

## OUR MONTHLY MARKET ANALYSIS AND POSITIONING



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### IN A NUTSHELL

- \_ April was a pleasant month for most investors.
- \_ Economic recovery, generous central banks and positive earnings revisions pushed markets to record highs. Even bonds gained slightly.
- \_ We believe bond yields will rise a little going into the summer, which should take some momentum from equity markets. Overall, however, the investment environment should remain benign.

## 1 / Market overview

From an investor's perspective April offered little cause for complaint. Almost all asset classes rose, the central banks continued to wave green flags and there was hardly any disruptive fire from politicians. A tax increase on high capital gains mentioned by President Joe Biden served to irritate investors briefly. But in almost all other regards Biden remained the crowd-pleaser, and his various economic stimulus packages may have what it takes to boost America's potential growth.

International relations were less sunny. Tensions rose between the United States and China. Biden's administration hardly misses an opportunity to emphasize how vital it is to keep the strategic competitor in check. There are also headwinds for global trade from another side: supply chains and bottlenecks, first and foremost in computer chips. These are already leading to production cutbacks in the automotive industry and sharp price increases in some areas, such as consumer electronics. Price increases for agricultural commodities are likely to be more politically explosive. Wheat, for example, rose by 20.1% and corn by a full 31.3% in April.

The central banks, in particular the U.S. Federal Reserve (Fed), have nonetheless hastened to emphasize that the inflationary spikes seen so far, and those expected in the summer, are only temporary, and that there is therefore no reason to turn the interest-rate screw or decrease the volume of bond purchases. This has kept markets serene, but investors have taken note of just how strongly the economic recovery remained in April. Consumers and companies are showing a high propensity to buy and invest, and most leading indicators are continuing to rise sharply.

Vaccinations are a big driver of the recovery. Progress is being made widely, even if the speed of vaccination programs varies greatly. The German government was obliged to send its population into a nationwide lockdown once again in April, but it has also vaccinated more than a quarter of its population, administering more than 1.1 million vaccinations in a day at the end of April, a European record, and the pace is expected to pick up further. The United States is well ahead. More than half the adult population has received at least one vaccination – and the reluctant are already having to be lured with donuts or even cash.<sup>1</sup> And in the UK, where more than 60% of the adult population has received at least one shot, the pub crowd is going in for shots of a different kind: drinking twice as much as before the pandemic – that brewers are having to put in night shifts and ration volumes to prevent individual pubs from running dry.

<sup>1</sup> <https://fortune.com/2021/04/27/covid-vaccine-payment-100-dollar-incentive-west-virginia-savings-bonds-cdc-krispy-kreme-donuts-free-update/>

Except for Japan and India, all the major stock indices have also taken some generous sips from the merry recovery bottle. Thanks in part to incredibly strong quarterly figures, the technology sector has made a comeback – of its year-to-date return of 7.2%, 5.3 percentage points came from April. It was the other way around for the energy sector, which was the worst performer in April with a rise of just 0.2%, but remains the strongest sector so far this year with a gain of 18.3%, thanks to the price of oil, which has become around a third more expensive since the end of last year.

Copper has gained 27% in the year to date, reflecting both the economic recovery and the prospect of numerous government investment programs. These two positive factors are also reflected in the sharp rise in profit expectations for equities. According to Bank of America figures, global earnings revisions are already unusually strong, and in Europe they are at an all-time high.<sup>2</sup> If volatility then also falls to its lowest level since the outbreak of the pandemic, this will please investors all the more. Even the prospect of higher corporate taxes in the United States from 2022, or even a global minimum tax mooted by Janet Yellen, cannot slow down profit expectations: after rises in 2021, further growth is expected in 2022.

Things look less exciting for bonds, where yield spreads, having risen fast so far this year, took a little pause and even declined in some places. U.S. Treasuries therefore rose in price in April for the first time in four months. The yield spread over Bunds (10-year) melted away by almost 20 basis points in April, which was perhaps one of the reasons for the weak dollar. The biggest loser, however, was bitcoin. After gaining 18%, 35% and 27%, respectively, in the first three months of this year, it suffered a losing month for the first time, even if it was by only 1.7%.

