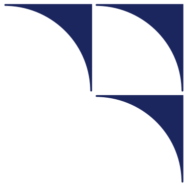

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2020

# Monthly Market Update

## Monthly focus on Financial Markets

### Agenda

- Market Analysis
- Executive Summary
- Trade Ideas
- Central Banks
- Trade War/Geopolitics
- Macro
- Commodities
- Forex

Alberto Tocchio - CIO
alberto.tocchio@colombo.swiss

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# Market Analysis

2019 was a “bull market in everything” closing on a very risk-on note. Equities and Bonds rallied together, boosting the performance of theoretical 60/40 portfolios to the best since 1997 and 5th largest since 1970.

The strong performance of last year came after an extremely difficult 2018 where all major 18 asset classes provided negative returns vs inflation.

ASSET CLASS BEATING INFLATION RATE (GREEN)

| Ranking | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | US 10yr | MSCI EM | Gold | US 10yr | MSCI China | Russell 2000 | REITS | MSCI Japan | Commodities | MSCI China | US 2yr | S&P 500 |
| 2 | US 2yr | MSCI China | REITS | Inflation Bonds | MSCI Europe | S&P 500 | S&P 500 | REITS | Russell 2000 | MSCI EM | US 10yr | REITS |
| 3 | US Agg. Bond | Global HY | Russell 2000 | Gold | Global HY | MSCI Japan | US 10yr | US 10yr | US HY | MSCI Europe | US Agg. Bond | MSCI Europe |
| 4 | Gold | US HY | Commodities | EM$Sov Credit | REITS | MSCI Europe | MSCI China | EM$Sov Credit | Global HY | MSCI Japan | US HY | Russell 2000 |
| 5 | US IG | Commodities | MSCI EM | US IG | MSCI EM | US HY | US IG | S&P 500 | S&P 500 | S&P 500 | US IG | MSCI China |
| 6 | Inflation Bonds | MSCI Europe | MSCI Japan | US Agg. Bond | EM$Sov Credit | Global HY | EM$Sov Credit | US 2yr | MSCI EM | Russell 2000 | Gold | MSCI Japan |
| 7 | EM$Sov Credit | EM$Sov Credit | US HY | REITS | Russell 2000 | MSCI China | US Agg. Bond | US Agg. Bond | EM$Sov Credit | EM Local Debt | EM Local Debt | MSCI EM |
| 8 | US HY | REITS | S&P 500 | US HY | S&P 500 | REITS | Russell 2000 | US IG | REITS | Gold | Global HY | US IG |
| 9 | Global HY | Russell 2000 | Global HY | Global HY | US HY | US 2yr | Inflation Bonds | MSCI Europe | Gold | Global HY | REITS | US HY |
| 10 | Commodities | S&P 500 | EM Local Debt | S&P 500 | EM Local Debt | US IG | US HY | Global HY | US IG | EM$Sov Credit | Inflation Bonds | Gold |
| 11 | MSCI Japan | Gold | EM$Sov Credit | US 2yr | US IG | US Agg. Bond | US 2yr | Russell 2000 | EM Local Debt | REITS | EM$Sov Credit | EM$Sov Credit |
| 12 | Russell 2000 | US IG | US 10yr | EM Local Debt | Inflation Bonds | MSCI EM | Global HY | US HY | Inflation Bonds | Inflation Bonds | S&P 500 | Global HY |
| 13 | S&P 500 | EM Local Debt | US IG | Russell 2000 | MSCI Japan | Inflation Bonds | Gold | Inflation Bonds | MSCI Japan | Commodities | Commodities | Commodities |
| 14 | REITS | Inflation Bonds | US Agg. Bond | Commodities | Gold | EM Local Debt | MSCI EM | MSCI China | US Agg. Bond | US HY | Russell 2000 | US Agg. Bond |
| 15 | MSCI Europe | MSCI Japan | MSCI China | MSCI Europe | US Agg. Bond | US 10yr | EM Local Debt | Gold | MSCI China | US IG | MSCI Japan | US 10yr |
| 16 | MSCI China | US Agg. Bond | MSCI Europe | MSCI Japan | US 10yr | EM$Sov Credit | MSCI Japan | EM Local Debt | US 2yr | US Agg. Bond | MSCI EM | EM Local Debt |
| 17 | MSCI EM | US 2yr | Inflation Bonds | MSCI EM | Commodities | Commodities | MSCI Europe | MSCI EM | US 10yr | US 10yr | MSCI Europe | Inflation Bonds |
| 18 | | US 10yr | US 2yr | MSCI China | US 2yr | Gold | Commodities | Commodities | MSCI Europe | US 2yr | MSCI China | US 2yr |

Interesting to note that for 12 months, from the 12th of December 2018, 20-year+ US Treasuries have matched the S&P500, an example of how defensive assets have done unusually well, (true through equity markets and credit), with large overall gains, something that will be very difficult to be seen in 2020.

The rally for the year had three main components. First, a move off compressed valuation engendered by a central bank pivot, Second, five months of consolidation as data worsened and trade discussions dominated the debate, and Third, a move higher as Central Bank balance sheets expanded again and optimism over trade resolution rose.
Trump’s market rally is far outpacing past US Presidents.

The VIX, (Volatility on S&P), is less than half of what it was a year ago and 30-day realized volatility is now in the 1st percentile for the past 100 years. The skew is also much steeper, (80% percentile now vs 1% at the end of 2018), despite some outstanding geopolitical uncertainties.

In Europe, for the 1st time in 10 years, Equities has managed to post annual gains across every industry groups, a complete reversal of the previous year where all 19 sectors closed negatively.

The rally has been definitely helped by Central Banks, with some statistics showing that about half of returns in equity markets were driven by the contribution of Central Bank actions, while the rest was generated by some mixed factors with the inclusion of multiple expansion driven by a repositioning of EPS estimates.

Volatility has rarely been lower thanks to the 3 largest Central Banks in the World (FED, ECB, BOJ), which are continuing to ex-

pand their balance sheets by $100 billion per month, in addition to the FED's overnight Repo operations which have ranged $75 to $490 billion at year end.
Since the start of the last decade, the FED's balance sheet has increased by 90% while the ECB's has increased by 150%.
On top of this, the PBOC recently announced a cut by 50bps to its RRR rate which effectively releases $115 billion worth of reserves into the financial system.

Outside of equities, 2019 was the best US IG returns since 2009 and the largest rally in Brent since 2007.

As we need to look at 2020, we are tempted to think that we are not only at the beginning of a new year but also at the end of an extraordinary decade where financial markets successfully emerged from the Global Financial Crisis.

After a strong end of the year, we have started 2020 with increasing geopolitical concerns and some signs of Macro weakness which had so far boosted Oil and Gold prices.

Over this newsletter, we will briefly have a look at the major areas where we could spot the first important signs in order to better understand the market for the new year.


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# Executive Summary

As we mentioned over the last newsletter, we think that the year 2020 will be a “transition year” to the new world, where investors will need to start to think outside of traditional schemes.

After an easy year, asset allocators are going to have few difficulties as low growth, low inflation expectations and low yields, are driving expected returns for a traditional 60/40 equity/bond portfolio close to a century low. Beyond the base-line difficulties of a lower return world, asset allocators will likely be further challenged by lower yields and rising relative volatility dampening the diversifying nature of bonds.  Some firms are predicting the S&P500 to return 5% per year for the next decade, while returns for Bonds close to 3% per year. Investors will likely face a lower and flatter frontier compared to prior decades with a considerable higher volatility.

2020 is almost certainly going to be more binary than 2019, as it will be a case of either equities (as we think) or bonds to do well this time, not both.

Aside from the help of Central Banks, 2019 saw the US 2nd largest multiple expansion since 1998, (with only 2009 witnessing a larger effect) and it is going to be difficult to be repeated this year at least in US.

If we want to witness a sustainable further rally on risky assets, we will now need growth to drive returns and while we were one of the first to properly call for a stabilization of Macro data, the market has now possibly gone too ahead of itself, as most forward-looking indicators are still weak while backward-looking indicators such as employment and consumption are still strong.

We should therefore realistically not expect a significant economic growth and Governments are unlikely to be able to use fiscal capacity and stimulate domestic spending. Lower activity growth is not going to drive wage growth and consequently suppress core inflation.

We are also finding increasingly difficult to reconciliate the booming prices with the US consumer status. A recent statistic showed that half of the US population spends more than they, earn leading to increased delinquencies and defaults on their record debt levels.

On the positive side, the situation seems to be quite favorable for Equities, at least in H1, while on Bonds we are keen to strategically invest on names linked to inflation and low duration. As you know, we have already started to reduce bond exposure in a multi asset portfolio as the risk-reward trade-off is no longer as favorable as it was, especially on corporate credit exposure.
The policy stimulus into the bond market seem to have reached the top. One of the signatures of this potential “Bond bubble” is the price insensitive buyers and at the top of the list, of course, we find the different Central Banks. This is the area where we would focus our fears as it could potentially generate a serious risk off.

On Equities, a positive de-escalation of the two extreme risks for global markets we had in 2019, respectively the Trade War and no-deal Brexit, and their positive externalities on the real economy, will probably be the most important market drivers in the early part of this year. Relief on those two fronts could lead to a further reallocation from bonds to equities, and reinvestment in Asia and China.


