

Equity markets update

Can COVID-19 stop the bull market?

Important factors driving equity outlook

Our views on each factor

Inflation



Recession



Valuation



Growth



Volatility



Themes



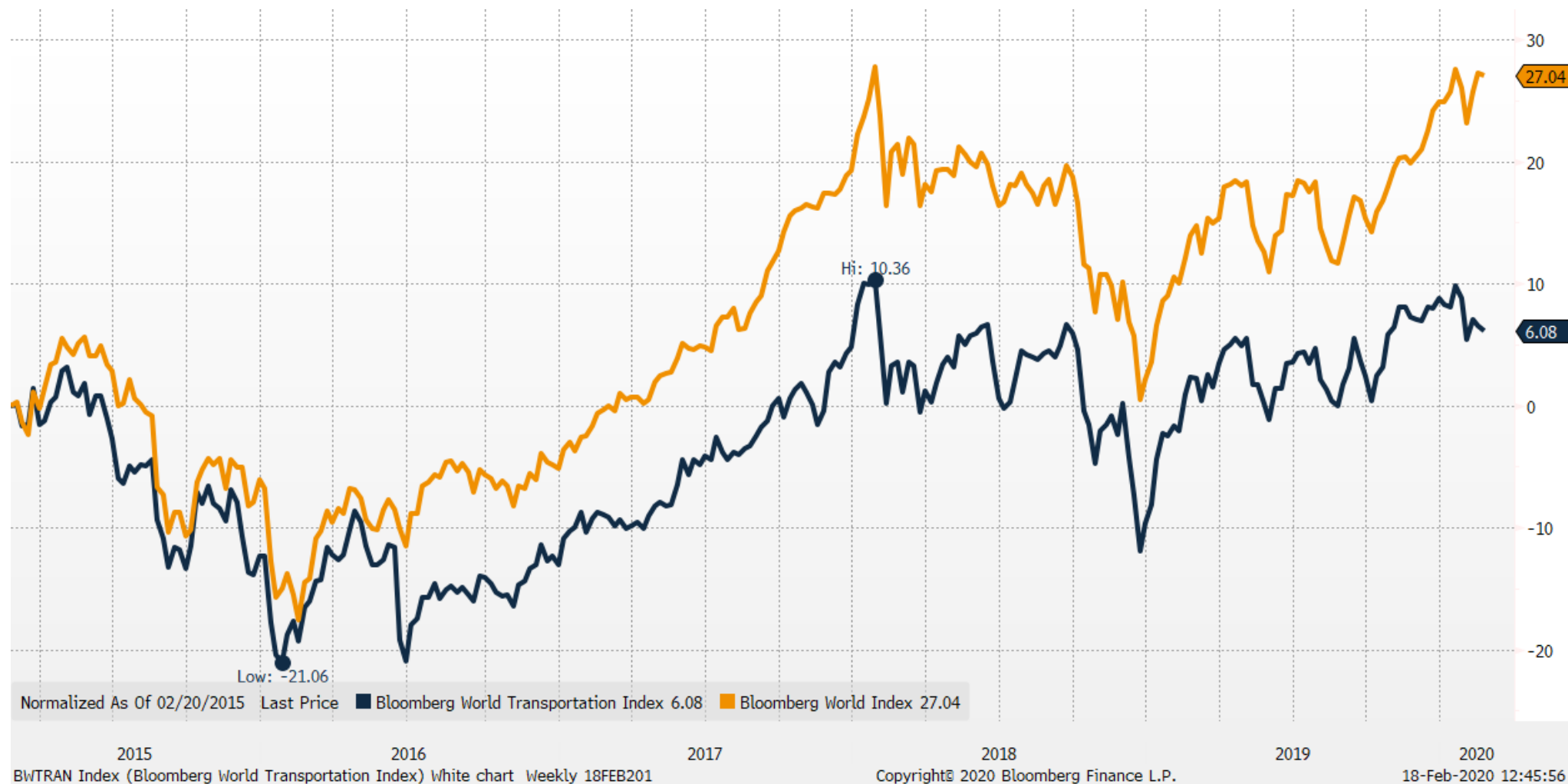
And then there are the unexpected shocks

