN2003-21JAN2021 Copyright© 2021 Bloomberg Finance L.P. 21-Jan-2021 07:47:50

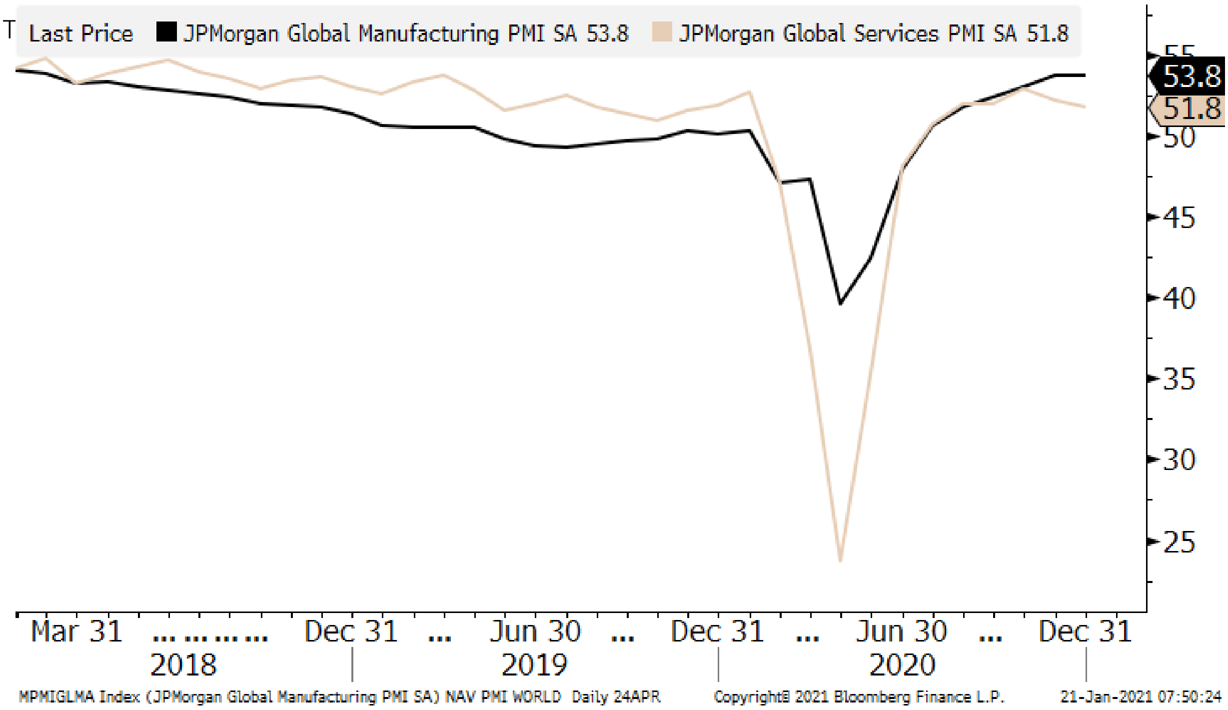


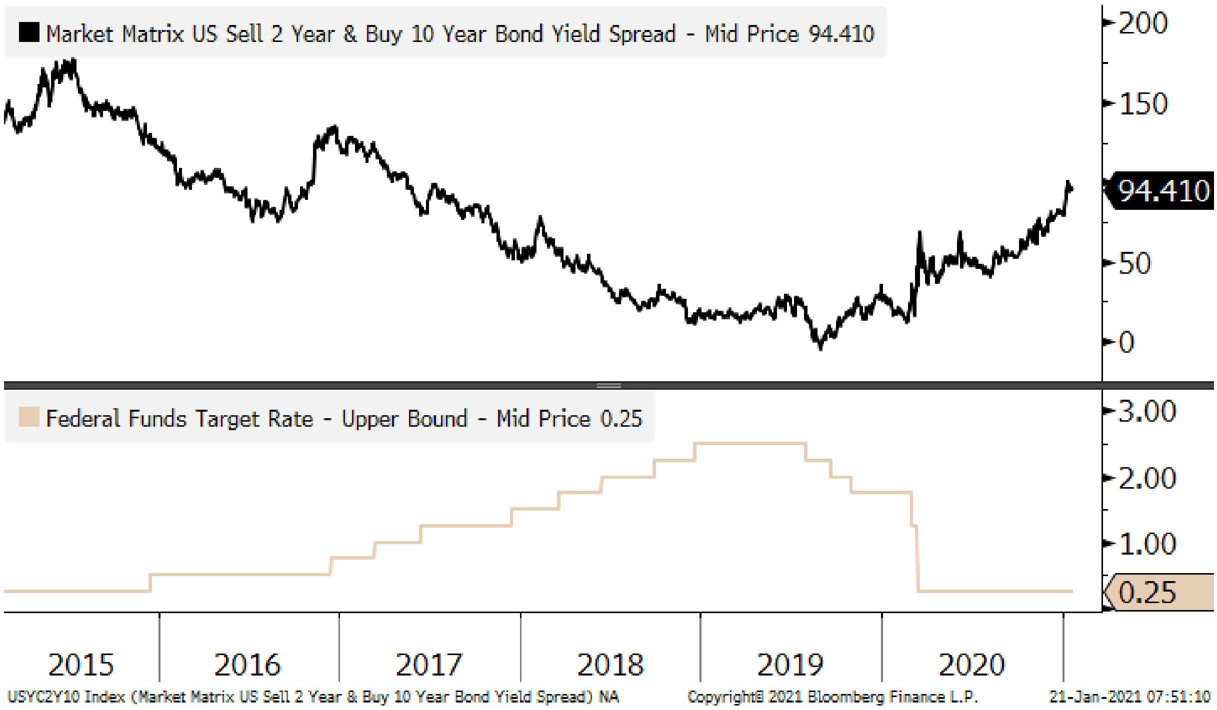

.LTRPGL U Index (Long Term Risk Premium Global) NAV LT Risk Premium Daily 27FEB Copyright© 2021 Bloomberg Finance L.P. 21-Jan-2021 07:48:28

## Macro leading indicators (indicator +)

Assessment unchanged

Global manufacturing PMI prints for December are unchanged from the previous month at 53.8, while global services PMI data fell from 52.2 to 51.8 over the same period. The drastic measures to contain the pandemic are likely to lead to a further decline in economic activity in the services sector in the coming months. However, due to the steep yield curve, the strong monetary expansion and the high savings rate, this indicator continues to make a positive contribution to our navigator's overall assessment.



## Risk index (indicator -)
Assessment unchanged

Investors are acting increasingly careless. The low liquidity ratios and the price performance of IPOs speak a clear language in this respect. Other indicators such as a record-high put/call ratio and extreme "USD/EUR short positions" also suggest that investors are positioning themselves too positively. According to our assessment, the sentiment is about to move into the euphoric zone.

Appendix:

The Navigator is the central tool for our investment allocation. We use it to systematically and consistently assess the aspects that are relevant to the development of the financial markets. As a result, our clients can rely on a rational and anti-cyclical implementation of our investment decisions.

- Focusing on the essentials: Interest rate level, risk premium, valuation, economic development, investor sentiment and positioning. These are the decisive factors for success on the financial markets, especially in turbulent times when the temptation to react irrationally to the headlines is particularly strong.
- Comparability over time and place: The factors mentioned above are equally relevant for all markets and at all times. This is the result of a strict «backtesting» process that continues into the future.
- Cumulating our investment experience: Our strength lies in the many years of experience of our partners and principals. It is precisely this experience that we summarize and make applicable with our Navigator.
- Transparency: Thanks to our monthly publication, our clients always know where we stand in the investment cycle and where the financial markets are headed.



Datasource: Bloomberg