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It is likely that TINA factor (There Is No Alternative) is going to push for some equity inflows in H1. Earnings are possibly not going to be as strong as the consensus is now expecting, but there will be a bottoming out phase which is enough to avoid major disappointments. PMIs are expected to rebound and the positive impact from recent Fed cuts and global Central Banks is likely to filter into the economy in H1. Let's not forget that 2020 is the US election year and markets typically advanced strongly in the run-up to the presidential elections.

At the same time, short-term valuations are not particularly attractive as the Global forward P/E of 16x (18x excluding Financials and Energy) is close to a 15-year high implying a small margin of safety.
Knowing that volatility should increase, we are willing to accumulate Equity exposure on the downside as it is very unlikely to witness a US recession in H1.

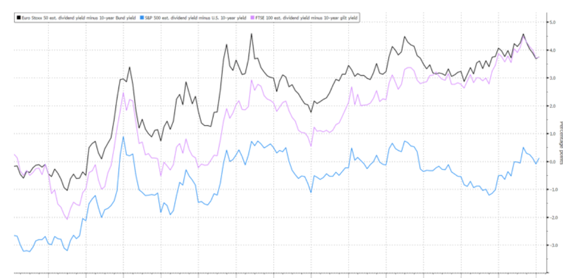
Let's now analyze the **current positive vs negative factors for the market** (please note that these factors are not all comparable in terms of timing, some factors are short-term while others mid to long-term oriented):

**POSITIVE FACTORS (10):**

- **Attractiveness of Equities (TINA)**: as flagged several times, there is still a massive amount of liquidity on the market. Negative-yielding debt makes up 25% of global debt, with the Euro area driving the most recent rise in negative-yielding assets.
  Even if you consider a decent cut, especially for commodity-related stocks, dividends would still be more attractive than Bond yields.

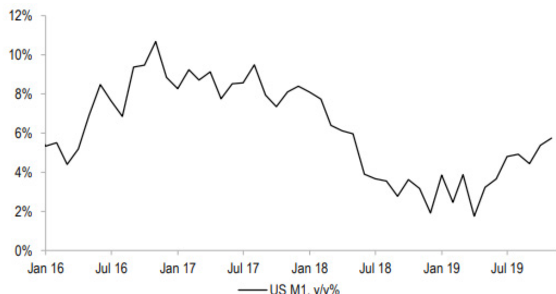
  The earning yield on SXXP (Eurostoxx 600) is above 7% and dividend yield alone is 3.5%, the S&P 500 dividend and buyback yield is at 5.3%, vs the 10-year US Treasury's yield of 1.8%.
  In Europe, almost 80% of European companies have a dividend yield higher than corporate bond yields.

EUROSTOXX DIVIDEND YIELD MINUS 10Y BUND, S&P DIVIDEND YIELD MINUS US 10Y, FTSE 100 DIVIDEND YIELD MINUS 10Y GILT

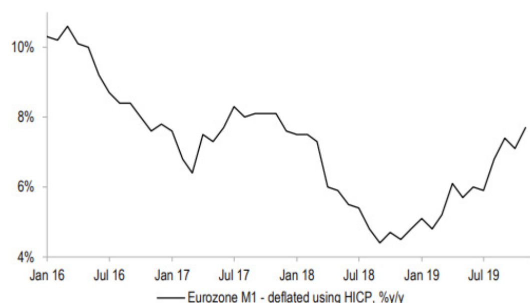


- **Macro numbers getting better from very deep levels**: we started paying attention to this point already in the middle of the last year, explaining how 2019 would have been different from 2018 given favorable base effects, reduction in inventory overhang and the bottoming out in M1 in all key regions. Global manufacturing PMI has been stable for three months in a row now, with new orders to inventories ratio moving above 1. M1 is up strongly and it leads PMIs. Jobless claims continue to be very well behaved. Importantly, M1 tends to lead Eurozone PMIs by roughly 9 months.

### US M1 MONEY SUPPLY YOY

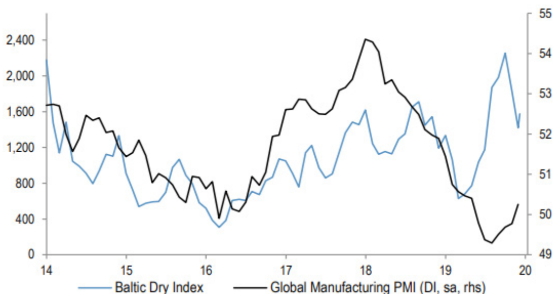



### EUROPEAN M1 MONEY SUPPLY DEFLATED HICP YOY



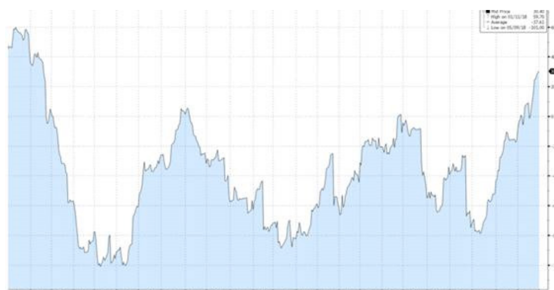

Global manufacturing PMI is trying to close the gap with the Baltic Dry Index.

### BALTIC DRY INDEX (LIGHT) VS GLOBAL MANUFACTURING PMI (BLACK)



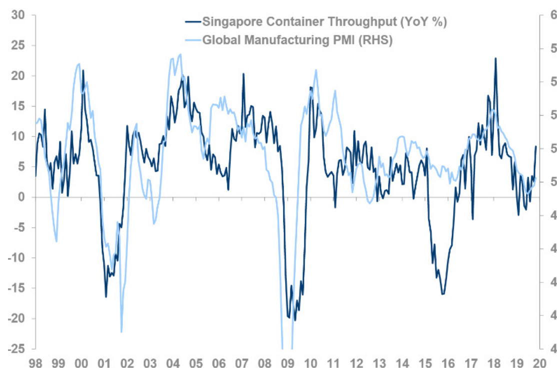

The Citi European economic surprise index has reached the highest level since the beginning of 2018 after an impressive rally since the end of September.

### CITI EUROPEAN ECONOMIC SURPRISE INDEX



We are also looking at some forward-looking data like the Singapore container throughout which has already started to improve after the announcement of Phase1 deal. As you can spot from the chart, the correlation with PMI is high.

### SINGAPORE CONTAINER THROUGHOUT (DARK) VS GLOBAL MANUFACTURING PMI (LIGHT)




Needless to mention that if the activity momentum stabilizes, the recent slowing in the EPS growth rate will stabilize too. Profits and margins remain operationally leveraged to economic growth.

At the same time, we shouldn't be completely carried away, as some indicators like the US Financial Conditions Index is pricing a rebound to 60 in the ISM Index.

While improving Macro data are definitely a positive for the markets, the 10/15% rally on equities we had since August and the strong rotation of sector leadership towards Cyclicals (away from Defensives) is implying that market is already discounting a decent rebound in growth momentum.

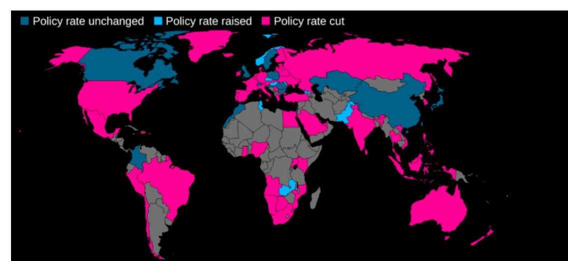
**US FINANCIAL CONDITIONS (LIGHT) VS ISM MANUFACTURING PMI**

- **Central Banks stabilizing global growth** and sustaining equity markets. Global Central Banks are having the most synchronized global easing cycle in a decade with the majority of Central Banks participating. The only difference vs the past is that this time the stock market is close to an all-time high.

**GLOBAL LIQUIDITY (WHITE) VS MSCI WORLD (YELLOW)**

As discussed above, the actual combined effect of FED, ECB, PBOC and BOJ since October is very powerful and is helping the markets to continue trending higher with a high correlation.

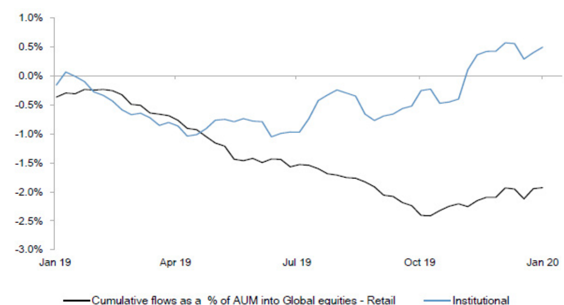
**CENTRAL BANKS AROUND THE WORLD LOWERED INTEREST RATES THIS YEAR (PURPLE)**




- **Flows.** Despite equities being the best asset class last year, money has flowed out of equity funds, and into bonds and cash.

  However, splitting overall flows into Retail and Institutional, we find that it is the retail investor who has significantly reduced investments in equities. This appears to have started changing most recently.