We have gone from reflation/TINA to virus theme in less than a month



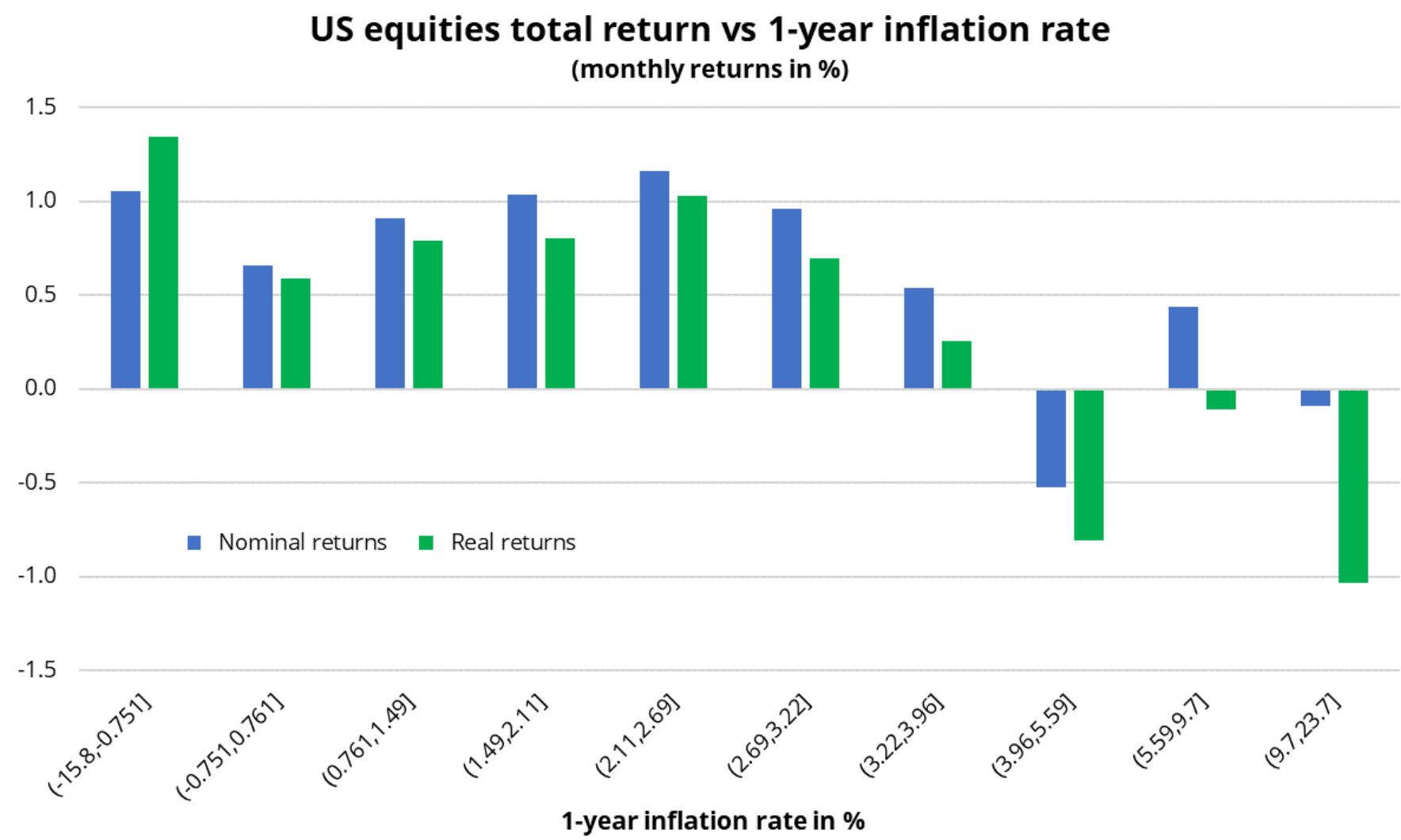
Source: Saxo Group

Transportation stocks are still not in panic mode



