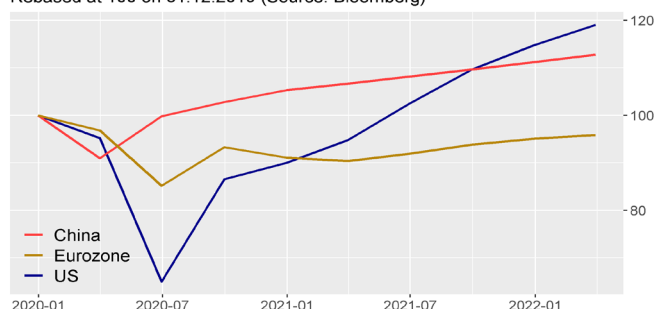


## GLOBAL MACRO

On the back of the huge USD 1.9 trillion new stimulus plan, economists have revised their US growth forecasts upwards in Q1. **The US economy is now expected to grow significantly above pre-covid levels by 2021, i.e. a "V" shape recovery** (the Fed now forecasts 6.5% GDP growth, above consensus at 6.2%). Aside from fiscal and monetary stimulus, the US economy should also benefit from a rapid vaccine rollout that has become a new key economic driver.

### GDP Growth Forecasts

Rebased at 100 on 31.12.2019 (Source: Bloomberg)



**The Fed reaffirmed its commitment to maintain a supportive monetary policy with no interest rate hikes until the end of 2023 as it expects inflation to remain under control.** Whilst we acknowledge that inflation will pick up in coming quarters for many valid reasons (base effect, supply chain disruption, strong economic growth, rising commodity prices, "unionisation"), we remain sceptical about a more persistent rising trend given that the current medium term deflationary forces in place (slow money velocity, lower economic growth potential, acceleration in digitalisation, slower demographic growth, capacity underutilisation, slack in labour market) are headwinds for a structural increase in inflation.

**European GDP will struggle to rebound and is only expected to be above pre-covid levels by late 2022, i.e. a "W" shape scenario.** A new technical recession is around the corner, the second in twelve months, leading to a widening growth gap vs the US. Moreover, the Eurozone is lagging in the vaccine rollout and the region is now facing a third wave of infections, leading to new lockdowns in France, Italy and Spain. Should Eurozone vaccination take-up slowdown from the current low level, herd immunity might be reached only in 2022, vs July 2021 for the US, i.e. a lag of several months.

Meanwhile, the Chinese economy has recovered in the aftermath of the crisis. **The export sector has been a pillar of strength for China, driven by the surge in global demand for goods, inventory restocking, and China's quick reopening of its manufacturing facilities.** Retail sales have been a laggard this year, mainly due to renewed restrictions around the lunar New Year holidays. We expect consumption to pick up now that restrictions have been lifted.

In this context, we remain in a risk-on environment but attention is quickly turning to interest rates, as any hints about a tightening of monetary conditions would probably put a break on the rise in risky assets, ending the "goldilocks" scenario. Whilst the investment clock is moving fast, it is too early to remove our allocation tilt towards an overweight stance on risky assets, equities in particular.

## EQUITIES

In the US, 2021 earnings revisions remain solid, split equally across quarters, as US companies have enough visibility to upgrade their 2021 guidance. In Europe, only modest 2021 earnings revision took place in Q1 2021. **Uncertainties associated with the timing of the economic reopening are hindering CEOs from making bullish forecasts.**

On a relative basis, stocks are losing some appeal vs bonds. **In 2021, US Treasuries endured one of their worst yearly starts in some time, whilst equity markets kept gathering pace thanks to the risk-on sentiment.** Therefore, the equity risk premia (ERP) has diminished, moving towards the lower band of the 10-year range. European ERP remains high, above US ERP, as interest rates remain at very depressed levels despite the recent rise.

### US Equity Risk Premium

12M Fwd Earnings Yield (SP500) minus 10y Treasury Yield with 20y average line



Source : Bloomberg

We see a tactical opportunity in defensive sectors (staples, healthcare in particular) as their relative value is very attractive, coupled with strong fundamentals such as high solvability and earnings visibility. While we still like cheap cyclical stocks leveraged to the economic recovery, they may have got ahead of themselves in the short term and we will not recommend chasing them at their current price. **We continue to favour technology companies despite their increased volatility as their relative valuation is back to the 10-year average on some metrics** (EV/EBITDA, est fw P/E etc).

All in all, we remain strategically overweight in equities and see ca. 4-5% upside potential in both US and European stocks by the end of 2021. However, brace yourself for a spike in volatility in the short-term as euphoria (contrarian sell signal) is building up on different indicators. Technically speaking, we continue to see all the ingredients of a healthy cyclical bull market that started at the trough of March 2020.

