J. SAFRA SARASIN
SUSTAINABLE ASSET MANAGEMENT

Cross-Asset Weekly

16 April 2021

On the cusp to normalisation

The slow vaccination rollout in the EU continues to weigh on the region's economic outlook. This should change in the months ahead. A ramp up in supply should accelerate vaccination campaigns and allow restrictions to be gradually relaxed ahead of summer. As a result, we leave our euro area GDP growth forecasts unchanged. In the US, we also keep our 2021 GDP growth forecast at 6.9%, but highlight upside risks to our 2022 forecast of 3.7% if President Biden's 'build back better' plan were to be enacted fully.

The short-term upside for US yields looks limited from here. After the significant repricing of US rates year-to-date, the likely moderation in the momentum of the US manufacturing sector reduces tailwinds in the near term. In Europe, we expect euro area and UK yield curves to steepen further as policy rate expectations remain low and the economies should reopen progressively. We continue to favour High Yield over Investment Grade credit. With the rally in bond yields recently coming to a halt, FX markets are likely to refocus on the high US funding needs and cyclical forces, which should put the US dollar back on its projected longer-term downward trend. We maintain our conviction that particularly the euro should benefit – with a delay though compared to our previous forecast.

In equities, we selectively adjust our regional and sector preferences to reflect a changing market environment. More limited headwinds from rising rates allow to venture into the more defensive and attractively valued end of the equity market. We caution against adding further outright cyclicals exposure and prefer to be selective among defensives. European pharma stands out in our view as an attractively valued reopening play, but also food & beverages. We think Swiss equities look attractive and caution against adding to Emerging Markets exposure. Lastly, we lift our end 2021 S&P500 target to 4300 but warn against adding too much risk at the current juncture, as market pricing looks stretched.

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This week's highlights

Global Macro: Forecast Update

The needle is finally moving

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The slow vaccination rollout in the EU has weighed on the region's economic outlook. Still, the vaccination campaign should accelerate over the next few months, allowing restrictions to be gradually relaxed ahead of the summer. As a result, we have left our euro area GDP growth forecasts unchanged. In the US, President Biden's 'build back better' plans pose upside risks to our 2022 GDP growth forecast.

Our constructive outlook for the euro area relies on a significant pick up in the vaccination campaign

We have kept our forecasts broadly unchanged this month, with only small upward revisions to our 2021 inflation numbers for the euro area and Switzerland. The key question for the euro area, given the resurgence of COVID-19 infections, prolonged lockdowns and the snail pace of the vaccination campaign, is whether we can maintain our baseline scenario of a strong economic rebound later this year? We think we can, for two reasons:

If everything goes to plan, 75% of the adult population could be vaccinated by the end of June – though this is unlikely to happen

First, restrictions on mobility are having their intended effects, and new infections appear to have peaked. Second, the pace of vaccination is finally set to accelerate. By the end of the quarter, the European Commission expects to receive 400 million doses of the four vaccines that have been approved (Exhibit 1). This should be enough to have fully vaccinated about 75% of the adult population (18+) by the end of June. But this is a highly optimistic scenario as it assumes that there will be no production, logistical or health hiccup (the future of the AstraZeneca and Johnson & Johnson vaccines in the EU is unclear), and that everyone who is offered a vaccine will take it. In France, for example, only half of the population says it will take the vaccine, according to a recent YouGov survey.

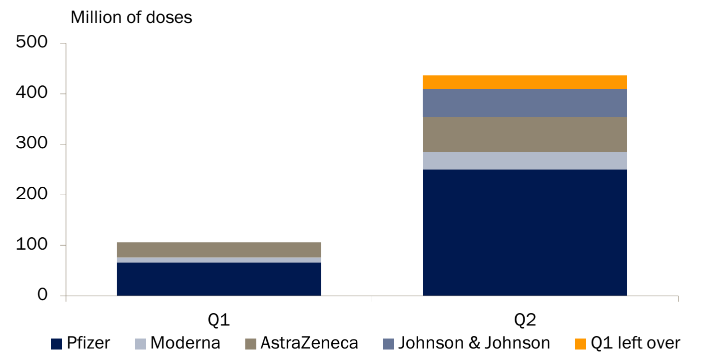
Still you don't need to get to 'herd immunity' for governments to feel more comfortable about lifting restrictions

Still, even if only half of the doses are administered, benefits should already be felt. Hospitalisations and deaths should drop, as it has already been the case in the US and the UK, with 20% and 10% of their respective population being fully vaccinated. As a result, governments should be more comfortable about lifting restrictions ahead of the summer.