## 2 / Outlook and changes

Could this be the last time in the current market that the monthly investment traffic lights appear amid extraordinarily sunny markets? Many market participants are shouting "Sell in May and go away." It is a "strategy" that does not have a bad record. Since 1983, for example, the S&P 500 has performed on average almost two and a half times better in the colder half of the year than in the warmer months. And during just the last 20 years, that factor rises to 3.3 times. And there are other good reasons to be cautious now: 1. The MSCI AC World Index is trading over 80% above its March 2020 low and over 20% above its February 2020 pre-coronavirus high. This is primarily due to higher valuations. Investors paid nearly 16 times estimated earnings just before Covid, and that multiple is now more than 18 times. 2. Central banks are sticking to their loose money guns. But the Fed could use the Jackson-Hole meeting this summer to prepare the market for the beginning of an exit from ultra-loose monetary policy. 3. Even if central banks do not act, investors themselves could push up longer-term bond yields given improving economic figures and a (possibly temporary) rise in inflation. 4. Investors' buying appetite is usually at its highest when there is a legitimate prospect of improvement. Once the improvement has occurred, the euphoria often fades. This has already been seen in many cyclical stocks, whose shares have not been able to benefit from good quarterly figures.

But there are also factors that argue against an imminent market slump. And the first of them is that the slump is one everyone expects. Despite extraordinary exaggerations in sub-segments of the market, there are also signs of cautious investor behavior. For example, in a week of numerous record quarterly results at the end of April, U.S. equity funds recorded net outflows of 3.8 billion U.S. dollars while money-market funds enjoyed inflows of 55.9 billion U.S. dollars. Finally, another major factor helps to make the case against sudden investor disillusionment: 2021 is likely to see the greatest recovery momentum in most countries. And Joe Biden's huge investment initiatives and the fact that European stimulus will not really unfold until 2022 argue against an abrupt subsequent slowdown in growth.

### 2.1 Fixed income

U.S. Treasuries in particular took a breather in April, with their yields stabilizing, but we expect government-bond yields to resume their upward trend soon. Therefore, we have set our rating for 2-year German Bunds and 30-year Treasuries to minus one, which was already the rating for 10-year German and U.S. Treasuries. Despite the central banks' assurances that they do not intend to change their loose monetary policy for the time being, we expect the market's inflation expectations to continue to rise, further pushing up government-bond yields. In the European periphery the situation is different. Both in Spain and Italy

<sup>2</sup> <https://rsch.baml.com/>

the prospects for government bonds look positive. Both countries will benefit notably from the European stimulus program, and Italy took an important step in this direction under Mario Draghi's leadership in April.

In corporate bonds, we expect a differentiated market. While we continue to like investment-grade bonds in Europe because they are likely to benefit from European-Central-Bank (ECB) support and good quarterly figures, as well as relatively low new issuance, high-yield bonds have performed so well this year that their future potential seems modest. This is especially the case as high-yield issuance is likely to remain more buoyant and the higher volatility of Bund yields is having a stronger negative impact. In the United States, the situation looks the other way around and we favor the high-yield sector. In the context of the rapid economic recovery, issuance here has continued to be very well absorbed by the market. We are also positive again on bonds from Asia, favored both by a weaker U.S. dollar and continued good fundamental data.

Due to the weakness of the U.S. dollar we now have a neutral view of the greenback vs both the pound and the euro from a tactical perspective.