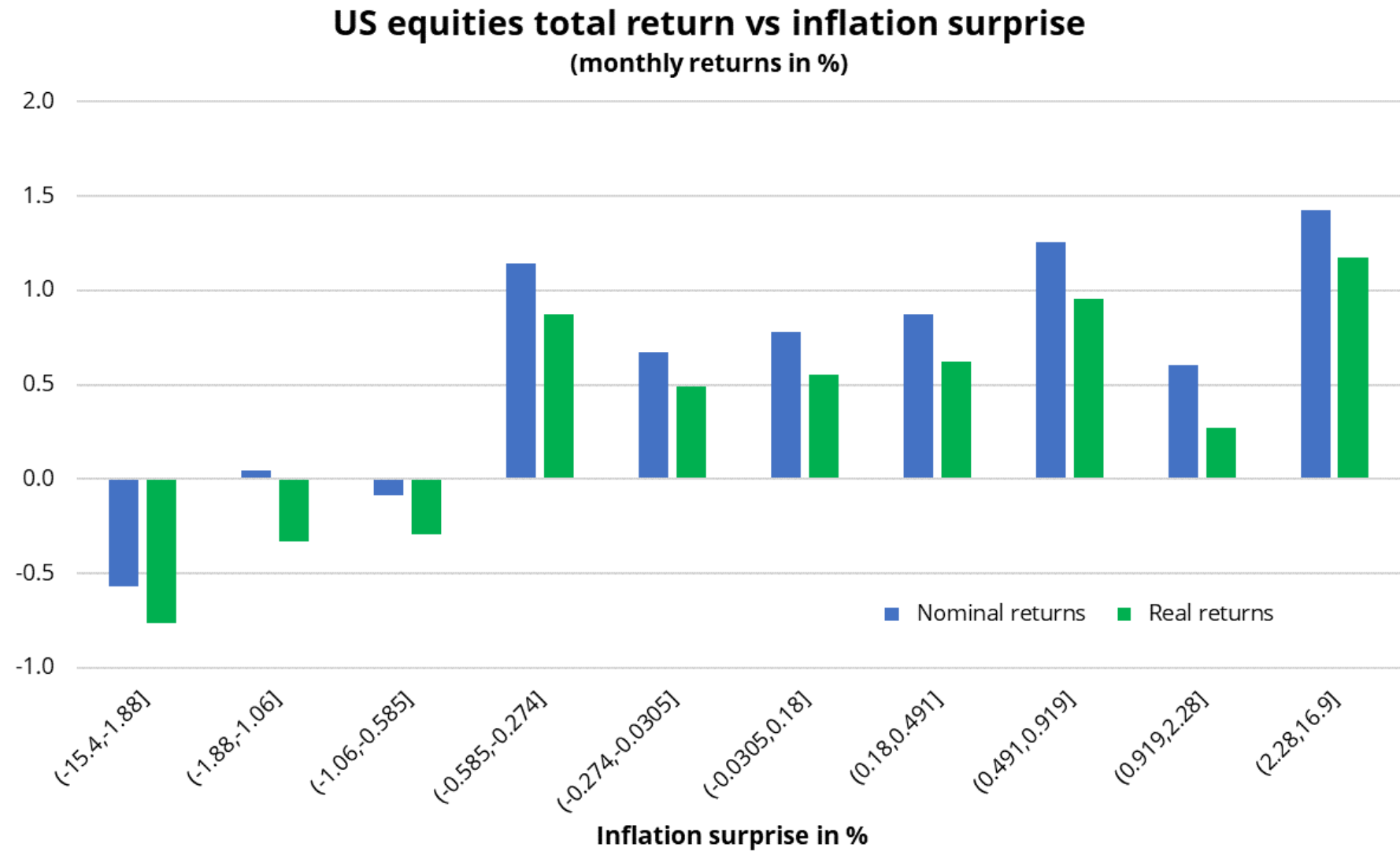
Source: Bloomberg

Inflation: 3% inflation rate seems to be "magical" point when it eats capital for lunch



