

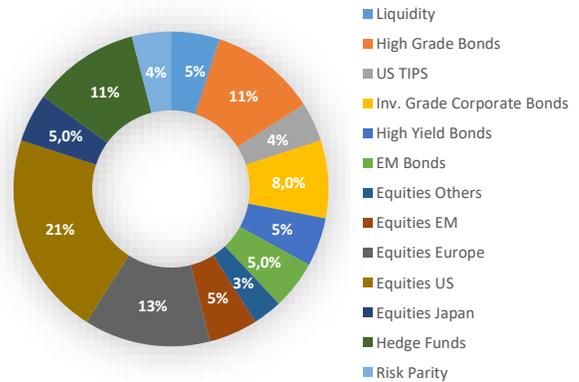
**FINANCIAL MARKET OUTLOOK (SHORT TERM)**

APPEALING		LESS FAVOURED
Asia ex-Japan, China equities DM small-caps and mid-caps 5G+, fintech, healthtech, greentech Sustainable investing Investing in digital subscriptions Flexing synthetic	Equities	Global consumer brands  Communications, consumer discretionary, consumer staples
Asia high yield Chinese government bonds. Leverage US high yield Green bonds: defensive and sustainable When EM bonds meet smart leverage	Bonds	Select investment grade bonds  Select emerging market bonds
EUR, GBP Commodity-linked currencies (AUD, NOK, RUB, CAD) CNY	Currencies	USD, forward rate agreement, options to hedge USD  USD, JPY
Oil, copper, palladium	Precious Metals & Commodities	Gold

**ASSET ALLOCATION**

With the vaccine rollout now accelerating, reopening approaching, and more fiscal stimulus on its way in the US, growth expectations have improved dramatically. Policy uncertainty is rising as a result, injecting volatility into equity and bond markets. But we believe central banks will maintain easy financial conditions. We remain risk-on overall, expressed through a preference for select equities and credit segments that are geared to the economic recovery.

**BALANCED USD MODEL PORTFOLIO**



**EQUITIES**

Markets are transitioning to a more mature phase of the recovery trade. The initial stage was characterized by unprecedented policy intervention, which saw real rates collapsing and P/E expansion supporting equities. With earnings growth accelerating, higher bond yields should not derail the positive equity performance. As such, we expect further upside in the coming 6–12 months. We keep emerging markets at Most Preferred, as their valuations are attractive compared with those of developed markets.

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**BONDS**

With a short-term spike in inflation looming and economic normalization on the horizon, volatility in the long-end of the yield curve has increased. Central banks have stated that they will withdraw stimulus much later than they did in previous cycles as the recovery kicks in, and that they would like to see a moderate glide path for rates. However, large amounts of fiscal stimulus may put pressure on that strategy. In the US, we believe the lower credit segments will be sustained by the prospect of further fiscal stimulus, fast vaccine rollout, and an improved outlook for defaults. We have moved US high yield to Most Preferred, while US investment grade remains as Least Preferred due to tight valuations and its vulnerability to rising yields. Finally, we still like Asian high yield bonds for their attractive yields and valuations.

Source: UBS House View April 2021

**CURRENCIES**

Among G10 currencies, we remain bearish on the US dollar and the yen. We expect pro-cyclical currencies like the euro, commodity-producer currencies, and the pound to benefit from a weaker greenback. The Swiss franc is also likely to rise, but not as much as the EUR or the GBP. Demand for the safe-haven JPY should fall, and the currency may even underperform the greenback as global investors prepare for a post-COVID world. Strong demand for the Chinese yuan should keep it on a medium-term uptrend versus the USD.

**TOPIC OF THE MONTH**

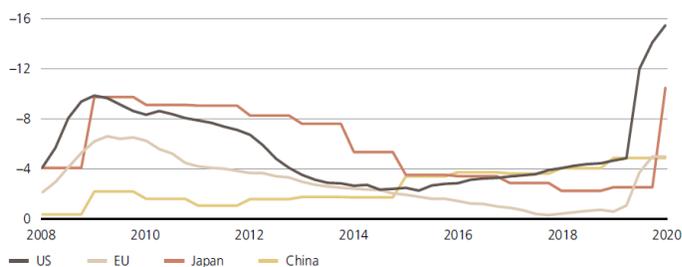
**WORRIES OF INFLATION?**

The positive growth outlook is likely to be magnified by the continued spike in fiscal and monetary stimulus. Over the last year the US, Europe, China, the UK, and Japan collectively increased government debt by around 15% of global GDP. Now, it looks likely that the US could add up to another 9% of its GDP. President Biden has proposed a USD 1.9tr package and the Democrats in Congress have started the “budget reconciliation” process to pass it without Republican votes. Some cost reductions will likely be necessary to keep moderates in the Senate on board, resulting in a final package of USD 1.5tr in our view, though strong popular support could yet end up giving President Biden the USD 1.9tr he asked for. The fiscal package would come on top of central bank liquidity injections of around USD 300 billion in January 2021, by the Federal Reserve, European Central Bank, the Bank of Japan, and the Bank of England. This is likely to remain in place even if inflation rises in the months ahead. Furthermore, the household sector appears poised to start spending excess savings. The US savings rate averaged 16% in 2020, about twice the long-term average since 1960. That’s total savings of USD 2.9tr, with JP Morgan reporting a 37% year-over-year rise in household deposits in a recent investor update.