Biden's 'build back better' plans pose upside risks to our 2022 US GDP growth forecast

So far, the US economy is performing as we had anticipated, with GDP growing at an annualised rate of 8% qoq and inflation rebounding sharply, reflecting to a large extent big base effects. The two long-term plans the administration has recently announced – the American Jobs Plan & American Families Plan – could amount to more than $3trn spread over several years, and pose upside risks to our 2022 growth forecasts.

Exhibit 1: Enough doses to get 75% of EU adult population vaccinated



Source: European Commission, Bank J. Safra Sarasin, 14.04.2021

Exhibit 2: We have left our growth forecasts unchanged this month

		2020	2021	2022
US	GDP	-3.5	6.9	3.7
	CPI	1.3	2.6	2.2
Euro area	GDP	-6.6	4.0	3.8
	CPI	0.3	1.6	1.2
Switzerland	GDP	-2.8	3.0	2.9
	CPI	-0.7	0.2	0.7
UK	GDP	-9.9	4.8	6.1
	CPI	0.9	1.7	1.8
Japan	GDP	-4.9	3.8	1.4
	CPI	0.0	0.2	0.8
China	GDP	2.3	8.2	5.4
	CPI	2.5	2.1	2.5

Source: Macrobond, Bank J. Safra Sarasin, 14.04.2021

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Global Fixed Income: Forecast Update

Limited upside for bond yields

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After the significant repricing of US policy rate- and inflation expectations and a likely moderation in the momentum of the US manufacturing sector, the upside for US yields looks limited from here. In Europe, we expect euro area and UK yield curves to steepen further as policy rate expectations remain low and the economies should reopen progressively. We continue to favour High Yield over Investment Grade credit.

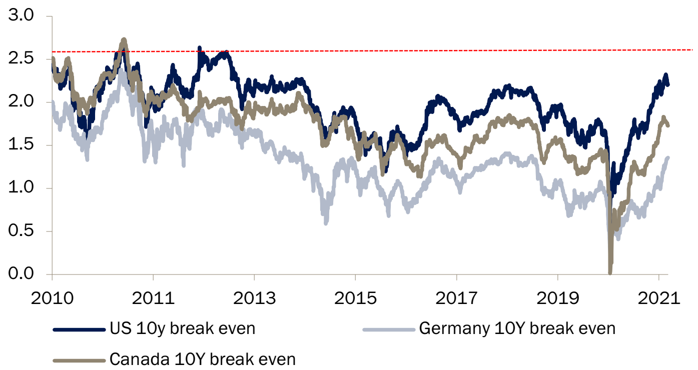
Developed markets' inflation expectations have come a long way

As we have noted repeatedly, a strong economic rebound and deliberately loose monetary conditions for an extended period of time are the perfect set up for an increase in inflation expectations in government bond markets. In fact, market-based inflation expectations have recovered strongly since the lows last year. US inflation expectations are approaching levels (2.5%), which in the past have proved difficult to surpass, while Euro area inflation expectations are still comparatively low and have some more room to go, as the economies reopen over coming months.