**CUMULATIVE FUND FLOWS INTO GLOBAL EQUITY MARKETS (BLACK) VS INSTITUTIONAL (BLUE)**



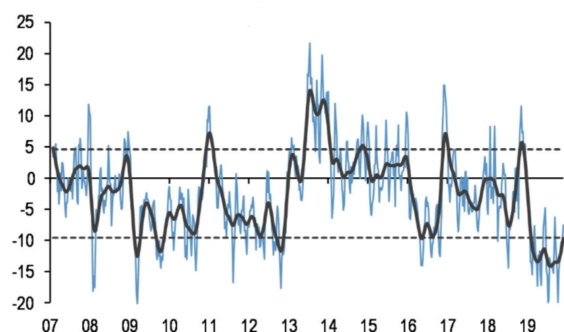

In absence of recession or policy mistakes, in 2020, it is highly likely to see a

rotation by retail investors away from Bond funds into Equity funds, after they have been selling the latest at the strongest pace since 2008.

The retailer's flows will be needed to be analyzed closely as they will be potentially the largest buying flows into the market. If they will stay, for any reason, on the sideline, the estimated global Demand/Supply for Equities could be overall negative.

It is always striking to see the difference over the last few years of the flows into Equity and Bonds. The chart flow includes US domiciled Mutual Fund and globally domiciled ETF flows.

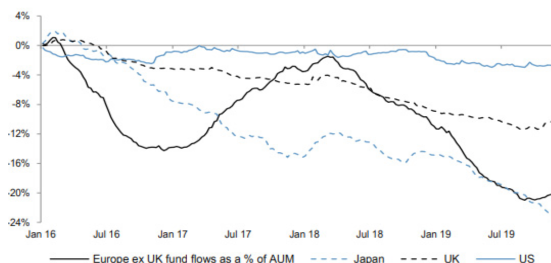
DIFFERENCE BETWEEN FLOWS INTO EQUITY AND BONDS




If we look at cumulative fund flows into regional funds it is pretty obvious that Europe has been left behind as we have highlighted many times last year.

An orderly Brexit resolution, better Macro data, decent Q4 numbers could help global equity investors to re-allocate the European region this year.

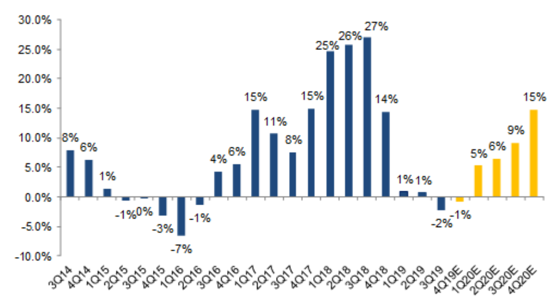
EUROPE EX UK FUND FLOWS (DARK) VS JAPAN (DOTTED LIGHT) VS UK (DOTTED BLACK) VS US (LIGHT)




- **Q4 reporting season not as negative as expected.** US Q4 earnings have started this week, while in Europe will start next week and will be heating up around the 28th.

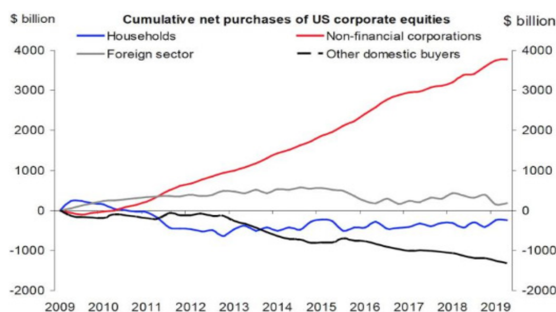
  Lackluster EPS growth has been a consistent theme through last year and over Q3 we had the worst earning growth on the S&P (-2%) since Q116. FY19 EPS growth has been the worst since 2015. The market already knows that will face another difficult quarter now especially because multiples remain elevated. The revision is still expected negative but might be bottoming out and this would be a very positive news (partly already discounted). We should therefore see if there is any perception of stability and acceleration growth as the upcoming numbers will have an important weight on sentiment.

S&P 500 QUARTERLY EPS Y/Y GROWTH



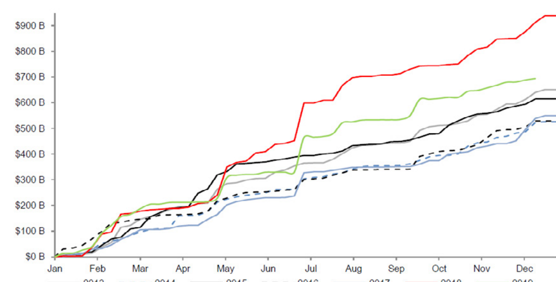
- **Buybacks should continue to support markets in 2020**: Buybacks have been a key theme through this cycle with S&P500 companies returning $5 trillion to shareholders since 2009 and contributing 2% to annual EPS growth.

CUMULATIVE NET PURCHASES OF US CORPORATE EQUITIES – NON FINANCIAL CORP (RED)




One of the biggest drivers of the rally on equities since 2009 is definitely the buyback effect as shown on chart.
The pace of repurchasing has reached the slowest pace in 18 months and the daily average is now down 35% week on week vs the YTD average but it is still a very important factor for markets.

S&P ANNOUNCED BUYBACKS 2018 (RED) VS 2019 (GREEN)




Furthermore, the lack of market liquidity, as measured by S&P 500 turnover (the ratio of trading volume vs free float market capitalization) has exacerbated the impact of share repurchases on US equities. Trading volume has been on a downtrend since 2008, and we expect this to continue.

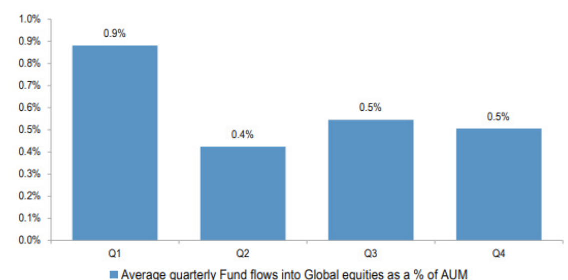
Reduced trading liquidity in US equites for the S&P, an all-time low!

A recent analysis from JPMorgan is showing that just 10% of US equity markets' trading volumes now comes from fundamental stock investors with most of the rest coming from index derivatives and passive funds.

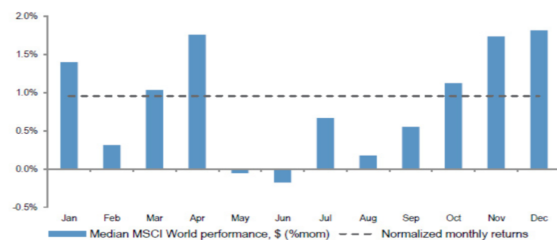
US TRADING VOLUME

- **Seasonality**: Looking back over the past years, markets were up most of the time into US elections and over the last 20 US election cycles, there have been only two instances of the markets down in the 12 months leading to the election results.
  On top of that, inflows into equities tend to be higher in Q1 when compared to the rest of the year.

AVERAGE QUARTERLY FLOWS INTO GLOBAL EQUITIES

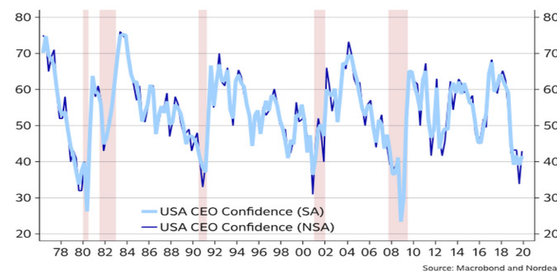


MEDIAN MONTHLY MSCI WORLD PERFORMANCE



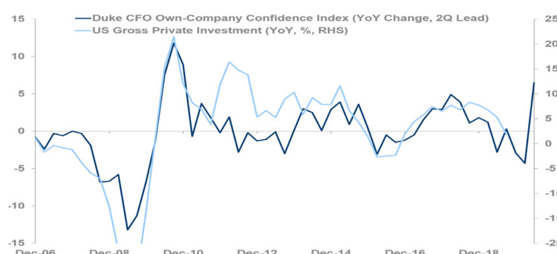

- **CEO / CFO Confidence**: Conference Board's CEO confidence jumped to 43 from 34 in Q4. Seasonally adjusted it however only rose marginally and is still in "recession risk" territory.

USA CEO/CFO CONFIDENCE



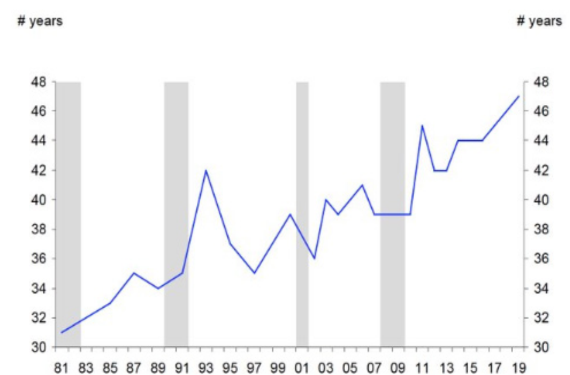

In December, Duke CFP optimism survey vs their company rose to a new high. As shown on chart, historically, changes in the US CFO optimism index have led changes in the US private investment backdrop, and suggests that improving c-suite confidence may help support an improvement in US capex.

