PICTET 1805

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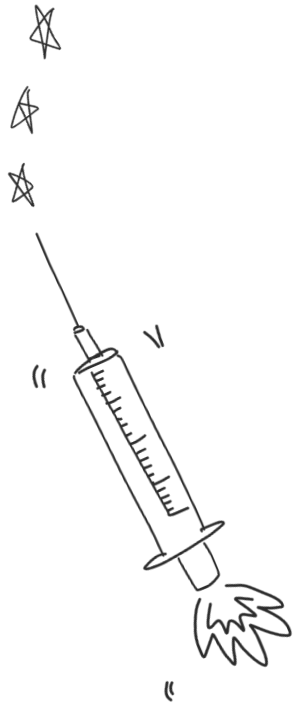
Market Focus

22 January 2021

The Stars Align

Joe Biden has been sworn in as the 46th president of the United States, and the USD1.9tn economic stimulus plan he has announced sets the tone for a year of global recovery from the shock dealt by Covid-19.

For markets, the stars are aligned: we now have more clarity on the political front; accommodative monetary policy is in play for months if not years; fiscal stimulus is now coming down the pike; and with vaccines being rolled out yields have been rising (with little risk of overshooting) on hopes of a strong and synchronized macro recovery. Given elevated valuations and the ongoing battle with Covid-19 across much of the western hemisphere, volatility could rise in the near-term, however the general trend for equity markets remains bullish.



The only way is up?

Contents

Unless stated otherwise in the document, all data are as of **13.01.2021**
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Global equity quantitative monitor

Europe's score in our equity regional matrix (the top-down indicator that gives us a regional view) remains in bullish territory (19%) with a strengthening trend score now at 89% (from -81% back in December). Recovery optimism has continued to drive equities in spite of ongoing lockdowns, as vaccination programmes get under-way and stimulus comes online while the ECB continues to be accommodative (having put forward a very comprehensive package in December, extending and increasing its current policy tools (PEPP, TLTROs). On the political front, no-deal Brexit was avoided, and markets are now watching the government crisis in Italy, and the upcoming German elections (the recent CDU vote sending a message of continuity).

The value rotation sent the Euro Stoxx 50 above its 200-DMA, and 3,835 is the next technical target. We still like green themes as well as cyclical growers and value stocks, and on recovery plans and hopes of a synchronized economic recovery, industrials and materials names could be among the outperformers. Furthermore, a more multilateral approach from incoming US president Biden's administration could be a clear catalyst for Europe.

The US' reginal score has been steady over the past month at 24%, although the trend score has crept up to 93% (from 86%) while the valuation score has worsened to -99 (from -93%). Thanks to the improved visibility on both the political and pandemic front, value and cyclical stocks have continued to outperform into the new year – as have small-caps. A diverging RSI on the S&P500 however suggests the rally could be loosing some steam from a technical point of view, and Covid cases continue to climb while bullish sentiment around Biden's 1.9tn aid bill may have faded. That said the recovery trend remains bullish and we continue to like cyclical names with a strong growth profile as well as those supported by fiscal stimulus themes such as infrastructure spending. The medium-term targets on the S&P 500 are 4,000 then 4,200.

Japan's regional score has recovered slightly since our last update – putting it now at a 'bullish 14 (from a 'neutral' 10%), with trend (72%) and liquidity (100%) unchanged. Its exposure to China means it could still be well-positioned to benefit from a significant economic recovery, yet it remains dependant on international trade, and the global recovery from this crisis is still likely to take some time. We would prefer those stocks with solid earnings momentum, and quality exporters.

Emerging market equities are in 'bullish' territory, the regional score slipping slightly to 20 (from 22%) yet still sporting a solid trend score of 76%. The current environment favours emerging markets on economic recovery hopes, a lower US dollar and a rebound in commodity prices. In China, GDP expanded 6.5% y-o-y in Q4, beating expectations and driven mainly by an exceptionally strong external sector. We expect the country to continue to benefit from its 'head start' in the pandemic and would follow themes linked to the global economic recovery including manufacturing and consumer strength. Our "Playing China" selection list (is available on request).

**Our top down' Equity Regional Matrix gives us an overview of the prevailing market conditions in equity markets, drawing on macroeconomic data, trend analysis on leading indices, and sentiment. For further information on each parameter, see the endnotes.*

Figure 1: PTS Equity Regional Matrix*

MEDIUM TERM DIRECTION		Weight	BULLISH from 10 to 30%		BULLISH from 10 to 30%		BULLISH from 10 to 30%		BULLISH from 10 to 30%	
Regional Grades (-100% to 100%) 21%			U.S.A.	24% ↓	EUROPE	19% ↓	EMERGING	20% ↑	JAPAN	14% ↑
Trend		40%		93% ↑		89% ↓		76% ↑		76% ↑
Overbought/Oversold			OB / OS	-7% ↑	OB / OS	-11% ↓	OB / OS	-24% ↓	OB / OS	-24% ↓
Valuation	P/E	20%	Exp. / Cheap	-99% ↓	Exp. / Cheap	-86% ↓	Exp. / Cheap	-92% ↓	Exp. / Cheap	-70% ↓
Liquidity		10%	Low / High	100% ↑	Low / High	33% ↑	Low / High	92% ↑	Low / High	100% ↑
Economics		10%	Growing Faster	67% ↑	Growing Faster	50% ↑	Growing Faster	50% ↑	Stagnated Slowe	-17%
Sentiment		20%	Neg. / Pos.	-35% ↓	Neg. / Pos.	-15% ↑	Neg. / Pos.	17% ↓	Neg. / Pos.	-8% ↓