More adequate pricing of US rate expectations

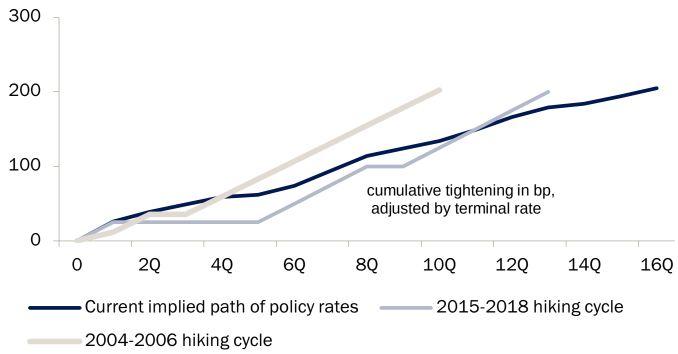
Market expectations for Fed policy rates have adjusted significantly over the past few months. The current implied pace of cumulative rate hikes bears close resemblance to the most recent hiking cycle of 2015 to 2018. The implied path is probably overly smooth as markets tend to price an acceleration in the pace of expected rate hikes once we move closer to a potential lift off in policy rates (Exhibit 2). While there is still upside risk to our rate view in the medium term, the pricing looks much more adequate after recent moves.

Exhibit 1: US inflation expectations have come a long way



Source: Bloomberg, Bank J. Safra Sarasin, 14.04.2021

Exhibit 2: US forward markets price a path similar to 2015-2018

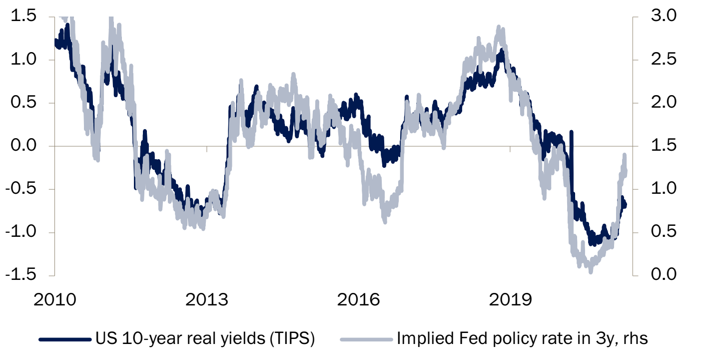


Source: Bloomberg, Bank J. Safra Sarasin, 14.04.2021

Limited upside for US yields

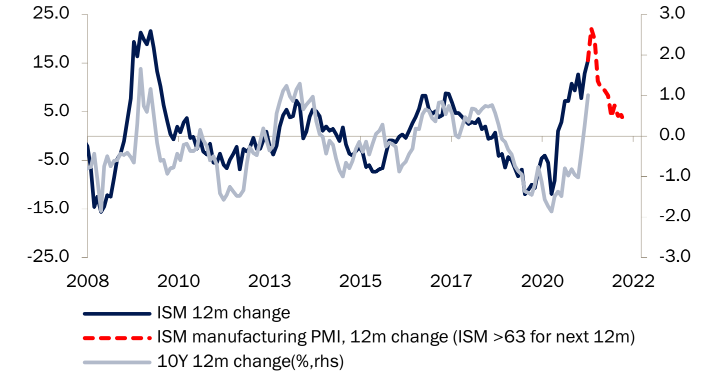
While market-based US inflation expectations are likely close to a top, real rates still look too low given the rate expectations in the US (Exhibit 3). Consequently, we will have to contend with some upward pressure on real rates in coming months. However, real rates will likely rise only moderately. Markets will increasingly adjust to the Fed's new reaction function and will struggle to price a significant amount of additional rate hikes into the rate structure. Moreover, we note that there is a close correlation between the momentum (6-, 12-month changes) in the US ISM manufacturing index and the change in US 10-year yields (Exhibit 4). Even if the ISM stays above 60 for the next 6- to 12 months, the upward momentum will ease significantly from June onwards. We conclude that the upward pressure on US 10-year yields will likely wane as we enter the second half of 2021.