## 2.2 Equities

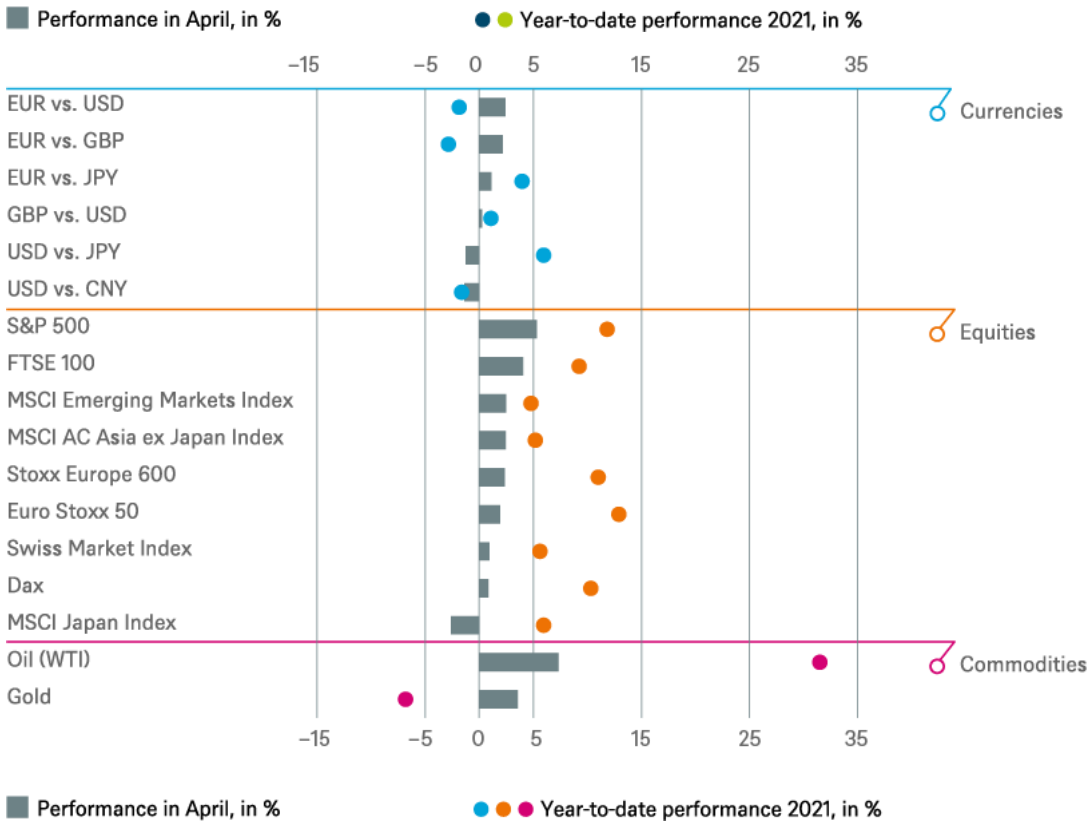
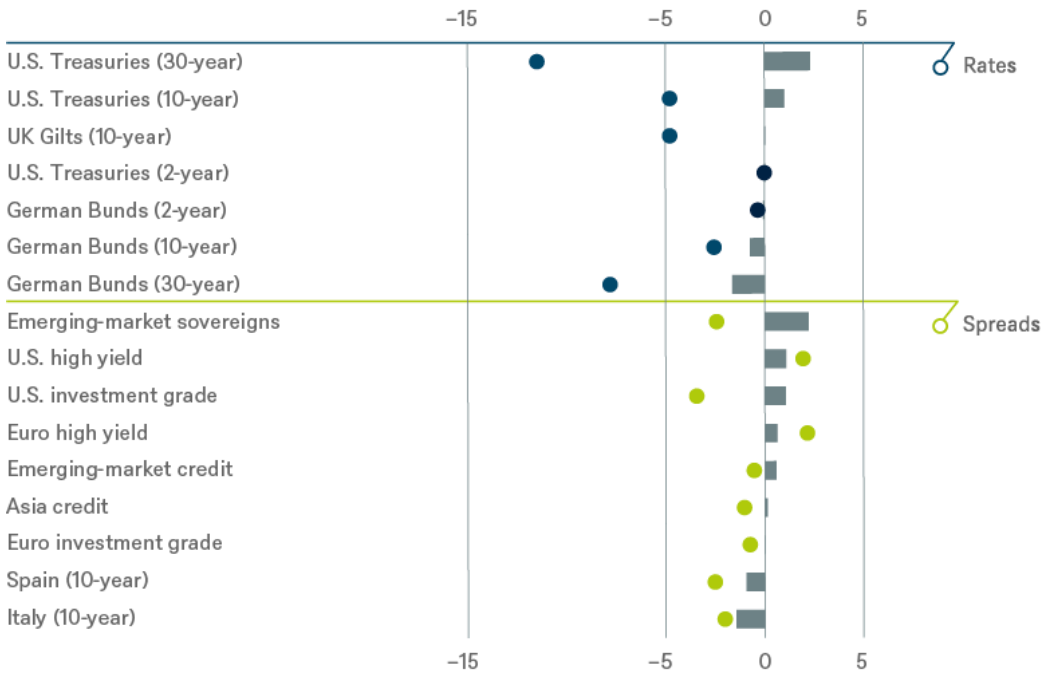
In equities little has changed in our fundamental view. In addition to the points already mentioned above, we see strong consumer demand as being likely, particularly in countries with advanced vaccination campaigns. We also see declining risk provisions by banks and rising capital-investment plans by companies after years of restraint. Share buybacks are also back. All of this continues to buoy leading indicators and further boost profit expectations. Real interest rates, meanwhile, remain in negative territory, which makes us keen to profit further from the current positive momentum. From a tactical perspective, this means sticking to our two-pronged strategy: betting on (the more affordable) technology stocks as well as on selected cyclicals, while avoiding classic defensive sectors such as utilities, and telecoms, and also pharmaceuticals, which are facing difficulties in the United States. We have factored in for the first time a likely corporate tax hike. It is likely to reduce average S&P 500 earnings per share by 7%, or from 205 U.S. dollars to 191 U.S. dollars in 2022.