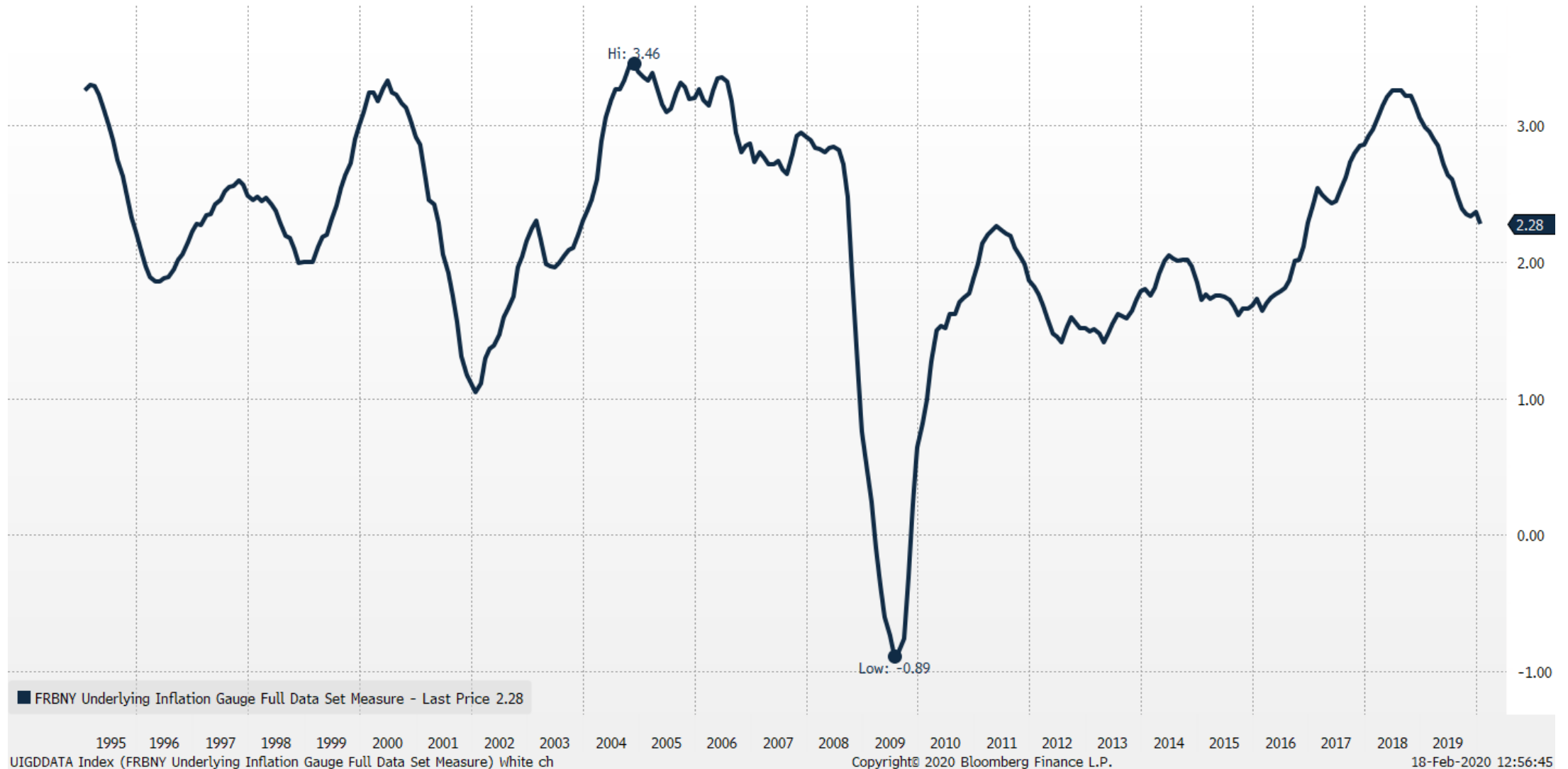
Source: Bloomberg and Saxo Group

Inflation: Short-term inflation shocks are typically absorbed positively in equities