## FIXED INCOME

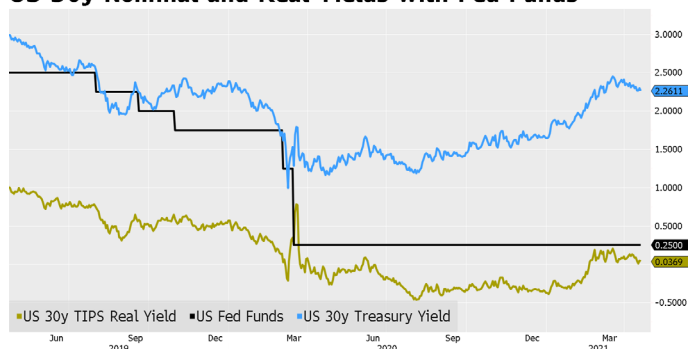
Core government bond yields accelerated their rise during the last quarter as the economic outlook brightened, boosted by huge monetary and fiscal stimuli as well as broadening COVID-19 vaccine rollouts. Inflationary pressures prospects have been increasing markedly. In the US, long yields are back to levels last seen in the second half of 2019, a time where Fed Funds were 150bps higher than today. **We suspect the first leg of yields correction is probably done, and inflation driven.** Real yields will be very slow to rise and we do not expect a second leg coming before serious tapering from Central Banks and, above all, short rate hikes.

Despite this, credit spreads have remained very stable, showing no signs of concern about this increase of funding costs. They are today quite tight, flirting with historical lows in some segments like the high yield market.

We believe the value differential between credit and interest rate risk is less obvious now after the upwards repricing of core yields. While we would only consider adding credit risk on spread weakness in the high beta sectors, we have increased our duration exposure to a more neutral stance. **We particularly like the 30y sector of the US yield curve at current levels, which has an attractive convexity profile and provides positive real yields.** We consequently also increased Inflation-Linked bonds duration, which will benefit from elevated inflation compensation while being less penalised by negative carry.

In the credit space, we remain underweight in investment grade as we still see better opportunities in higher beta segments, such as High Yield/leveraged loans or subordinated financial bonds, where we continue riding the wave while only contemplating adding some risk on a correction. In this case, emerging markets debt, but very selectively, could also be interesting after having underperformed this year.

### US 30y Nominal and Real Yields with Fed Funds

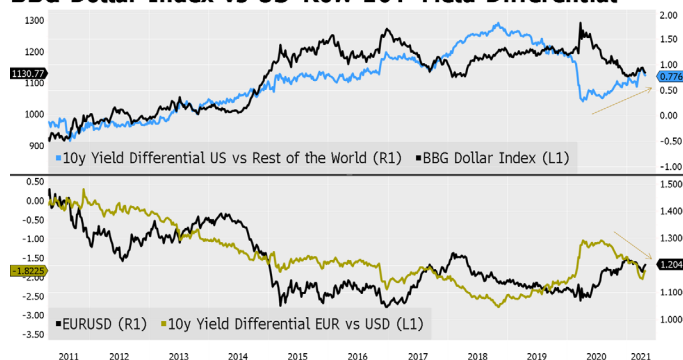


Source : Bloomberg

## FOREX

Since the start of the year, key fundamentals tactically turned supportive for the dollar. The reflationary backdrop recently led US yields to surge, pushing the yield differential vs EUR back to pre-crisis levels, strongly supporting the greenback. However, we believe that the first step of US yields normalisation, led by higher inflation expectations, is now mostly priced in. In our opinion, **yields will therefore be less of a driver in coming months as growth expectations might take over as the key FX driver.**

### BBG Dollar Index vs US-RoW 10Y Yield Differential



Source : Bloomberg

The US economy is expected to grow by 4.9% on average this year and next one, after shrinking by 3.5% last year. The Eurozone economy, on the other hand, is expected to recover by 4.2%, after a 6.6% decline in 2020. Therefore, growth forecasts and their momentum are strong tailwinds for the dollar. The Fed's monetary policy is more supportive than that of the ECB, while the fiscal boost is also much stronger in the US than in the Eurozone after the last \$1.9 trillion package signed by President Biden.

As sentiment has soured for EUR recently, mostly due to the pandemic and the slow vaccine rollout, the extreme speculative long EUR/USD has started to unwind. As the FX market is only halfway through this unwinding, **we foresee more short-term downside in EUR/USD, accelerated by the break of several key technical supports.**

However, in our analysis, USD strength should only be temporary, as the positive fundamentals are likely already well priced in. Later in the year, the dollar should again suffer from the headwinds of its twin deficit and global growth picking up outside of the US.