## 2.3 Alternatives

In commodities, we remain tactically positive overall. We do not see any new impetus in oil for the time being, as the economic upswing and the ramping up of OPEC production should balance one another out. But we remain confident on industrial metals, even in the short term, and expect them to continue to outperform precious metals. Palladium, however, is an exception and we believe will continue benefiting from stronger demand for low-emission cars.

# 3 / Past performance of major financial assets

## TOTAL RETURN OF MAJOR FINANCIAL ASSETS YEAR-TO-DATE AND PAST MONTH



Past performance is not indicative of future returns.  
Sources: Bloomberg Finance L.P. and DWS Investment GmbH as of 4/30/21

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## 4 / Tactical and strategic signals

THE FOLLOWING EXHIBIT DEPICTS OUR SHORT-TERM AND LONG-TERM POSITIONING

### 4.1 Fixed income

Rates	1 to 3 months	until March 2022	Spreads	1 to 3 months	until March 2022
U.S. Treasuries (2-year)	●	●	Spain (10-year) <sup>1</sup>	●	●
U.S. Treasuries (10-year)	●	●	Italy (10-year) <sup>1</sup>	●	●
U.S. Treasuries (30-year)	●	●	U.S. investment grade	●	●
German Bunds (2-year)	●	●	U.S. high yield	●	●
German Bunds (10-year)	●	●	Euro investment grade <sup>1</sup>	●	●
German Bunds (30-year)	●	●	Euro high yield <sup>1</sup>	●	●
UK Gilts (10-year)	●	●	Asia credit	●	●
Japanese government bonds (2-year)	●	●	Emerging-market credit	●	●
Japanese government bonds (10-year)	●	●	Emerging-market sovereigns	●	●
Secritized / specialities	1 to 3 months	until March 2022	Currencies	1 to 3 months	until March 2022
Covered bonds <sup>1</sup>	●	●	EUR vs. USD	●	●
U.S. municipal bonds	●	●	USD vs. JPY	●	●
U.S. mortgage-backed securities	●	●	EUR vs. JPY	●	●
			EUR vs. GBP	●	●
			GBP vs. USD	●	●
			USD vs. CNY	●	●