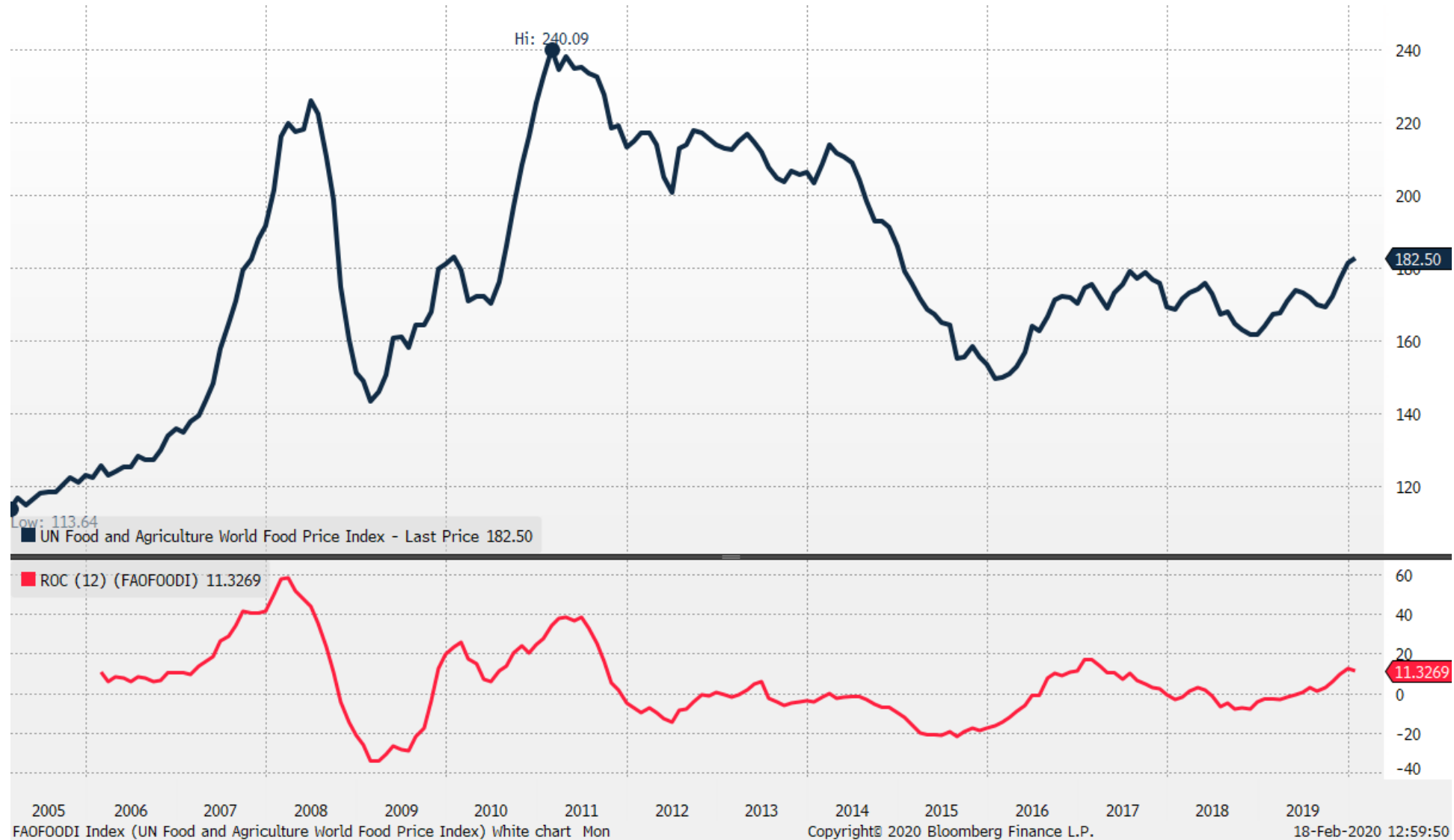
Source: Bloomberg and Saxo Group

Inflation: Fed NY Inflation measure did hit +3% but is now trending down again



Source: Bloomberg

Inflation: UN Food Price Index is beginning to push inflation in EM...