Exhibit 3: US real rates are still low compared to Fed expectations



Source: Bloomberg , Bank J. Safra Sarasin, 14.04.2021

Exhibit 4: US manufacturing momentum will ease in coming months

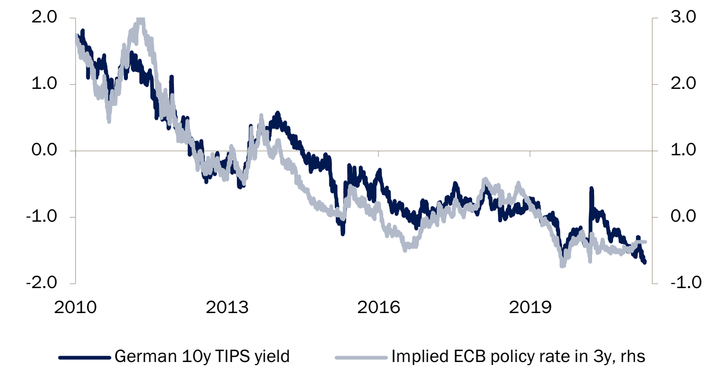


Source: Bloomberg,, Bank J. Safra Sarasin, 14.04.2021

Expect steeper curves in Europe

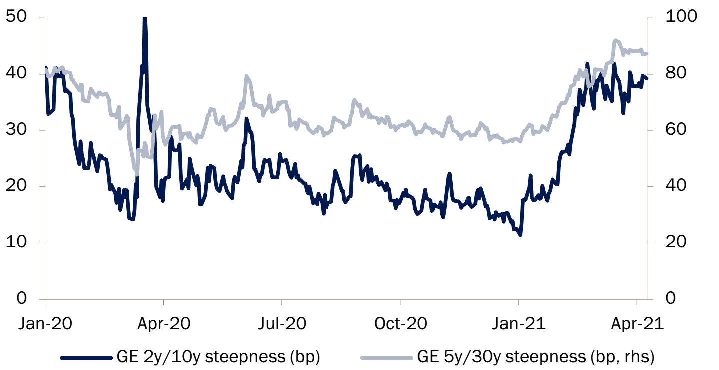
Unlike in the US, 10-year real yields in the euro area have barely budged in line with unchanged rate expectations (Exhibit 5). This is unlikely to change in the coming months. With an increase in the pace of vaccinations and a concomitant acceleration in economic growth, markets will likely demand some additional term premium for holding longer dated euro area bonds. The ECB will likely accept some moderate curve steepening in euro area bond markets along with a further rise in market-based inflation expectations, as long as financing conditions in the euro area do not tighten meaningfully. The ongoing asset purchase programs will be an excellent tool for the ECB to engineer a smooth and moderate increase in bond yields led by the long end (Exhibit 6).

Exhibit 5: Euro are real yields likely to remain at extremely low levels



Source: Bloomberg, Bank J. Safra Sarasin, 14.04.2021

Exhibit 6: Expect EA curves to steepen as the recovery gains traction



Source: Bloomberg, Bank J. Safra Sarasin, 14.04.2021

Prefer High Yield to Investment Grade

We reiterate our preference for High Yield (HY) relative to Investment grade (IG) bonds. HY is much less exposed to duration risks and HY companies stand to benefit primarily from an acceleration in global growth.

Forecast update: Policy rates

	13-Apr-21	Jun-21	Dec-21	Jun-22
US Fed Funds	0.25	0.25	0.25	0.25
EUR depo rate	-0.50	-0.50	-0.50	-0.50
CHF Saron	-0.75	-0.75	-0.75	-0.75
BoE base rate	0.10	0.10	0.10	0.10
JP O/N rate	-0.10	-0.10	-0.10	-0.10

Source: Bloomberg, Bank, J. Safra Sarasin, 14.04.2021

Forecast update: 10y Bond yields

	13-Apr-21	Jun-21	Dec-21	Jun-22
USA	1.62	1.75	1.90	2.10
Germany	-0.33	-0.25	-0.10	0.00
Switzerland	-0.27	-0.25	-0.10	-0.10
UK	0.80	0.85	1.00	1.05
Japan	0.09	0.10	0.10	0.15

Source: Bloomberg, Bank J. Safra Sarasin, 14.04.2021

Global FX: Forecast Update

US dollar has likely re-embarked on its downward trend

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With the rally in bond yields recently coming to a halt, markets are likely to refocus on the high US funding needs and cyclical forces, which should put the US dollar back on its projected longer-term downward trend. We maintain our conviction that particularly the euro should benefit, with a delay compared to our previous forecast. Moreover, we made slight revisions to our Swiss franc and Japanese yen forecasts.