### 4.2 Equities

Regions	1 to 3 months <sup>2</sup>	until March 2022	Sectors	1 to 3 months <sup>2</sup>
United States <sup>3</sup>	●	●	Consumer staples <sup>12</sup>	●
Europe <sup>4</sup>	●	●	Healthcare <sup>13</sup>	●
Eurozone <sup>5</sup>	●	●	Communication services <sup>14</sup>	●
Germany <sup>6</sup>	●	●	Utilities <sup>15</sup>	●
Switzerland <sup>7</sup>	●	●	Consumer discretionary <sup>16</sup>	●
United Kingdom (UK) <sup>8</sup>	●	●	Energy <sup>17</sup>	●
Emerging markets <sup>9</sup>	●	●	Financials <sup>18</sup>	●
Asia ex Japan <sup>10</sup>	●	●	Industrials <sup>19</sup>	●
Japan <sup>11</sup>	●	●	Information technology <sup>20</sup>	●
Style	1 to 3 months		Materials <sup>21</sup>	●
U.S. small caps <sup>23</sup>	●		Real estate <sup>22</sup>	●
European small caps <sup>24</sup>	●			

### 4.3 Alternatives

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Alternatives	1 to 3 months	until March 2022
Commodities <sup>25</sup>	●	●
Oil (WTI)	●	●
Gold	●	●
Infrastructure	●	●
Real estate (listed)	●	●
Real estate (non-listed) APAC <sup>26</sup>		●
Real estate (non-listed) Europe <sup>26</sup>		●
Real estate (non-listed) United States <sup>26</sup>		●

<sup>1</sup> Spread over German Bunds, <sup>2</sup> Relative to the MSCI AC World Index (only for the tactical signals), <sup>3</sup> S&P 500, <sup>4</sup> Stoxx Europe 600, <sup>5</sup> Euro Stoxx 50, <sup>6</sup> Dax, <sup>7</sup> Swiss Market Index, <sup>8</sup> FTSE 100, <sup>9</sup> MSCI Emerging Markets Index, <sup>10</sup> MSCI AC Asia ex Japan Index, <sup>11</sup> MSCI Japan Index, <sup>12</sup> MSCI AC World Consumer Staples Index, <sup>13</sup> MSCI AC World Health Care Index, <sup>14</sup> MSCI AC World Communication Services Index, <sup>15</sup> MSCI AC World Utilities Index, <sup>16</sup> MSCI AC World Consumer Discretionary Index, <sup>17</sup> MSCI AC World Energy Index, <sup>18</sup> MSCI AC World Financials Index, <sup>19</sup> MSCI AC World Industrials Index, <sup>20</sup> MSCI AC World Information Technology Index, <sup>21</sup> MSCI AC World Materials Index, <sup>22</sup> MSCI AC World Real Estate Index, <sup>23</sup> Russell 2000 Index relative to the S&P 500, <sup>24</sup> Stoxx Europe Small 200 relative to the Stoxx Europe 600, <sup>25</sup> Relative to the Bloomberg Commodity Index, <sup>26</sup> Long-term investments

## 4.4 Legend

### TACTICAL VIEW (1 TO 3 MONTHS)

\_ The focus of our tactical view for fixed income is on trends in bond prices.

- \_ ● Positive view
- \_ ● Neutral view
- \_ ● Negative view

### STRATEGIC VIEW UNTIL MARCH 2022

\_ The focus of our strategic view for sovereign bonds is on bond prices.

\_ For corporates, securitized/specialties and emerging-market bonds in U.S. dollars, the signals depict the option-adjusted spread over U.S. Treasuries. For bonds denominated in euros, the illustration depicts the spread in comparison with German Bunds. Both spread and sovereign-bond-yield trends influence the bond value. For investors seeking to profit only from spread trends, a hedge against changing interest rates may be a consideration.

\_ The colors illustrate the return opportunities for long-only investors.

- \_ ● Positive return potential for long-only investors
- \_ ● Limited return opportunity as well as downside risk
- \_ ● Negative return potential for long-only investors

## GLOSSARY

**Bitcoin** is the pioneer amongst the cryptocurrencies.

The **Bloomberg Commodity Index (BCOM)** traces 23 commodities and reflects commodity futures price movements.

**Bunds** is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

A **central bank** manages a state's currency, money supply and interest rates.

The **Chinese yuan (CNY)** is legal tender on the Chinese mainland and the unit of account of the currency, Renminbi (RMB).

A **corporate bond** is a bond issued by a corporation in order finance their business.

