Macro & Market Outlook

as at June 30, 2021

Central Banks (decrease by 1*)	• Despite inflation being evident, central bankers continue to keep rates low and provide liquidity through asset purchases. This is projected to extend into 2022. • Deglobalization and increased protectionism will reverse sources of deflation that has kept inflation low over the last 20 years. • We anticipate that current levels of inflation will be transitory, but also believe that there is more upward pressure than central bankers and investors seem to anticipate. • The US Federal Reserve has a delicate balancing act between keeping inflation low and preventing tighter monetary conditions from impacting asset prices.
Liquidity & Credit (increase by 1*)	• Financial conditions and market stress indicators are at their most positive levels over the past 5 years. • Credit spreads across all levels of the credit spectrum have tightened, indicating investors' appetite remains strong. • High yield spreads have traded below inflation for the first time in history. • Yields have reduced since March and sources of credit are plentiful.
Economics (unchanged*)	• Economic activity in China and the US is very strong with GDP of 18% and 6.6%, respectively in the first quarter. Strength will continue for the remainder of 2021, before reverting to potential growth in 2022. • Europe has almost caught up with the US in distribution of the vaccine. Economic activity follows the vaccine distribution, so European countries will add to global GDP. • Governments are continuing to boost economies through deficit spending. • The US has a strong labor market with nine million job openings, but labor participation is low. • Housing and retail have continued to be strong sectors.
Valuations (decrease by 1*)	• Almost any asset is more attractive than cash to investors, pushing valuations further into overvalued territory. • For US large cap stocks, almost all valuations metrics (forward P/E, trailing P/E, Shiller P/E, Price to Book, Enterprise Value / EBITDA, Dividend Yield, Tobins Q, Market Value as % of GDP) are stretched. • European and emerging market equities continue to be relatively undervalued compared to the US. • Investors are ignoring current levels and expecting improving earnings to justify elevated valuations.

Legend:

NEG. NEUTRAL POS.

* Change from the previous 12-month outlook.

** The weights to calculate the Overall rating are determined by Argus Wealth at its discretion based on market conditions.

Macro & Market Outlook as at June 30, 2021

Sentiment (unchanged*)	• US and European consumer confidence are near their highest levels over the last ten years. • Equities as a percent of household assets have surpassed the ‘dotcom bubble’ peak and risen to record-highs. • Institutional purchases of equities are neutral but increasing.
Technical (US Large Cap) (decrease by 1*)	• Positive momentum continues to be strong – supported by the 50 day/200 day moving average, the RSI and the MACD. These indicate a continuation of the current bull trend seems likely as long as the S&P stays above 3,950. • While technical indicators are positive, the second derivative is indicating a contrarian view. • Leadership is narrow, with 5 stocks accounting for 24% of market cap. • Equities as a percent of household assets is a contrarian indicator so this is a bearish signal. • Volatility has declined to pre-pandemic levels, suggesting a low fear of market declines. • There is high bullish consensus, which is often a signal that the stock market has gone too far and may be vulnerable to a near-term pullback or a larger correction.
Overall (decrease by 2**)	**Conclusion:** Everything seems to be going well – maybe too well. Complacency among investors, low volatility, new all-time highs weekly, reducing yields and strong double digit returns for the mid-year almost feels too good to be true. There are areas where tensions are increasing. These include the highly contagious delta variant, the gap in vaccination rates between developed and developing markets, rising income inequality, production bottlenecks and increasing tensions between the US and China. Markets are priced to perfection and the current trend is likely to continue for a bit. This could be a classic melt-up phase before a consolidation or correction. The longer the markets are complacent to risk, the more susceptible it will be to bad news or changes in policy. Our current outlook reflects these concerns as we have lowered our overall bullish stance to more neutral.

Argus Wealth Management
Maxwell Roberts Building
1 Church Street, 3rd Floor
Hamilton HM11, Bermuda

Tel: +1 (441) 295 9000
invest@argus.bm
arguswealth.bm

ARGUS Wealth Management