While most of the post-Brexit rerating is already priced into the pound, **we continue to be constructive on GBP which should continue to benefit from high growth expectations as it is among the most advanced country in the world in terms of vaccine rollout.** Capital flowing back into UK as the political risk premium is being priced out should also be a key support.

Gold peaked last summer and since then has been dragged lower by increasing US real yields. The yellow metal has lost fundamental supports, which translated to a deteriorated technical setup. We remain neutral. Elsewhere in G10 FX, we continue to see a case to be long cyclical FX such as AUD, NOK, and CAD as a way to express our pro-cyclical view.

## HEDGE FUNDS

Over the last couple of years, many disruptive trends (such as SPACs, retail investors, bitcoin) have changed the way hedge funds think, behave and work.

Special purpose acquisition companies (SPACs) are also known as "blank check" companies because they raise capital from investors, are listed, and then look to acquire a private company. SPACs have gradually gained

market share over traditional and cumbersome IPOs. Their option feature and asymmetric risk-return profile for sponsors and early investors have generated a lot of interest from hedge funds. However, the recent speculative frenzy has pushed SPACs' valuations far above their trust value. In addition, **studies have shown that the expected return of SPACs post-merger has historically been negative.**

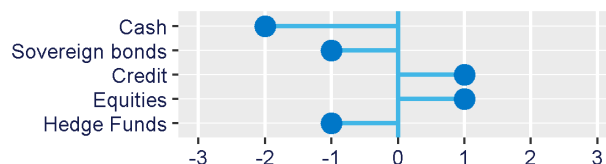
Speculation seen in many market segments has been partly attributable to retail investors. Retail investors, historically referred to as "dumb money", have experienced strong growth since the beginning of 2020, primarily catalysed by the Covid-19 crisis. The result on the financial markets was tangible: sharp rise in volumes, more speculation, more volatility and more dispersion. **At the end of January this year, retail investors led one of the biggest short squeezes in 25 years on a few US stocks mostly sold short by hedge funds.** This short squeeze has spread across the US and even European markets. These events forced hedge funds to revise their gross and net exposures, as well as their short positions in order to avoid idiosyncratic risks.

Bitcoin, created just after the 2008 crisis as a decentralised digital currency, is another disruptive trend. It has gradually been adopted as a new store of money, and its market value recently exceeded \$1 trillion, or 10% of the market value of gold. Bitcoin advocates point to three characteristics that differentiate it from fiat currencies: "scarcity", "independence" from any form of organisation, and the growing positive "sentiment" towards it. From a purely statistical standpoint, **bitcoin's annualised return since 2011 has been over 200% and its risk-adjusted returns well above most indices.** However, it also has drawbacks making it vulnerable to setbacks: it is at the centre of all kinds of speculators, it has always been a risky investment with high volatility and sharp drawdowns, it is heavily dependent on regulators and central banks who can weaken the positive sentiment, and its high level of electricity consumption from mining.

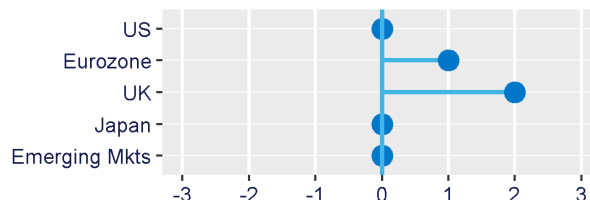
**Over the last two years, hedge fund strategies have performed well, between 4.7% and 10.2% annualised, with a strong correlation to global equities.** We continue to favour a core investment in hedge funds fulfilling two main characteristics: low or no correlation to traditional asset classes, and strong risk-adjusted returns.

## Relative Positioning

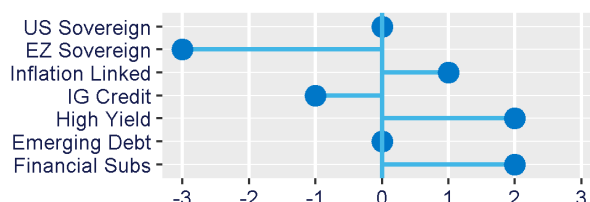
### Asset Classes



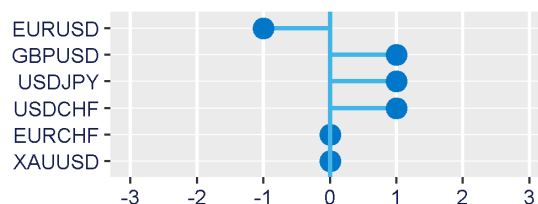
### Equities



### Fixed Income



### Forex



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