DUKE CFO OWN COMPANY CONFIDENCE INDEX (DARK) VS US GROSS PRIVATE INVESTMENT (LIGHT)




- **US housing getting more bullish**: The ingredients are in place for the US housing market to accelerate across a number of the national metrics that we track. Robust demand and tight supply are aided by better affordability, leading to accelerating HPA, increasing existing and new home sales, and climbing single-family housing starts. <u>This is in contrast with the view we had last year</u>. Buyers snapped up new U.S. homes over the past two months at the fastest pace in more than 12 years, adding to signs of sturdy housing demand amid lower prices and borrowing costs.

MEDIAN AGE OF ALL HOMEBUYERS




However, the median age of homebuyers has risen from 31 in 1981 to 47 today, driven by an aging population, affordability, higher student debt levels, and tighter mortgage lending standards for young people.

- **Global M&A**: activity has of course slowed during the Christmas/New Year period but it has picked up considerably in November/December last year and should continue over 2020.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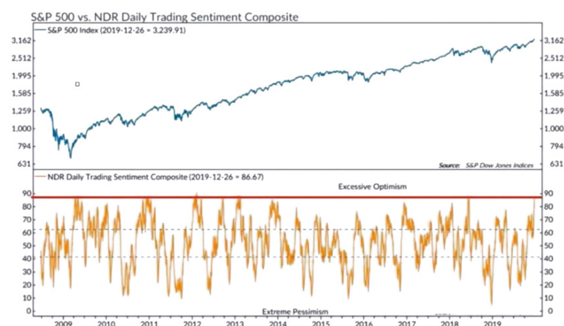
**NEGATIVE FACTORS (9):**

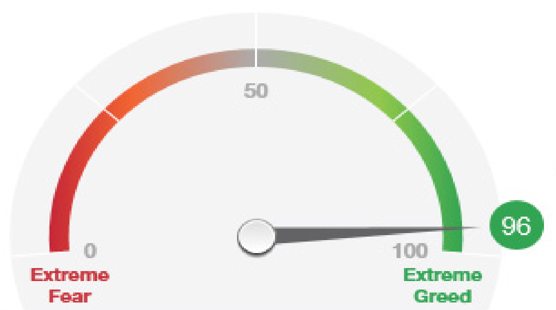
- **Technicals**: Most technical indicators/ oscillators are now showing sell signals for the market. We cannot go into details as it will need a specific newsletter, but we can just name two of the most followed.

**S&P 500 VS. NDR DAILY TRADING SENTIMENT**




The NDR's Daily Trading Sentiment Composite on the S&P almost hit 90, showing an extremely stretched situation which has been very verified only a few days in history. While in early 2009 and 2013 stocks kept rallying, in all other similar situations we had significant pullbacks.

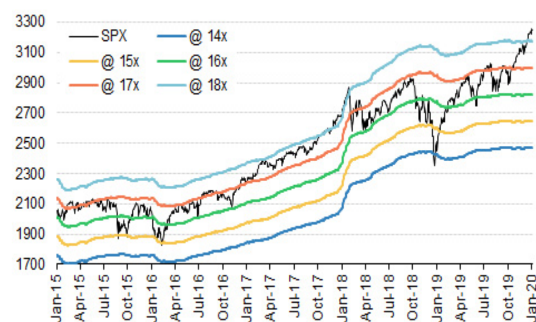
The CNN Greed/Fear indicator is showing an extreme greed at 96, a complete reversal from 12 months ago when it was just at 5!




Also combine this with stretched sentiment measures and increased equity positioning (US Street Prime Brokerage nets in 94%-tile on 12-month basis). As we said over our last update, positioning has been shifting from light to heavier.

- **Valuations are expensive and Economic momentum has shift downwards.** Thanks to a staggering market performance, the S&P is now trading beyond the 18x forward P/E multiple for the first time since January 2018 and we can actually find many similarities to that period in terms of positioning and volatility. As we have already mentioned, 2019 saw the second largest multiple expansion for global stocks since 1988. Only 2009 saw it larger.

**S&P 500 BY FWD P/E MULTIPLE**




Morgan Stanley widely followed proprietary US Cycle Indicator model has predicted the beginning of the downturn for the 1st time since 2007 already four months ago. This phase-change has historically meant a worse backdrop for returns and higher chances of recession or a bear market in the medium to long term horizon.

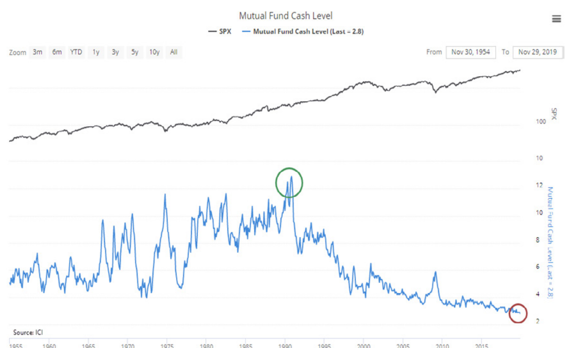
#### US CYCLE INDICATOR

- **Positioning is not light anymore / Poor market protection.** Institutional Investor cash levels have dropped to 4.2% in December, the lowest level since March 2013.

#### S&P 500 (BLUE) VS FMS AVG CASH BALANCE (GREY)

Mutual fund cash levels are even lower.

#### MUTUAL FUND CASH LEVEL (BLUE) VS S&P500 (BLACK)




At the same time, allocation to global equities has recently jumped to one of the heaviest in history and over the last two weeks of 2019, investors bought $31 billion nominal of US S&P futures, equivalent to 4% of total open interest driven by new longs. This represents the biggest 2-week of buying S&P futures in recent years.

#### GLOBAL EQUITIES VS 60-30-10 (BLACK) VS FMS NET% SAY OW GLOBAL EQUITIES (LIGHT)

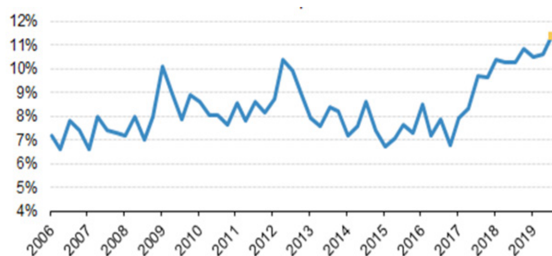
Systematic strategies are now fully invested on equities with Volatility Target Funds having being helped by an extraordinary condition on volatility. It is estimated that a sudden spike in volatility and a 2% drop on the S&P could generate a material equity supply on the markets of roughly $25 billion. It could be a self-fulfilling process.

At the same time, while during last summer clients had huge sizes of Put on Indexes, now the positioning on the Eurostoxx is close to flat with roughly $5 billion less put delta held vs this time in 2017 and 2018.
The Put/Call ratio is showing the lowest level since January 2018 and there is a record number of short contracts on the Volatility Index.
We started 2019 with a radical opposite picture on positioning and the recent melt-up of markets is also coming along with extremely low bearish protection.

Another important aspect is about crowding. Look for example at the recent statistics about crowding between Hedge Funds which is at an historical high.

This means that most Hedge Funds have a similar portfolio and if there is a de-risking, only few funds could lead to a contagion like negative feedback.

HEDGE FUND CROWDING




- **Some concerns on US consumer**: Nominal growth of consumer spending in 2019 has slowed to its weakest growth rate in three years, with many traditional retailers seeing no growth in top-line sales.

  While we had record online sales during the Christmas period, we have also witnessed some profit warnings on US major listed retailers and yet large commercial banks indicate that their consumer finance arm shows a "healthy consumer". As an example, last Thursday Bed Bath & Beyond announced a colossal profit warning falling as much as 25% in after-market. The stock was up more than 50% in 2019.

  The difference in the direction and tone of business is very straightforward; retail is counting how much consumers are spending at their establishments, while commercial banks are counting how much consumers are paying in interest when they borrow to spend. Banks are happy (for now) as consumer interest payments at record levels are rising more than twice as fast as consumer spending.

  On the surface, the growth of consumer borrowing is not excessive, but what is excessive is how much it costs consumers to borrow. Personal loan rates at commercial banks stand at 10%, and average credit card rates stand at 17%, at 25-year highs.

  In 2018, the percentage of people that would cover $400 of emergency expenses using a credit card has increased to 61% from 50% in 2013.
  In short, rising interest expenses are drying the "spending power" of the consumer. Retail is already seeing the impact and banks will soon see it as well. At the same time, it is important to note that US consumer credit-card delinquencies, the precursor of charge-offs, rose to a 16-year high in the second quarter among smaller commercial banks. Federal Reserve data show that delinquency rates (those that are 30 days past due) climbed to 6.3%, double the level of three years ago and Auto Loans delinquencies have reached a 7-year high.

  If you break down the recent positive statistics about consumer sentiment, numbers reveal an historic spread between Boomers (over 55) and Millennials (under 35). Furthermore, the opportunities for younger generations fall with their credit rating, young people have lower credit scores.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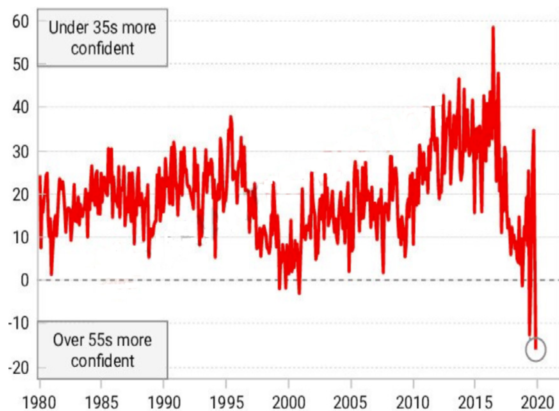


US consumer is still strong but there are reasons to expect that strength to slacken. There are signs that suggest a danger for US elections.