Worries about inflation remained a feature of markets last week, with US two-year inflation break-evens hitting a decade high of 2.6%. Such concerns were stoked by a higher-than-expected US producer price index reading, with the core up 1.2% on the month against a forecast of 0.4%. That included a 0.9% rise in healthcare costs, the second highest jump on record, with the year-on-year rate the highest since 2007. That is significant because healthcare accounts for a fifth of the core personal consumption expenditure index, the Fed’s favorite inflation gauge. Inflation concerns continued to push up yields, with the yield on the 10-year US Treasury rising 14.5 basis points to 1.345% over the weeks. But our view remains that the rise in inflation will be temporary. Markets are braced for average inflation of 2.6% over the next two years, but just 2.2% over 10 years, based on break-evens. Meanwhile, Fed minutes have indicated that officials view near-term inflation forces as being driven largely by “temporary factors”, such as low past levels dropping out of annual comparisons. That suggests the Fed will avoid tightening too soon. Against this backdrop, we believe investors should look to add income to portfolios through Asian high yield and companies offering sustained high dividends.

**Fiscal deficits have spiked**

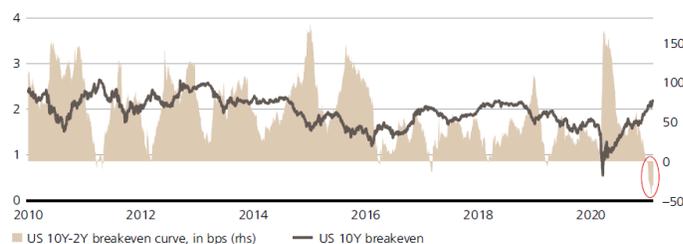
Budget balance in percentage of GDP for US, Eurozone, Japan, and China, inverted scale



Source: Bloomberg, UBS, as of 8 February 2021

**The US breakeven inflation curve is inverted, with near-term expectations higher than longer-term expectations**

US 10-year breakeven, in % (lhs); US 10-year-2-year breakeven curve, in bps (rhs)



Source: Bloomberg, UBS, as of 8 February 2021

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continuation WORRIES OF INFLATION?

Nonetheless, a near-term rise in inflation is likely, and at some point in the next few months investors will face a combination of above-target and rising inflation and strong economic and jobs growth, while interest rates stay close to zero and central banks continue to add liquidity. The Federal Reserve has repeatedly said it will look through such an inflation spike— and for the reasons stated above we think it will—but it is likely to lead to nervousness about higher rates.

Inflation worries helped push US 10-year yields 14.5 basis points higher last week to 1.345%, a rise of around 43bps since the start of the year. If yields were to rise sharply over a short period of time, this could prove more problematic for stocks.

Source: UBS House View 04/2021

KEY FIGURES 2021

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31/12/2020	25/02/2021	% Chg YTD
Dow Jones Ind.	30.606,48	31.402,01	2,60%
S&P 500	3.756,07	3.829,34	1,95%
RUSSELL 2000	1.974,86	2.200,17	11,41%
NASDAQ COMP	12.888,28	13.119,43	1,79%
CANADA - TSX	17.433,40	18.484,53	6,03%
MEXICO - IPC	44.066,88	44.310,27	0,55%
BRAZIL IBOVESPA	119.017,24	112.556,36	-5,43%
COLOMBIA COLCAP	1.437,89	1.370,75	-4,67%
ASIA	31/12/2020	25/02/2021	% Chg YTD
JAPAN- NIKKEI	27.444,17	30.168,27	9,93%
H.K. HANG SENG	27.231,13	30.074,17	10,44%
CHINA CSI 300	5.211,29	5.469,56	4,96%
EUROPE	31/12/2020	25/02/2021	% Chg YTD
EURO STOXX 50	3.352,64	3.685,28	9,92%
UK - FTSE 100	6.460,52	6.651,96	2,96%
GERMANY - DAX	13.718,78	13.879,33	1,17%
SWITZERLAND - SMI	10.703,51	10.658,87	-0,42%
SPAIN - IBEX 35	8.073,70	8.317,80	3,02%
NETHERLANDS - AEX	624,61	664,48	6,38%
RUSSIA - RTSI	138.530,00	145.730,00	5,20%

VOLATILITY

	31/12/2020	25/02/2021	% Chg YTD
SPX (VIX)	22,75	28,89	26,99%

CURRENCIES

	31/12/2020	25/02/2021	% Chg YTD
EUR/USD	1,2237	1,2183	-0,44%
USD/JPY	103,2360	106,2100	2,88%
USD/CHF	0,8840	0,9048	2,35%
GBP/USD	1,3673	1,4017	2,52%
USD/CAD	1,2739	12602,0000	989184,45%
EUR/CHF	1,0817	1,1023	1,90%

COMMODITIES (USD)

PRECIOUS METALS	31/12/2020	25/02/2021	% Chg YTD
GOLD USD/OZ	1.897,70	1.769,90	-6,73%
SILVER USD/OZ	26,45	27,42	3,67%
PLATINUM USD/OZ	1.075,50	1.220,50	13,48%
ENERGY	31/12/2020	25/02/2021	% Chg YTD
WTI Crude Oil	48,52	63,53	30,94%
Brent Crude Oil	51,80	66,88	29,11%
Natural Gas	2,53	2,73	7,91%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	0,043	0,166	1,515
GERMANY	-0,591	-0,653	-0,231
SWITZERLAND	-0,800	-0,769	-0,156
UK	0,017	0,114	0,787
JAPAN	-0,100	-0,101	-0,141

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**T&T INTERNATIONAL GROUP**

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