The US dollar has grinded lower again as of late and likely re-embarked on its longer-term downward trend

Rallying yields pushed the US dollar to a five-month high on March 31. Yet the currency has begun to grind lower again as of late (Exhibit 1) and with the yield-rally stalling, we expect these dynamics to be less of a concern for FX markets in the near term. Instead, we expect markets to refocus on the high US funding needs. The $1.9tr fiscal package and more prospective stimulus will sustain the US budget deficit at record levels, while domestic consumption should boost imports and widen the US trade deficit. More importantly, we expect cyclical forces to re-emerge as a dominant driver for FX, which should be a further headwind for the US dollar and put the currency back on its longer-term downward trend, which we expect to extend into 2022.

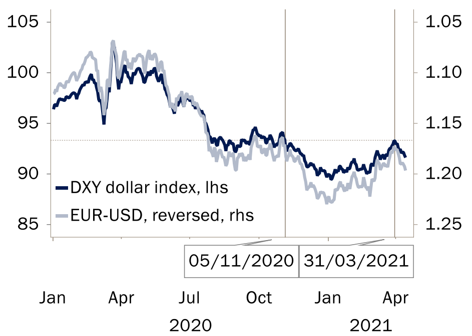
The euro should benefit from positive economic surprises and gain as the vaccination gap closes

Positive economic surprises along with an accelerating vaccination rollout (Exhibit 2) should warrant a further pick-up of the European currency, which has found a footing as of late (see «Euro to gain on narrowing vaccination gap», FX Atlas 2021/04/13). While remaining positive on the euro, we acknowledge that the extension of lockdown measures likely postpones the currency's rebound mostly into H2 2021. Hence, we amended the currency's trajectory for 2021 accordingly (Exhibit 3). We remain constructive on EUR-CHF, but revised our year-end forecasts slightly up from 1.08 to 1.10, which has repeatedly represented a psychological mark. Generally, we expect the Swiss franc to remain strong on the back of Switzerland's persistently low inflation, which should give it a relative edge versus other cyclical currencies in a reflationary environment.

The Japanese yen should strengthen only modestly against the US dollar

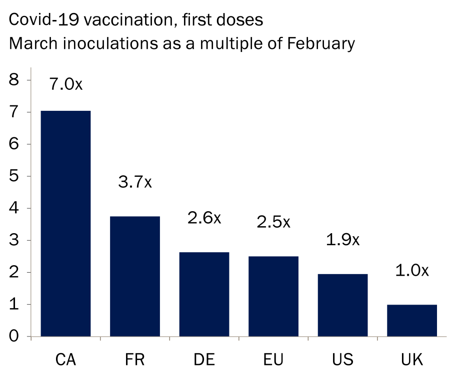
Also, the Japanese yen should benefit from cyclical tailwinds given the country's strong current accounts. Yet two developments should constitute an offsetting effect: First, Japanese export momentum should weaken on the back of a slowing Chinese cycle and second, we expect safe-haven demand to diminish further as the global recovery progresses. In consequence, we revised our USD-JPY year-end target from 100 to 105.

Exhibit 1: The US dollar is weakening again



Source: Macrobond, Bank J. Safra Sarasin, 15.04.2021

Exhibit 2: Vaccinations are accelerated



Source: Macrobond, Bank J. Safra Sarasin, 15.04.2021

Exhibit 3: Our FX forecasts

	14-Apr-21	Jun-21	Dec-21
EUR-CHF	1.10	1.10	1.10
EUR-USD	1.20	1.22	1.28
EUR-GBP	0.87	0.86	0.88
GBP-USD	1.38	1.42	1.45
USD-JPY	109	108	105
USD-CHF	0.92	0.90	0.86
USD-CNY	6.53	6.50	6.40
Gold, USD/oz	1'735	1'680	1'770