- **Cash spending**: Low yields have helped a shift toward taking on more debt. More than a year on from the tax reform, Goldman reports that non-financial S&P500 cash balances have declined by $185 billion, or 11%, during the past 12 months, the largest percentage decline since at least 1980. Meanwhile, S&P500 firms increased debt by $410 billion, or 9%.

TRAILING 12-MONTH CHANGE S&P500 EX-FINANCIAL: DEBT (LIGHT) VS CASH (DARK)

The corporate sector isn't acting as politicians wanted, and indeed is thwarting their policies. Ability of Governments to urge companies doing things they don't want to do is limited.

- **Insider sellers**: Executives across the US are selling stocks in their own companies at the fastest pace in 20 years on concerns that the long-lasting bull market is reaching its final stages.

US INSIDER SELLING

- **Lack of volumes**. 2019 delivered fresh reminders of the fragility of fixed income market microstructure. The post-crisis deterioration in market liquidity conditions remains a major source of vulnerability for investors. We think the bid for illiquid risk in credit markets will likely remain poor, as it has been in 2019.

On Equities, even as Indexes climbed to record highs last year, trading volume slid. One reason could be an increasing number of managers turning to more static strategies to gain exposure, with a minimal churn during market swings.

The Hedge Fund industry is on track to record more closures than launches for the 5th straight year, more than 4K funds liquidated over the past 5 years.


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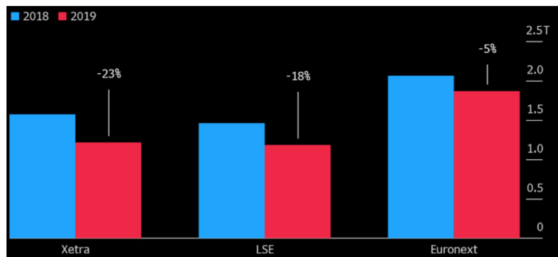
TRADING VOLUME 2018 (BLUE) VS 2019 (RED)




- **IPOs & Private Equities**. Investors had extremely difficult time stomaching big IPOs throughout 2019. Out of the eight IPO offerings of $1 billion or more, the median return from the IPO offering price has been a decline of 6%.

  The most clear and easy way to gauge investor risk propensity is seeing how new issuances have traded. From the end of July, the Renaissance IPO Index has underperformed the S&P by a massive 12%! Among others, Lyft and Uber are down 30% since they listing (respectively in March and May).

  It seems focus on market liquidity is increasing exponentially. According to a recent research, at least 11 of the 17 companies that cancelled listing in Europe in 2019 would have had a free float of less than $1 billion, merely small caps. IPO demand for $150 million or less is plunging to historical lows.

  At the same time, on the Private Equity front, the share of capital going to companies not categorized as profitable as increased to an all-time high. This could be dangerous considering that Private Equities are normally using a leverage of 3x to 4x.

- **Bond bubble**? We started the year with a record increase in issuance volumes which could put some strains on Credit spreads over the next months. Last week in Europe we had €32 billion emitted in just one day taking advantage of tight spreads.

  **Global debt has hit $255 trillion at the end of 2019**, over the last 9 months, global debt surged by $7.5 trillion, of which China and US accounted for 60% of the increase (US deficit to increase further).
  A decade of easy money has left the world with a record $250 trillion of government, corporate and household debt. That's almost three times global economic output and equates to about $32,500 for every man, woman and child on earth. The IMF recently warned that $19 trillion, almost 40% of global corporate debt are at risk of default in case of a massive crisis.
  US Junk-bond yields are hitting a new post-2014 low at 5.08%, just 25bps away from the all-time low of 4.83%.

  We have already expressed our concern about the BBB rated debt which accounts for 60% global Investment Grade (was 38% in 2009 before the crisis), as much as twice of Junk rated bonds. The difference between BBB and BB US corporate bond spreads collapsed further as investors continued chasing yield in the highest-rated junk bonds. The compression is making it, such that investors may have to start reaching even further down the ratings spectrum to find value.

  Currently there are 26 US BBB issuers (out of 198, so 13%) with high gross leverage

above 4x which is traditionally reserved for junk bonds.
The gap between spreads on BB and BBB rated bonds has now fallen to the lowest in history.

**BLOOMBERG BB – BBB OAS (WHITE)**

We recently got the comment from Dallas Fed President Kaplan saying that he is worried about how tight BB and BBB spreads are.
BBB is the last credit rating before an issuer is kicked out of the Investment Grade bond index. Being removed from IG and getting delegated to the High-Yield (HY) index is like getting sent down to the minors, your debt costs rise and the available pool of buyers shrinks.

The main point here is, if credit rating companies were wrong (overvaluing firms), then we would assist at a falling angels sell-off process (the market is selling BBB due to weakening financial conditions, turning into Junk rating).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# Trade Ideas

## CURRENT CONVICTIONS

**Call replacement on Single Names/Sectors**
It continues to be a good trade. Given the current low volatility environment and the leverage effect, switching cash positions into derivatives seems to be one of the best opportunistic moves so far, especially as the market is still very buoyant but with significative downside risks.

For instance, on our products/portfolios we took some cheap out of the money calls on the Eurostoxx 50 with large nominal value. The higher the market rises, the larger the net delta-adjusted exposure becomes. It is possibly the cheapest way to follow the market in this binary environment with a very limited downside (the premium).

**Long European oil sector, SXEP**
The Index is up more than 5% from our last newsletter, it has a FCF yield for 2020 of 9% and dividend yield of 6%.

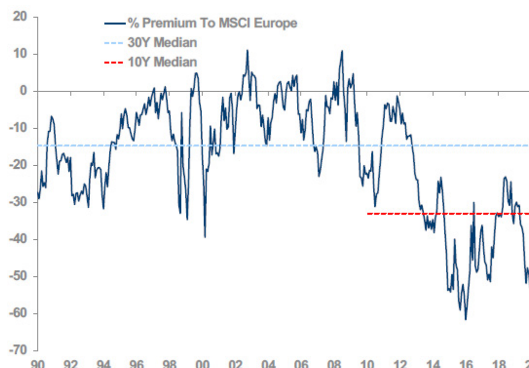
Global appetite for the sector has somehow increased thanks to a spike of the US-Iran retaliations, but we think it is going to be the start of a potential major repositioning if the oil price remains firm.

BAML SECTOR POSITIONING VS HISTORY (Z SCORE)

We see the following catalysts on oil sector:

I. Negative earning revision has possibly come to an end mainly due to lower oil breakeven price (below $50 for the 1st time since 2014) and oil downstream margins are increasing.
Operating cash flows are enough to now cover Capex, dividends and R&D. Q4 numbers should start to show this improvement.

II. Slowing rate of non-OPEC/US growth from 2020 putting an end to a decade of credit-fueled shale oil hyper-growth. The structural tightening of financial conditions for new oil projects and deceleration in non-OPEC supply will be key positive drivers of oil prices in the medium term;




Energy's relative valuations are on historical lows as they have only been cheaper during the 2016 oil price crash (when Brent fell below $30/bbl). Given the recent rise in geopolitical newsflow, Energy valuations look too cheap.

The option market is implying a 9% probability of a >+10% move in the SXEP vs. 3% for Eurostoxx.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**Long European Banking sector, SX7E**
The sector is up 6.6% since our last newsletter, it has closed 2019 up 11% and is still down 40% since July 2015 highs and down 30% since March 2018 highs.

The promotion of the Banking Union concept is the key missing piece before we can see more (any) M&A amongst European Banks.

The latest speeches from ECB members were also quite constructive on the capital requirement outlook.

Bond Yields stabilizing is also another important topic along with steeper curves and a rise in the Euro. There are no more deposit rate cuts, European curves are steepening and of course, further Macro stabilization are all positives for the sector.

The Euribor curve has steepened over the holidays which is helpful.

Valuations are of course depressed and may have bottomed following a wave of negative revisions and with lower political risk and stabilization in depo rate expectations we could potentially see a gradual re-rating in the sector.

Interesting to note that on European banks we had 85% of beats on Q3 earnings. Over 60% of banks have beaten profit before tax expectations, clearing the revised bar. Misses were concentrated in Scandinavia and the UK, while 85% of Eurozone banks beat the street's profit before tax numbers, on average by ~3%.

Are Q4 numbers going to show a further stabilization?

In terms of positioning, Investors are still massively underweight and European banks have managed to post a positive return in January (before giving everything up and more in February & March) on 7 over the last 10 years.

**Long Gold**
We have been successfully suggesting to increase Gold positioning since October 2018 and is now up 30% from those levels.

It is starting to be a consensual long position but obviously the recent US-Iran turmoil has helped to even briefly breaking the level of $1600.

Real yields on 10-year U.S. debt (the yield on the benchmark 10-year Treasury with the inflation breakeven, a measure of consumer-price expectations, stripped out) briefly dipped into negative territory for the first time since August of last year.

Looking back to 2013, we can see that real yields and the price of gold have tended to track each other, with gold generally moving a few weeks before real yields. If it has done so again even this time.