**Cyclical** is something that moves with the cycle.

The **Dax** is a blue-chip stock-market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

The **euro (EUR)** is the common currency of states participating in the Economic and Monetary Union and is the second most held reserve currency in the world after the dollar.

The **Euro Stoxx 50** is an index that tracks the performance of blue-chip stocks in the Eurozone.

The **European Central Bank (ECB)** is the central bank for the Eurozone.

The **FTSE 100** is an index that tracks the performance of the 100 major companies trading on the London Stock Exchange.

**Gilts** are bonds that are issued by the British Government.

A **government bond** is a debt security with fixed interest rate payments issued by a country's government to support its spending and obligations.

**Greenback** is a commonly used expression for the U.S. dollar.

**High-yield bonds** are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

**Inflation** is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

**Investment grade (IG)** refers to a credit rating from a rating agency that indicates that a bond has a relatively low risk of default.

The **Japanese yen (JPY)** is the official currency of Japan.

**Japanese Government Bond (JGB)** is issued by the government of Japan.

**Monetary policy** focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

The **MSCI AC World Communication Services Index** captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Communications Services sector.

The **MSCI AC World Consumer Discretionary Index** captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Consumer Discretionary sector.

The **MSCI AC World Consumer Staples Index** captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Consumer Staples sector.

The **MSCI AC World Energy Index** captures large- and mid-cap securities across 23 developed-markets classified in the Energy sector.

The **MSCI AC World Financials Index** captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Financials sector.

The **MSCI AC World Health Care Index** captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Health Care sector.

The **MSCI AC World Index** captures large- and mid-cap companies across 23 developed- and 24 emerging-market countries.

The **MSCI AC World Industrials Index** captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Industrials sector.

The **MSCI AC World Information Technology Index** captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Information Technology sector.

The **MSCI AC World Materials Index** captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Materials sector.

The **MSCI AC World Real Estate Index** captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Real Estate sector.

The **MSCI AC World Utilities Index** captures large- and mid-cap securities across 23 developed- and 26 emerging-markets classified in the Utilities sector.

The **MSCI AC Asia ex Japan Index** captures large- and mid-cap representation across 2 of 3 developed-market countries (excluding Japan) and 8 emerging-market countries in Asia.

The **MSCI Emerging Markets Index** captures large- and mid-cap representation across 23 emerging-market countries.

The **MSCI Japan Index** is designed to measure the performance of the large- and mid-cap segments of the Japanese market.

The **Organization of the Petroleum Exporting Countries (OPEC)** is an international organization with the mandate to "coordinate and unify the petroleum policies" of its meanwhile 12 members.

**Periphery** countries are less developed than the core countries of a specific region. In the Eurozone, the euro periphery consists of the economically weaker countries such as Greece, Portugal, Italy, Spain and Ireland.

The **pound sterling (GBP)**, or simply the pound, is the official currency of the United Kingdom and its territories.

The **real interest rate** is the nominal interest rate adjusted for inflation as measured by the GDP deflator.

The **Russell 2000 Index** is an index that captures the 2,000 smallest stocks of the Russell-3000 index, which again comprises 3,000 small- and mid-cap U.S. listed stocks.

The **S&P 500** is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

The **spread** is the difference between the quoted rates of return on two different investments, usually of different credit quality.

The **Stoxx Europe 600** is an index representing the performance of 600 listed companies across 18 European countries.

The **Stoxx Europe Small 200** is an index representing the performance of 200 small capitalization companies across 17 European countries.

The **Swiss Market Index (SMI)** is Switzerland's most important equity index, consisting of the 20 largest and most liquid large- and mid-cap stocks.

**Treasuries** are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

The **US Dollar** is the common currency of the United States of America and is the most held reserve currency in the world.

The **U.S. Federal Reserve**, often referred to as "the Fed," is the central bank of the United States.

**Valuation** attempts to quantify the attractiveness of an asset, for example through looking at a firm's stock price in relation to its earnings.

**Volatility** is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

**West Texas Intermediate (WTI)** is a grade of crude oil used as a benchmark in oil pricing.

**Yield** is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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