Source: Refinitiv, Bank J. Safra Sarasin, 15.04.2021

Global Equities: Forecast Update

More alpha, less beta

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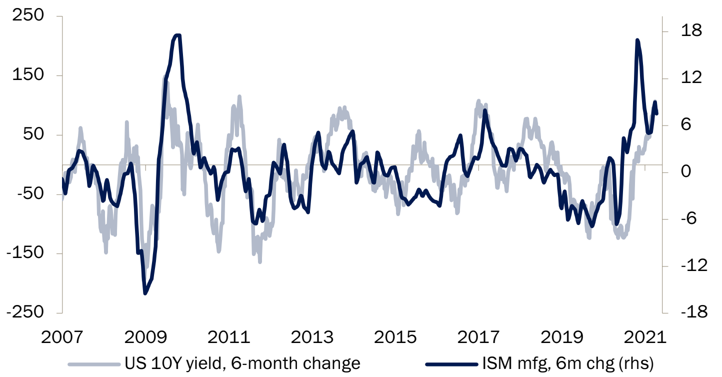
We selectively adjust our regional and sector preferences to reflect a changing market environment. More limited headwinds from rising rates allow to venture into the more defensive and attractively valued end of the equity market. We caution against adding further outright cyclicals exposure and prefer to be selective among defensives. European pharma stands out in our view as an attractively valued reopening play, but also food & beverages. We think Swiss equities look attractive and caution against adding to Emerging Markets exposure. Lastly, we lift our end 2021 S&P500 target to 4300.

Stabilising rates and a slowing acceleration in macro data imply a more nuanced sector and regional performance going forward

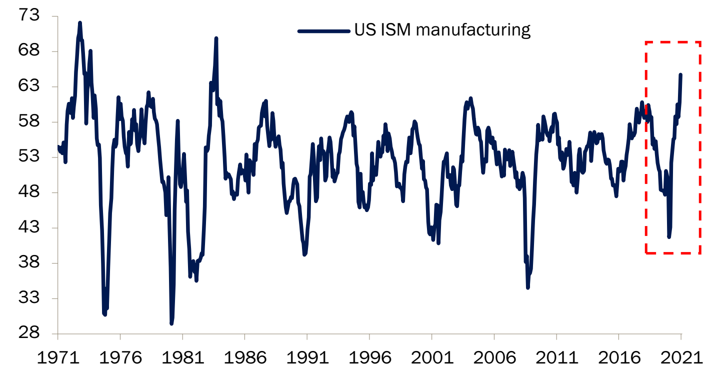
We selectively adjust our tactical preferences on regions and sectors to reflect a changing market environment. After the strong reflationary rebound and pro-cyclical rotation in equity markets which started in November, the road ahead will likely be marked by a more nuanced performance pattern across sectors and regions. Yields are set to rise more gradually, defusing a key performance driver over the past 6 months (Exhibit 1). The sharp rise in US macro momentum may also be closer to its peak (Exhibit 2). This does by no means imply that the macro cycle is ending, but its acceleration may well slow. We could thus be at the cusp of a new phase, during which cooling macro drivers become less relevant, while valuations and sector-level rationales matter. This may allow some of the more defensive trades that have lost out over the past year, to regain territory. As a result, we think it is the right time to reconsider a few positions which have worked very well over recent months and shift into positions which look attractive after the sharp rotation year-to-date.

Exhibit 1: US yields have caught up with macro momentum



Source: Refinitiv, Bank J. Safra Sarasin, 15.04.2021

Exhibit 2: The US ISM is at the highest level in almost 40 years



Source: Refinitiv, Bank J. Safra Sarasin, 15.04.2021

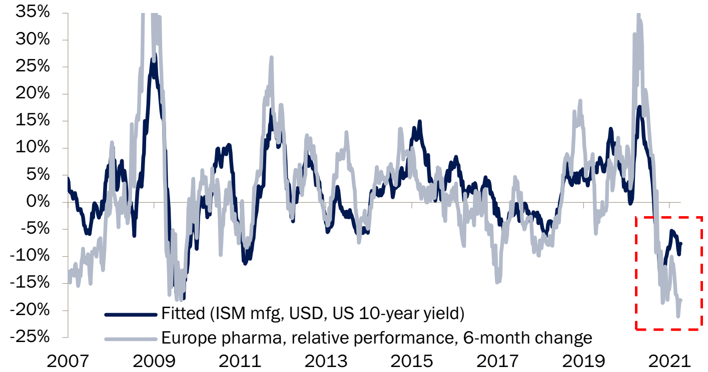
We caution against adding exposure to cyclicals vs. defensives