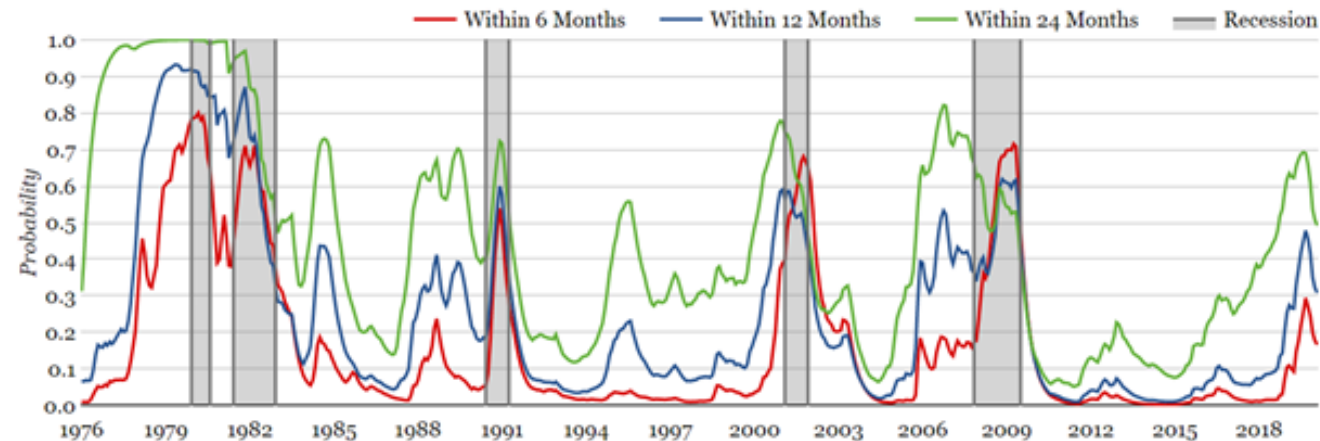


Source: Bloomberg

Recession: US recession risk still elevated but significantly down from peak in Sep '19

Current Predictions (as of February 7, 2020)

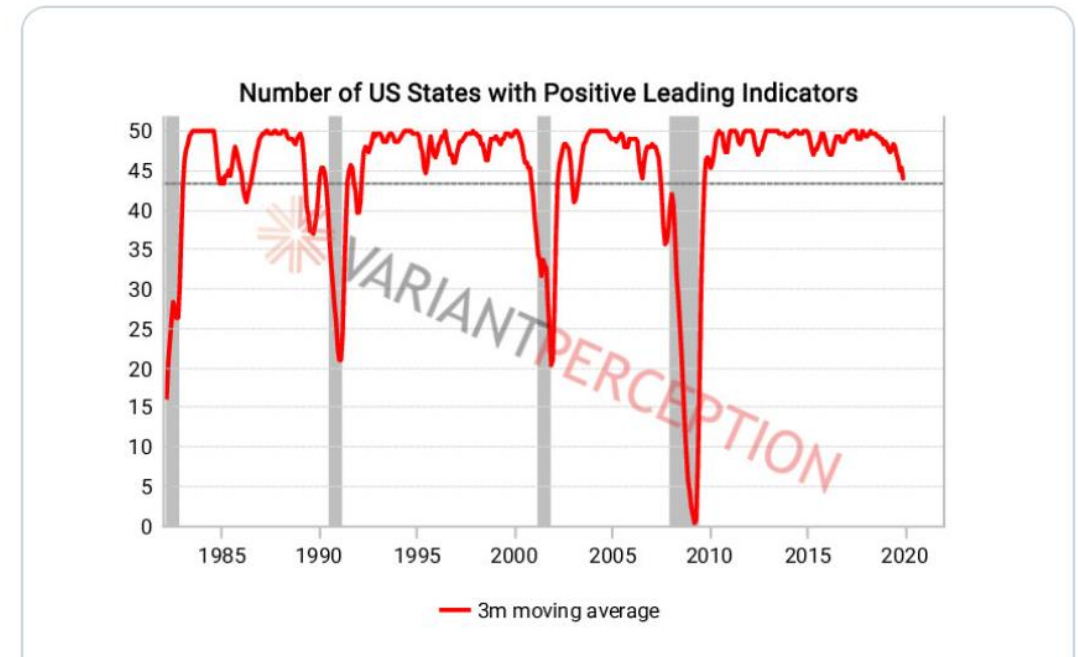
Dates	6 Months	12 Months	24 Months
September-19	29.4%	47.8%	69.0%
October-19	27.1%	45.6%	65.9%
November-19	24.3%	41.7%	61.0%
December-19	19.9%	35.0%	53.6%
January-20	17.6%	32.0%	50.6%
February-20	16.6%	30.8%	49.2%