Source: Bloomberg Finance L.P. - Pictet Trading Strategy; as of 18/01/2021

The 10-year Treasury yield has now crossed back above 1% driven by expectations of more fiscal easing and inflationary pressure, however we think the latter is largely transitory and furthermore would expect the Fed to counterbalance any sharp increase. The next key technical resistance levels are at 1.15% and 1.35%. Any dollar appreciation should remain capped (the next technical hurdle for the Dollar index is at 92) with yields rise likely to be contained. On the EURUSD, 1.20 has became a support with next technical target in the 1.25 region. A summary of our core views is presented in the table below and for more including our preferred themes and selectin lists see our latest market outlook presentation.

US 10-year Treasury – technical chart*

*Source: Factset - Pictet Trading Strategy – as of 18.01.2021 *criteria are explained in the endnotes*
The target price presented in the chart is based upon chart analysis. This is not the product of any Pictet financial research unit

PTS short-term core views January 2021*

	US	Europe	Japan	EM
Equities	*S&P500: next technical target at 4'000 then 4'200. Support at 3'650. **Drivers: Vaccine ,"Fed put", political clarity in the US and recovery hopes, but Covid-19 remains a headwind**	*Euro Stoxx 50: Next technical target at 3,835. Closest support at 3'500. **Drivers: value and cyclical rotation, ECB and govt support, but ongoing lockdowns do not help the slow macro recovery**	*Nikkei 27'050 reached and now acting as a support , next resistance at 31'500 **Drivers: weak virus second wave, exposure to China and BoJ still accommodative**	*Positive EM globally with rising commodity prices, a weak US dollar and hopes of a synchronized economic recovery **Drivers for China: pandemic contained and economy restarting**
Equity themes	Cyclical growers and tactical value themes. Green New Deal and infrastructure themes.	Green stocks, value themes and EU cyclical growers. Fiscal stimulus and recovery plans to support infrastructure sectors.	Stocks with solid earnings momentum, quality exporters and manufacturers.	Themes linked to the global economic recovery. Consumer, but also manufacturing themes.
FX	Rebound within a bearish trend. Short-term target at 92 but upside capped.	*EURUSD: 1.20 has became a support; the next resistance at around 1.25.	USDJPY: In a trading range with 100 acting as a support and 105 the resistance.	Favouring cyclical and commodity-driven currencies over more defensive ones
FI	*Lower yields for longer: US 10-year above 1% on fiscal hopes and economic recovery. Upside capped, 1.15% and 1.35% are the next resistances.	*Lower yields for longer: GER 10-year yields should be capped at around -0.2%.		
WTI & Gold	*Crude oil ➔ our medium-term target has been raised to USD 55 on recovery hopes.			
	*Gold ➔ 1830 region as a support zone. Next technical levels at 1950 and then 2050			

Risks to our scenario; a return to severe and global lockdowns to manage subsequent waves of Covid-19, a lasting macroeconomic slump / trade war escalation / geopolitical risks / central bank mistake / weaker-than-expected corporate earnings

*Source: FactSet; Pictet Trading Strategy; as of 22/01/2021 *The target price presented is upon chart analysis. This is not the product of any Pictet financial research unit.*

Endnotes: References for publications of Banque Pictet & Cie SA – Trading Strategy

Model performance data is not a reliable indicator of future returns. Model performance calculation has a number of limitations and the results do not represent the results of actual trading using client assets. The data provided is gross of fees and other commissions. Fees and charges will apply and will reduce the final return. No representation is being made that the model portfolios illustrated will or are likely to achieve results similar to those shown and there are often sharp differences between model performance results and actual results achieved.

The Equity quantitative grades

Growth Grade: The Growth Grade is a proprietary formula made up of earnings revisions momentum, past earnings growth, earnings stability, and current and long-term earnings growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45 and neutral between 55 and 45.
EPS Grade: The EPS Grade is a proprietary formula consisting of current and forward EPS growth, change and surprise data. An EPS grade above 60 or below 40 is considered predictive for future out/under performance.
Sales Grade: The Sales Grade is a proprietary formula made up of current and next year's sales momentum, past sales growth, sales stability, and current and long-term sales growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45, and neutral between 55 and 45.
Value Grade: The Value Grade is a proprietary formula made up of estimated P/E, P/B, P/S and P/CF ratios. 40% of the grade is based on historical values and 60% on current market data. A grade above 55 suggests a stock is cheap, below 45 expensive, and neutral between 55 and 45.
Quality Grade: The Quality Gating is a proprietary formula that focuses on the balance sheet (i.e. change in accruals, change in free cash flows and profitability). A grade above 55 suggests a stock with a good balance sheet.
Credit Grade: The Credit Grade focusses on the passive side of the balance sheet. It is divided into three sub-components to assess both short and long-term solvency. A grade above 55 suggests a strong capital structure, while a grade below 45 suggests a weak one.
Money Flow Grade: The Money Flow Grade is a proprietary formula that gives the accumulation/distribution based on the volume flows of a stock. A grade above 55 indicates good money flow and a grade below 45 suggests weak money flow.
Smart Sentiment Grade: The Smart Sentiment grade is a contrarian indicator based on investor positioning measures such as the days to cover ratio, the put call ratio, and the short interest ratio. A weak grade suggests 'too much' optimism.
Relative Strength (RS) Grade: The RS grade measures the price momentum of a stock over its 1-year price performance.
Global Grade: The Global Grade is a weighted average of the Growth, EPS Sales, Value, Quality, Credit, Money Flow and Smart Sentiment Grades.