At the sector-level, we would caution against adding to an overweight position in cyclicals vs. defensives. This goes back to our weekly from 26 March, where we highlighted the stretched levels cyclicals are trading on and the headwinds they could be facing going forward (Exhibit 3). Among the more defensive sectors, health care provides an attractive entry point in our view (Weekly 19 March). The sector should benefit from the re-opening of economies, given the large number of treatments and screening which have been postponed due to COVID as well as hospital capacities which have been reduced and are set to come back over summer. Within the sector, we prefer European pharma, which has significant US exposure, but does face less of a threat from a potential US corporate tax hike than its US peers. European pharma has not only underperformed by almost 20% over the past 6 months (the sharpest 6-month underperformance on record, Exhibit 4), it is also trading at the largest PE discount to the market since 2010. In addition, we have also upgraded utilities and consumer staples to neutral, given the discount they are trading at. In staples, we think food & in particular beverages could further benefit from recovering demand as consumers flock back to restaurants over coming months. US utilities should benefit from infrastructure spending.

Exhibit 3: Cyclicals are trading at record highs vs. defensives

Source: Refinitiv, Bank J. Safra Sarasin, 15.04.2021

Exhibit 4: Pharma has seen its worst 6-month performance on record



Source: Refinitiv, Bank J. Safra Sarasin, 15.04.2021

We drop our long-held energy preference (Weekly 13 Nov 2020) to neutral, along with banks, whose upside is more limited in an environment of more stable rates.

We raise our preference for Swiss equities

Among regions we have raised our preference for Swiss equities, given (a) the market's exposure to the pharma sector, (b) the valuations it is trading at and (c) as macro headwinds are fading somewhat. Apart from that, we keep our preferences for EMU and UK equities and raise US equities to neutral. We think it is too early to raise Emerging Markets exposure, most importantly, as we believe that Chinese equities will remain under pressure from a softening China macro cycle and regulatory risks.

We expect the S&P 500 at 4300 by end 2021

Lastly, we are upgrading our year-end target for the S&P 500 to 4300 (4.5% upside), given the more stable outlook for rates, which limits valuation headwinds in the coming months. This should allow the steep earnings trajectory, with 12% upside on 12-month forward EPS until year-end, to carry the market higher. It should be noted though that valuations are already quite stretched and any crack in the growth narrative could trigger a correction from current levels. We would thus, in terms of conviction, rather go with our more defensive allocation than taking outsized positions on the market itself.

Exhibit 5: Our regional and sector preferences

Regional preferences	
Emerging Markets	→
China	→
United Kingdom	↑
USA	→
Japan	↓
Eurozone	↑
Switzerland	↑

Sector preferences	
Information Technology	↑
Industrials	↓
Energy	→
Materials	↓
Consumer Discretionary	↑
Banks	→
Insurance	→
Communication Services	→
Real Estate	↓
Utilities	→
Consumer Staples	→
Health Care	↑

↑ indicates most preferred
→ indicates neutral
↓ indicates least preferred

Source: Bank J. Safra Sarasin, 15.04.2021

Exhibit 6: Our end-2021 targets

Index	Current	Dec-21
MSCI World	2914	3050
S&P 500	4125	4300
Nasdaq 100	13804	14400
FTSE 100	6940	7200
DJ Euro Stoxx 50	3976	4150
SMI	11156	11700
MSCI Japan	1192	1250
MSCI EM	1337	1370