If gold's implicit prediction is right, it has two implications. The first and most important one is a belief that inflation is at last due to return, after many false alarms. The second is that gold is now settled in a bull market.

**Long Copper**
It is the only commodity that has strong fundamentals among the base metals, with a tight market poised to move higher on any demand recovery.


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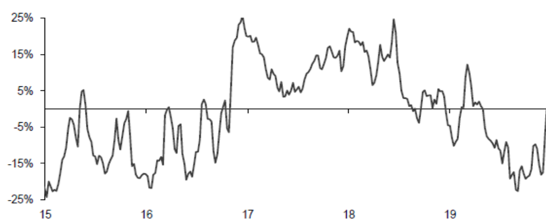
Global Macro has improved and the shorts on Copper have been covered but positioning is only back to neutral now.

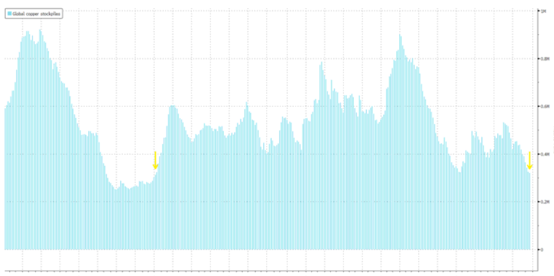
**COPPER POSITIONING**



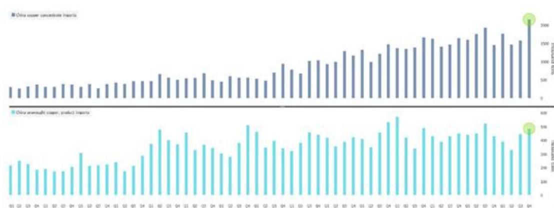

Copper price will benefit from an agreement between China and US and at the moment it seem to be discounting very few chances of an agreement if compared to other assets.

Copper stockpiles tracked by the world's leading metal exchanges have contracted to the lowest level in almost five years, adding to signs of a tighter market as investors weigh up prospects for commodities in 2020 while Chinese copper imports are only rising.

**GLOBAL COPPER STOCKPILES**



**CHINA COPPER IMPORTS**



# Central Banks

The global economy is heading towards a "liquidity trap" that could undermine central bank efforts to fend off future recessions. Now, there is much less ammunition for all the major central banks and this situation will persist for some time. As previously noted, central banks are running out of tools needed to tackle future downturns.

In addition, several top executives of the ECB, Fed and BOE see the possibility that the neutral level of interest rates (those rates that neither spur or restrict growth in their economies) might drop even further in the future, mainly due to a variety of structural forces such as aging population, and sluggish productivity growth in Developed markets.

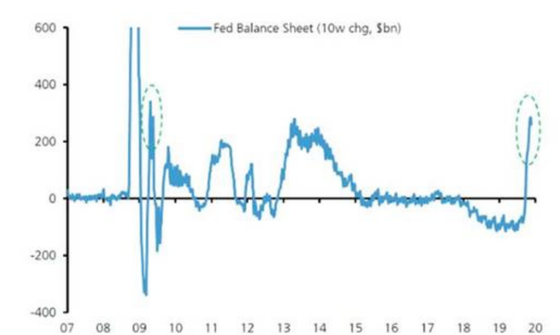
YOY 2019 HEADLINE AND CORE INFLATION IN DEVELOPED MARKETS

| Region | Latest | Target Inflation* | YoY Headline Inflation | YoY Core Inflation | YoY Headline Inflation (%) | YoY Core Inflation (%) |
|---|---|---|---|---|---|---|
| DEVELOPED MARKETS | | | | | | |
| US | Nov-19 | 2 | | | 1.5 | 1.6 |
| EuroArea | Nov-19 | <2 | | | 1.0 | 1.3 |
| Japan | Oct-19 | 2 | | | 0.5 | 0.5 |
| UK | Nov-19 | 2 | | | 1.5 | 1.7 |
| Canada | Nov-19 | 2 (Band: 1-3) | | | 2.2 | 2.1 |
| Australia | Sep-19 | 2-3 | | | 1.7 | 1.4 |

After more than ten years of crisis fighting, interest rates are either already around historic lows or negative after more than 750 cuts since 2008 (more than 129 cuts in 2019), spurring concerns they are doing more harm than good. At the same time, leading central banks are buying bonds again, so called quantitative easing, after the purchase of more than $12 trillion of financial assets wasn't enough to revive inflation. Inflation is still lower than Central Banks' target in Developed markets.

Overall global central banks are pretty dovish! With no doubt, the Fed is in a better position than the ECB and BoJ (Japan). A recent study concluded that the Fed could fight a mild but not a severe recession given it has room for stimulus equivalent to a 5% point cut in its benchmark, but the ECB and BOJ have just 1% left.

FED BALANCE SHEET (10-WEEK CHANGE, $ BILLION)




The **Fed** has increased the bar for raising interest rates in 2020. It is market consensus that short-term interest rates will be unchanged (1.50-1.75%) through the end of 2020.

So far, the Fed balance sheet has risen to $4.2 Trillion from $3.8 Trillion in September 2019, with about $255.6 billion in repo interventions still outstanding. This successful strategy calmed the short-term interest rate market.

Since restarting the temporary interventions, short-term rate volatility has largely disappeared and the fed-funds rate has traded inside its range. Last week, the general collateral repo rate was at 1.6% (there was no volatility at the end of the year as feared), compared with as much as 6% at the end of last year and 10% in mid-September.

It is also not a coincidence that after the Fed's temporary/permanent open market

operations and the monthly purchase of $60 billion in T-Bills (Non-QE), the S&P500 index was able to break out of its well-defined channel that had contained it since January 2018.

The **People Bank of China** cut its RRR (reserve required ratio) for lenders by 50bps, injecting an extra $115 billion liquidity into markets. So far, the RRR is 13% for big banks and 11% for small banks. With this move China is lowering the lending rate in an attempt to revive the economy. Further, a total of $85 billion was injected into the market via the medium-term lending facility (MLF) in December (total outstanding MLF loans $550 billion) along with an extra $10 billion through pledged supplementary lending to the China Development Bank, the Export-Import Bank of China and the Agricultural Development Bank of China.

Looking ahead, there's still room for more reserve ratio cuts in 2020, along with additional liquidity injections from open market operations to fund reasonable demand credit growth of 9% in 2020. Also, more tax cuts and higher annual quotas of local government special bond issuance to finance growth. The Chinese whatever it takes approach...

The **Bank of Japan** announced a total stimulus package amount of as much as $239 billion spread over the coming years, with fiscal measures around half that figure to be financed by a supplementary budget. The stimulus is meant to boost growth in the economy by about 1.4% and increase the inflation rate. As a reminder the latest major package is dated 2016, worth $260 billion, when the Brexit vote darkened Japan's export outlook.

No major news on the **ECB** front. It's clear the ECB cannot just keep cutting rates, the baton will have to be passed sooner or later to the fiscal side. Still a lot of noise around the next steps for a $55 billion fiscal easing. In addition, the European Commission has outlined its roadmap for the "European Green Deal", committing to publish a plan to reach net carbon emissions by 2050 which would entail a total amount of $7.5 Trillion cumulative investments, aimed at changing the way how electricity, heating, pollution etc. is generated.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# Trade War/Geopolitics

**Trade war US-China**: The Chinese delegation is set to sign the first phase of the deal with US between January 13-15 in Washington. This is a major achievement prompting a more positive re-pricing in global growth expectation.

Let's try to analyze the current Phase 1 deal as it is less ambitious than recent reporting, but importantly is partially reducing September tariffs on roughly $116 billion in imports from China, from 15% to 7.5%.
Here is a summary of the existing and cancelled tariffs:

I. Lists 1, 2 & 3: Unchanged.
II. List 4A: Being cut from 15% to 7.5%. (This works out to be ~$116 billion, or ~21% of total tariffs).
III. December 15th Tariffs: Tariffs set for Dec. 15th have been cancelled.

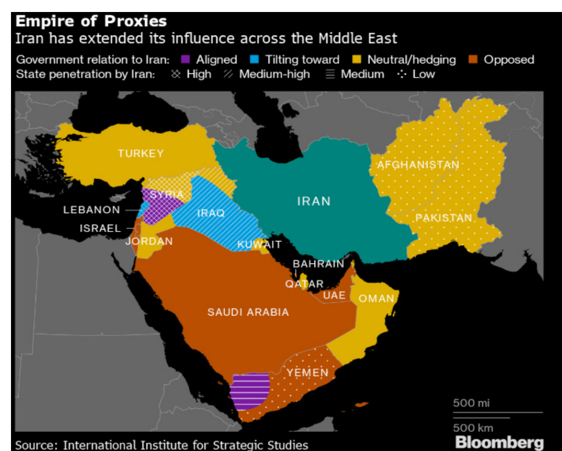
About $380 billion of imports remain under tariff. While phase 1 reportedly includes an agreement in principle to reduce all remaining tariffs over time as progress is made on phase 2, it is going to be a difficult deal especially for the relatively intractable nature of industrial policy issues.
From now on, however there will be some key execution risks as the US/China relationship moves forward. As an example, on agriculture, while both sides agreed on increased agricultural and other US commodity purchases by China, it's unclear what level such purchases will reach and how this will be enforceable. Given the US's focus on this issue, we remain concerned that disappointment on this point as negotiations continue would be a potential catalyst for re-escalation of tariffs.