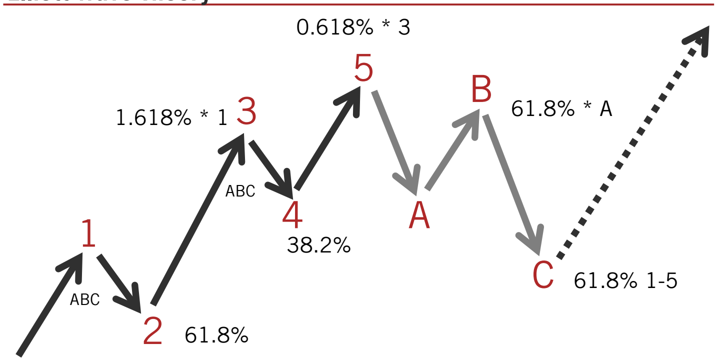
The Regional MATRIX grades

The Regional Matrix grades range from -100% to +100%. We consider a grade above 50% to be very bullish, a grade above 25% to be bullish, and a grade between 0% and 25% to be neutral. A grade between 0% and -45% we consider bearish and a grade below -45% very bearish.
Regional Grade: The Regional Grade (-100 to +100) is an indicator of a structural bull market or not. It is calculated by combining and applying weight to each of the other grades that make up the Regional Matrix (Trend, Overbought/Oversold, Valuation, Liquidity, Economics, and Sentiment). If we believe equities to be in a structural bull market, we use 15 years of data to assess Valuation.
Trend Grade: The Trend Grade (-100% to +100%) is based on a moving averages model adjusted according to the overbought/oversold conditions of the region's main indices.
Valuation Grade: The Valuation Grade (-100% to 100%) is based on the percentile rank of the regional Index stocks' P/E ratios since 1995 (current year estimated).
Economics Grade: The Economics Grade (-100% to 100%) is based on a combination of manufacturing and non-manufacturing PMIs and the **Citigroup Surprise Indices.** The Citigroup Economic Surprise Indices are an objective and quantitative measure of economic news and are defined as weighted historical standard deviations of data surprises (actual releases vs. Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance beaten the consensus.
Sentiment Grade: The Sentiment Grade (-100% to 100%) is based on various contrarian and non-contrarian indicators.
Reversal date in the Trend: If the trend has reversed, we give the reversal date and indicate the direction of the reversal.

Factor trends: We look at the performance of 5 theoretical long-short selections, each built around one of our quantitative grades (i.e. growth (EPS momentum), price momentum (RS), quality, sentiment and value), and each long the top decile and short the bottom decile of stocks within the respective region in our equity universe in terms of exposure to each specific score.
Model Long Only & Absolute return regional Allocation: The Regional Allocation shows the advised net exposure in total and per region. It is calculated by multiplying the MSCI regional weight by the Regional Grade (we use the structural bull market regional grade).
Trading Strategy Exposure: The Trading Strategy Exposure shows the actual net exposure in total and per region, based on our trades.
Short-Term: 1 to 4 weeks / Medium Term: 1 to 3 months / Long Term: more than 3 months.
PTS: Pictet Trading Strategy.
Buy/Long: Stock is expected to achieve a total return that exceeds the relevant market index over the next 3 to 6 months.
Sell/Short: Stock is expected to underperform the relevant market index over the next 3 to 6 months.
Hold/Neutral: Stock is expected to be in line with total return of the relevant market index over the next 3 to 6 months.

Technical Analysis: The technical analysis used in this presentation combines traditional technical tools: graphical analysis (trend lines, support lines, continuation and reversal patterns) which determines the tendency, mathematical indicators (moving averages, RSI, MACD) used as numeric filters and Elliot wave theory which allows us to build a scenario with target levels and invalidation points.
Elliott Wave Theory: According to Elliott Wave Theory, markets move in impulse waves – with five sub-waves (numbered 1-5 or I-V) following the direction of the main trend, followed by three corrective sub-waves (A-B-C) (example to the right). These waves follow a set of specific rules and are linked to each other by target and retracement ratios based on the Fibonacci sequence, and the characteristics of each wave form an integral part of the reflection of the mass psychology it embodies.

Elliott Wave Theory



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