Source: Refinitiv, Bank J. Safra Sarasin, 15.04.2021

Economic Calendar

Week of 19/04 – 23/04/2021

Country	Time	Item	Date	Unit	Consensus Forecast	Prev.
Monday, 19.04.2021						
na						
Tuesday, 20.04.2021						
UK	08:00	ILO Unemployment Rate 3m	Mar	%	--	5.00%
GE	08:00	PPI MoM	Mar	mom	--	0.70%
	08:00	PPI YoY	Mar	yoy	--	1.90%
Wednesday, 21.04.2021						
UK	08:00	CPI MoM	Mar	mom	--	0.10%
	08:00	CPI YoY	Mar	yoy	--	0.40%
	08:00	PPI Input NSA MoM	Mar	mom	--	0.60%
	08:00	PPI Input NSA YoY	Mar	yoy	--	2.60%
US	13:00	MBA Mortgage Applications	Apr16	mom	--	-3.70%
CA	16:00	Bank of Canada Rate Decision	Apr21	%	0.25%	0.25%
Thursday, 22.04.2021						
EU	13:45	ECB Rate decision	Apr22	%	-0.50%	-0.50%
US	14:30	Initial Jobless Claims	Apr17	1'000	--	744k
	14:30	Chicago Fed Nat. Activity Index	Mar	Index	--	-1.09
	16:00	Leading Index	Mar	mom	0.70%	0.20%
	16:00	Existing Home Sales	Mar	mn	6.11	6.22
	17:00	Kansas City Fed Manf. Activity	Mar	Index	--	26.00
Friday, 23.04.2021						
FR	09:15	Markit France Manufacturing PMI	Apr P	Index	--	59.30
	09:15	Markit France Services PMI	Apr P	Index	--	48.20
GE	09:30	Markit Germany Manuf. PMI	Apr P	Index	--	66.60
	09:30	Markit Germany Services PMI	Apr P	Index	--	51.50
	10:00	Markit Eurozone Manuf. PMI	Apr P	Index	--	62.50
	10:00	Markit Eurozone Services PMI	Apr P	Index	--	49.60
UK	10:30	Markit UK Manuf. PMI	Apr P	Index	--	58.90
	10:30	Markit CIPS/UK Services PMI	Apr P	Index	--	56.30
	15:45	Markit US Manufacturing PMI	Apr P	Index	--	60.40
	15:45	Markit US Services PMI	Apr P	Index	--	59.70

Source: Bloomberg, J. Safra Sarasin as of 15.04.2021

Market Performance

Global Markets in Local Currencies

Government Bonds	Current value	Δ 1W	Δ YTD	TR YTD in %
Swiss Eidgenosse 10 year (%)	-0.24	2	31	-1.8
German Bund 10 year (%)	-0.28	3	29	-1.8
UK Gilt 10 year (%)	0.74	-4	52	-3.9
US Treasury 10 year (%)	1.58	-8	66	-4.2
French OAT - Bund, spread (bp)	26	0	2	
Italian BTP - Bund, spread (bp)	102	-1	-10	

Stock Markets	Level	P/E ratio	1W TR in %	TR YTD in %
SMI - Switzerland	11'199	18.6	0.3	6.5
DAX - Germany	15'255	16.6	0.3	11.2
MSCI Italy	784	14.2	-0.1	9.7
IBEX - Spain	8'572	19.2	-0.8	6.6
DJ Euro Stoxx 50 - Eurozone	3'993	19.1	0.4	13.0
MSCI UK	1'957	14.5	0.6	9.5
S&P 500 - USA	4'170	23.7	1.8	11.5
Nasdaq 100 - USA	14'026	30.6	1.9	9.1
MSCI Emerging Markets	1'341	15.2	0.2	4.2

Forex - Crossrates	Level	3M implied volatility	1W in %	YTD in %
USD-CHF	0.92	6.4	-0.2	4.6
EUR-CHF	1.10	4.4	0.3	1.7
GBP-CHF	1.27	7.2	-0.1	5.4
EUR-USD	1.20	5.8	0.5	-2.7
GBP-USD	1.37	7.1	0.2	0.8
USD-JPY	108.9	5.8	-0.7	5.5
EUR-GBP	0.87	6.3	0.3	-3.5
EUR-SEK	10.12	5.5	-0.4	0.4
EUR-NOK	10.07	8.1	-0.4	-4.1

Commodities	Level	3M realised volatility	1W in %	YTD in %
Bloomberg Commodity Index	87	16.2	3.4	11.6
Brent crude oil - USD / barrel	67	47.4	6.6	31.6
Gold bullion - USD / Troy ounce	1'763	13.3	0.4	-6.9

Source: J. Safra Sarasin, Bloomberg as of 15.04.2021

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