A potential Phase 2 negotiation could be more challenging as both sides debate the far more difficult issues of industrial policy.

**Impeachment/ US Shutdown/ USMCA deal**: The House of Democrats impeached Trump on charges of abuse of power and obstructing Congress, with the support of almost all Democrats but not a single Republican. However, Speaker Nancy Pelosi did not send the articles to the Senate yet. This is a parody of impeachment because Mrs. Pelosi wants to see what kind of trial the Senate will hold before she deigns to appoint House managers to make their case. Impeachment is very unlikely to pass the Senate (Republican majority).

The US Senate approved a nearly $1.4 trillion spending deal to keep the government funded and avert a shutdown.

The Senate Finance Committee recently approved a new North American trade deal, moving it one step closer to ratification in the United States. The panel sent the USMCA to the full Senate, which could pass the pact this month. The House approved the accord last month in a bipartisan vote. It is very likely that every Country will approve the trade deal in a very short run.





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**US-Iran**: the relationship has been tricky for more than 65 years. In 2018, US President abandoned the nuclear deal (signed under Obama), before reinstating economic sanctions against Iran (which went into recession). In 2019, the US tightened the sanctions targeting Iran's oil exports, explosions hit six oil tankers in the Gulf of Oman and Iran shot down a US military drone over the Strait of Hormuz. Indeed, a US contractor was killed under the fire of an allegedly Iranian-backed militia. This was the trigger leading to the assassination of General Qassim Suleimani, an Iranian hero. After a symbolical retaliation of Iran, striking an US base in Iraq with no injuries, it seems both parties are calling for a de-escalation. The relationship remains tense as Iran has developed many proxy armies who might be ready to strike. Again, we underline that a war might further destabilize the Middle east.

**Brexit**: December was an eventful month for Brexit. On December 12 Prime Minister Johnson won the general election, resulting in a Conservative majority of 80. Eight days later, MPs voted 358 to 234 in favor of the Withdrawal Agreement Bill, which now goes on to further scrutiny in Parliament. The remaining stages of the bill are expected to be completed quickly in January. In the end the Brexit deal struck by Prime Minister Johnson in Brussels bears close resemblance to the Brexit deal that has been on the table for much of the past two years with Theresa May. The politics of its passage, however, have changed fundamentally. On current legislation, the UK will leave the EU on status quo terms on 31 January. Negotiations will then turn to the future relationship between the EU and the UK, in particular the specificities of the Free Trade Agreement. By pledging that his government will not seek to extend the UK's status quo transition period, the PM has reintroduced the prospect of a disorderly Brexit in December 2020 (very unlikely in our view).

**Spanish Election**: the Spanish Parliament approved the Sanchez's bid to form government. It's the first coalition government since before the rise of dictator Francisco Franco, and it's not good news for Spanish banks as the anti-austerity group Podemos has plans to reform the sector. The new government's first test will be passing a budget for 2020, to include higher taxes for large companies and more social spending.

**Hong Kong/Taiwan**: Ahead of Taiwanese presidential election, President Tsai Ing-wen, pro-independence and supporter for a Taiwanese identity separated from China, publicly supported the Hong Kong protesters in her campaign for re-election. Who is going to win then? Current situation in Hong Kong is still very far from resolution.


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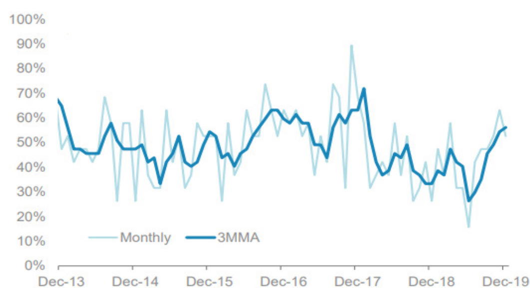
# Macro

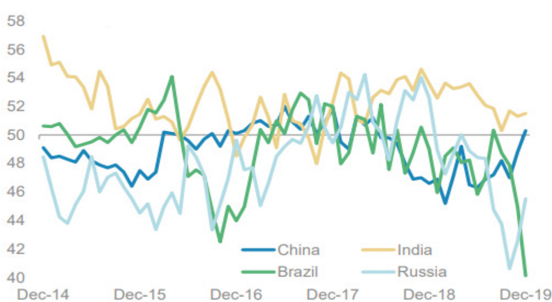
Global growth is again improving in December, although we still need more confirmations. As long as the environment remains positive (no Middle-east crisis, no escalation US-China trade war, no Geopolitical shocks), both hard and soft data make us confident that a recovery is in place.

The key takeaway is that growth differentials are favoring the rest of the world versus US (growth is mainly improving in Emerging markets). The percentage of economies with improving PMIs bounced to 53% globally (chart). Also, interestingly, Korea's exports volume, among the most important indicators for global trade, became positive up to 7% YoY after seven months of contraction, while the new orders to inventory ratio for manufacturing has rebounded sharply over the last four months.

% OF ECONOMIES WITH IMPROVING MANUFACTURING VS. PREVIOUS MONTH

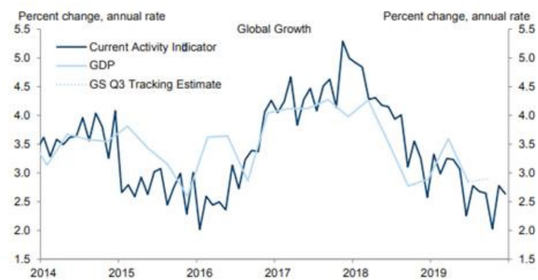



EXPORTS RISING IN CHINA, RUSSIA, INDIA




Overall the global outlook improved in H2 2019. The global current activity indicator (CAI) has been tracking at 2.7% in November/December, modestly above the average of prior six months, probably just below potential trend growth.

GLOBAL GROWTH – GDP (LIGHT) VS CURRENT ACTIVITY INDICATOR (DARK)




### Europe

Definitely improving in December. The European current activity indicator edged up 0.5% on a reduced pace of contraction in Germany where production remains weak but leading survey indicators such as IFO and ZEW are improving sharply. Overall Manufacturing PMIs still weak but rising, against resilient Services PMIs.

Positive

- Better (although still weak) Manufacturing PMIs in Euro-area, Germany, France, Spain, Italy, UK
- December IFO and Zew expectation, better Retail Sales in Germany
- Better Services and Composite PMIs in Euro-area, Germany, Spain, UK

Negative

- Worse Services and Composite PMIs in Italy, France
- Euro-area GDP expected at 1.1% in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2019, 1.2% in 2020 and 2021, revised down from Summer 2019

## US

<u>For the second month in a raw, continued divergence with weakening US against the rest of the world. In December, ISM Manufacturing falling to the lowest level since the Great financial crisis</u>, 47.2 vs 49 consensus vs 48.1 prior month, marking the eight decline in the last nine months. Although disappointing in recent weeks, Q4 GDP is tracking at a solid 1.8% and residential investment is rebounding strongly from the setback of 2018 and 2019.

### ISM MANUFACTURING (PRODUCTION): 2000-2019

### MANUFACTURING AT A GLANCE

| INDEX | Dec Index | Nov Index | % Point Change | Direction | Rate of Change | Trend* (months) |
|---|---|---|---|---|---|---|
| PMI® | 47.2 | 48.1 | -0.9 | Contracting | Faster | 5 |
| New Orders | 46.8 | 47.2 | -0.4 | Contracting | Faster | 5 |
| Production | 43.2 | 49.1 | -5.9 | Contracting | Faster | 5 |
| Employment | 45.1 | 46.6 | -1.5 | Contracting | Faster | 5 |
| Supplier Deliveries | 54.6 | 52.0 | +2.6 | Slowing | Faster | 2 |
| Inventories | 46.5 | 45.5 | +1.0 | Contracting | Slower | 7 |
| Customers' Inventories | 41.1 | 45.0 | -3.9 | Too Low | Faster | 39 |
| Prices | 51.7 | 46.7 | +5.0 | Increasing | From Decreasing | 1 |
| Backlog of Orders | 43.3 | 43.0 | +0.3 | Contracting | Slower | 8 |
| New Export Orders | 47.3 | 47.9 | -0.6 | Contracting | Faster | 2 |
| Imports | 48.8 | 48.3 | +0.5 | Contracting | Slower | 6 |
| **Overall Economy** | | | | **Growing** | **Slower** | **128** |
| **Manufacturing Sector** | | | | **Contracting** | **Faster** | **5** |

### Positive

- Q3 GDP revision at 2.1% - Q3 Personal Consumption 3.2% vs 2.9% consensus
- Better Personal Spending and Income
- Better Markit Service and Composite PMIs
- Stronger ISM Non-Manufacturing, ISM Prices paid

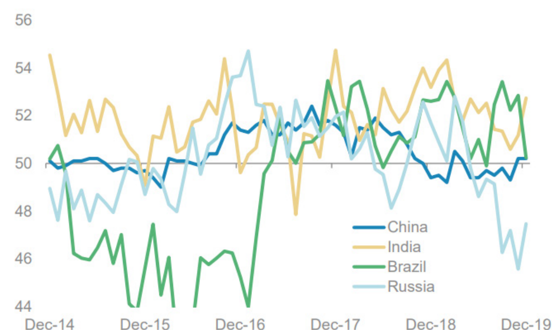
### Negative

- ISM Manufacturing, New orders, Employment
- Factory orders, Durables and Capital Goods still weak

## Emerging Markets

<u>Emerging are leading the growth rebound</u>. The Emerging current activity indicator is tracking at its highest level since July 2019, with a significant rebound from a low base in India and Turkey, moderate improvements in China and Russia.

### EMERGING MARKETS PMIS: ONLY BRAZIL DECREASING




China PMI was flattish at 50.2 vs 50.1 consensus, while the Chinese Caixin PMI Manufacturing/Services fell but stayed well above the expansion threshold. Also, to note, stronger Industrial profits, Retail sales and Industrial production.

The PMIs of South Korea, Taiwan and Thailand rose above 50 along with India and the Philippines seeing the faster pace of expansion in manufacturing sector.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# Commodities

Given the improving Macro outlook and the more favorable Geopolitical environment, we are **bullish** on commodities in the short mid-run.

BLOOMBERG COMMODITY INDEX

Since our last update 6/12, the Bloomberg Commodity index is up 3.5%, almost 6.5% higher from its August 2019 lows.

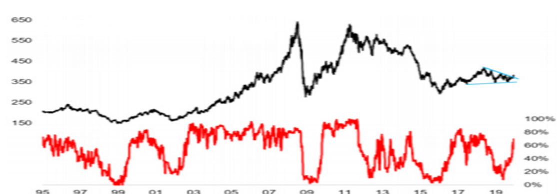
Among its main contributors (index weight order) in the past month, Gold +7%, WTI +4.5%, Brent +5%, Copper +5.3%, Soybean +5.1%, Corn +2% and Silver +10%. Among its main detractors, Natural Gas down almost 10%.

In the recent weeks, the BCOM index has broken several important resistances among which MA 200 days, signaling a bullish up-channel trend.

Further, Commodities, at an asset class level, have also seen a familiar market breadth pattern emerging, which points to a cyclical bull market.

And it makes sense with relatively light positioning, cheap valuations, and a prospective better macro backdrop.

GSCI LIGHT ENERGY INDEX (BLACK) VS PROPN. OF COMMODITIES + YOY

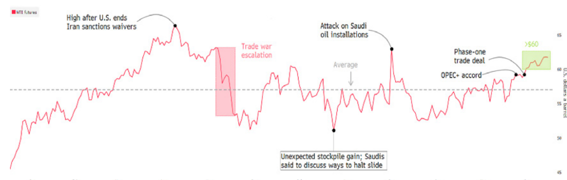



**Oil**

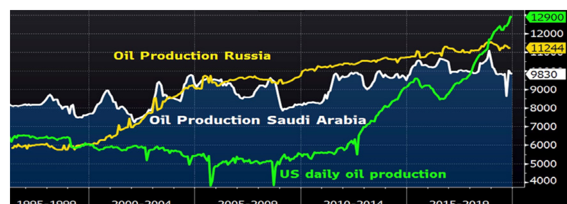
We are mildly bullish on the asset class. 2019 was a fantastic year for both WTI +35% and Brent +22%, the best since 2016.

December 2019 positive performance is impressive, WTI +10.5%, mainly driven by rising interest rates, reflation (stronger demand), renewed trade optimism between US and China, increasing tensions with Iran and shrinking inventories.

OIL PRICE IN 2019




OIL PRODUCTION US (GREEN) VS RUSSIA (YELLOW) VS SAUDI (WHITE)




The OPEC has recently decided to augment collective production curbs by 500,000 barrels a day along with its allies until the end of March. The cuts would mean OPEC will hold back a total of roughly 1.7 million barrels a day from global oil markets, deepening the current curb of 1.2 million barrels a day.

Concerns about geopolitical risk after the US carried out airstrikes in Syria and Iraq (+5% since Qasem Soleimani's death) and a larger-than-expected withdrawal in domestic crude stockpiles during the week ended December 20 helped to support the oil rally in December. Also note that positioning on WTI futures is getting extreme.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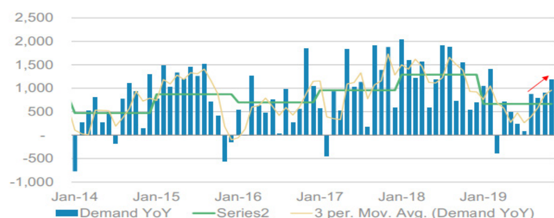
OIL PRICE IN 2019

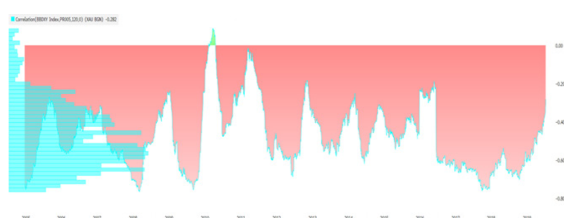



OIL NET POSITIONING

## Gold

We are **strongly bullish** on the asset class in the mid-long run. Gold price has risen more than 18% in 2019 against a backdrop of falling interest rates, lower dollar, economic uncertainty and geopolitical tensions. December 2019 positive performance is strong, up 3.6%.

CORRELATION USD VS GOLD

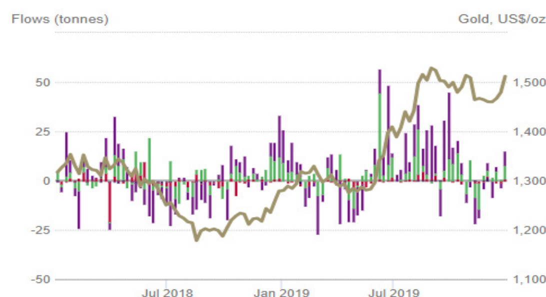


One of the most interesting peculiarities of the December 2019 rally, almost $100 to $1600/toz, (considering the first week of January) is related to dollar weakness and rising inflation expectations.

It seems that, along with an inverse relationship with real interest rates, gold price movements are explained by the dollar over the long run. The 120 days correlation Gold vs USD is a bit stronger than -0.5 over the past 15 years. It makes sense if you think that lower real rates are leading to a lower dollar and then higher gold price. A weaker dollar boosts gold through the "wealth effect", raising the dollar purchasing power of main gold consumers, as well as through gold speculative positions which are highly sensitive to trends in the US Dollar Index.

Gold-backed ETF holdings grew 14% in 2019, net inflows of $19.2Bln, after holdings sharply rebounded in December. Collective ETF holdings reached all-time highs of ~2,900t in Q4. Overall, global gold-backed assets under management (AUM) grew 37% in US dollars during the year as a result of positive demand combined with an 18.4% increase in the gold price.

GOLD-BACKED ETF INFLOWS




Also positioning on Gold futures is at its multi-year highs...
And remember that Central Banks have bought gold reserves at their highest pace in the last 50 years!

GOLD FUTURE NET POSITIONING

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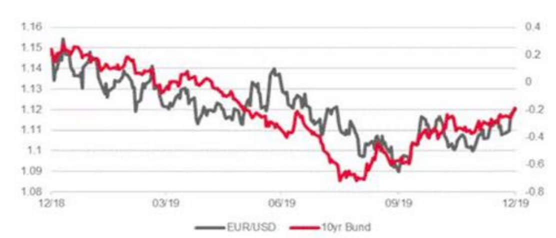
# Forex

In the FX market, the top performers were currencies backed by some yields current account surpluses, and inflation-targeting central banks.

The Canadian dollar was the top G10 currency (more than 4% gain). Even the Turkish Lira, universally reviled, produced near double-digit returns for dollar investors thanks to the magic of carry and the Ruble gained 11% against the dollar.

EUR/USD (BLACK) VS 10-YEAR BUND (RED)

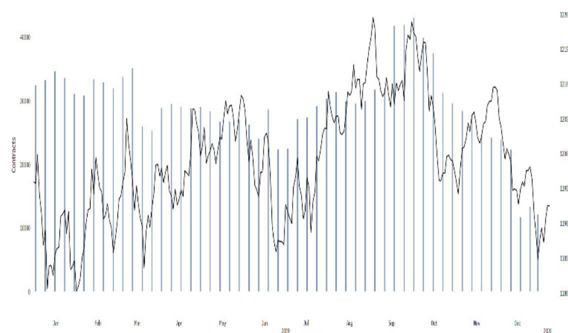



Interestingly, the USD Bloomberg Index lost 1% in 2019, slumping almost 3% in the last quarter while the EUR appreciated in the same period. Also, to note, the strong positive correlation between the EUR currency and the 10-year bund yield (chart).

Since our last update 6/12, USD positioning continues to weaken. As we already said in our last update, it makes sense as the current reflation trade is pushing foreign investors to move capital out of USD-denominated into others cheaper and undervalued currencies, along with better Macro data in the rest of the world versus weaker US.

USD positioning sharply weakening in December as well...

USD FUTURE POSITIONING (HISTOGRAM) VS USD INDEX (BLACK LINE)



GBP had a surge in its overnight implied volatility during its December rally due to elections...

DOLLARS PER POUND (RED) VS POUND VOLATILITY (BLUE LINE)

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