Variant Perception Research

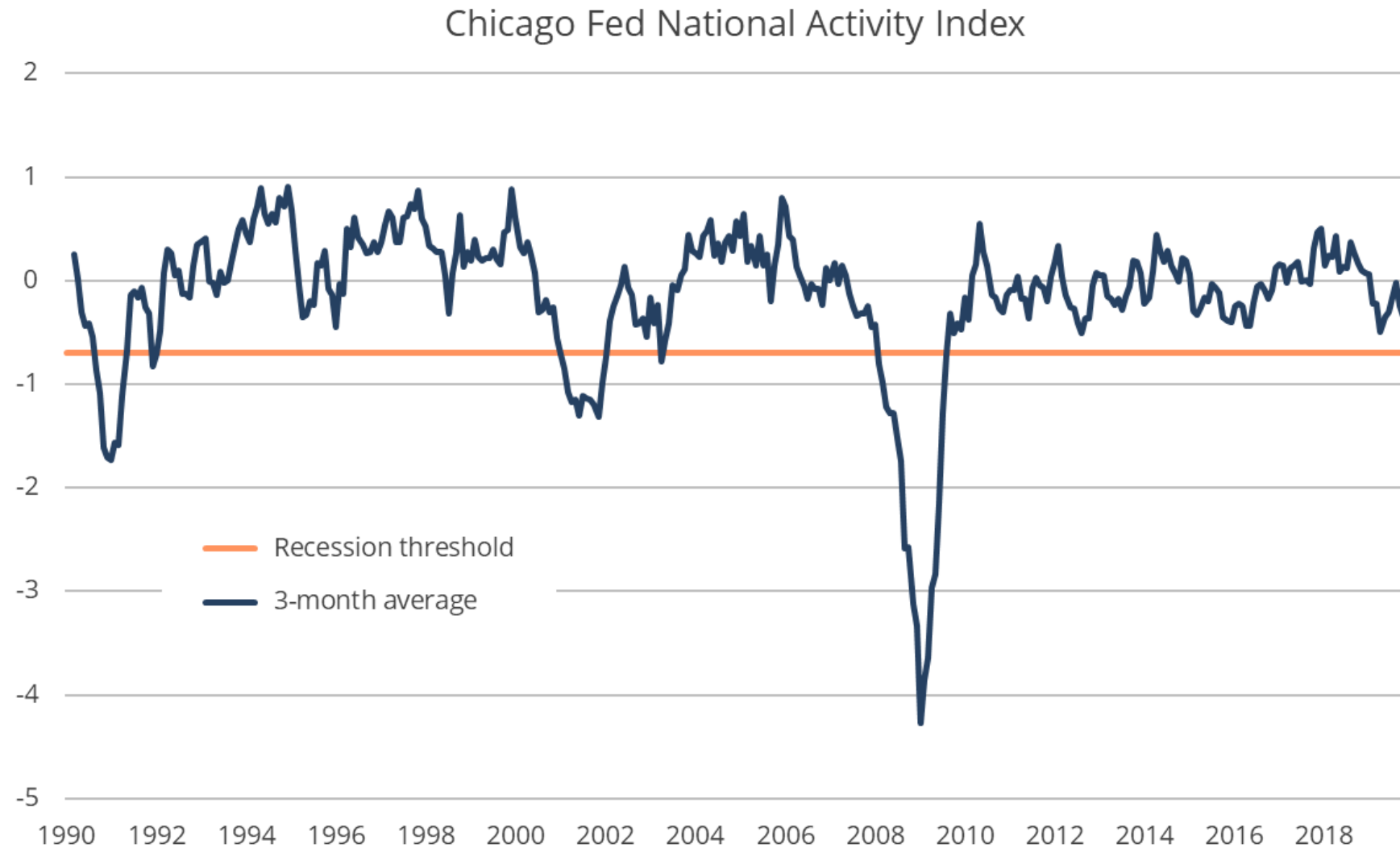
@VrntPerception

One to keep an eye on



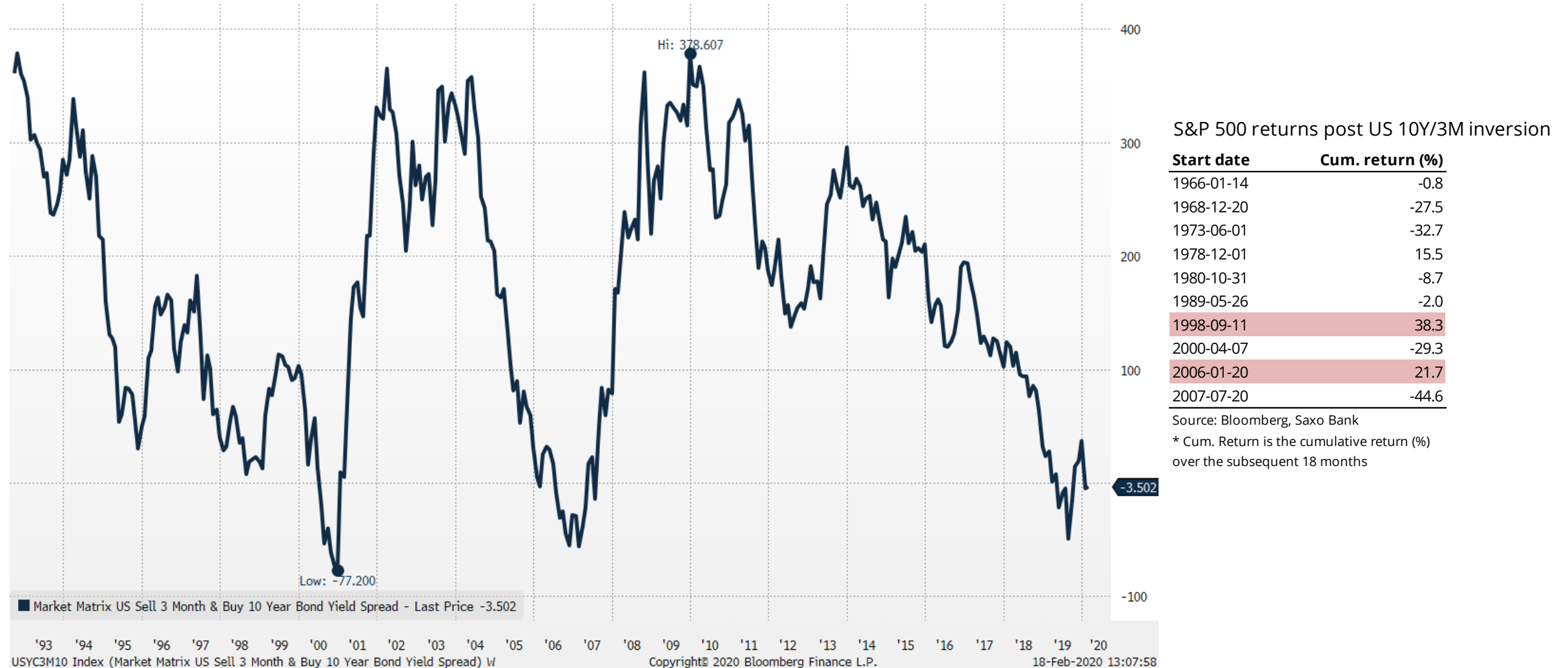
<https://terrencez.com/recession-predictor-chart/>

Recession: US economy is still in its 11th month of growth slump



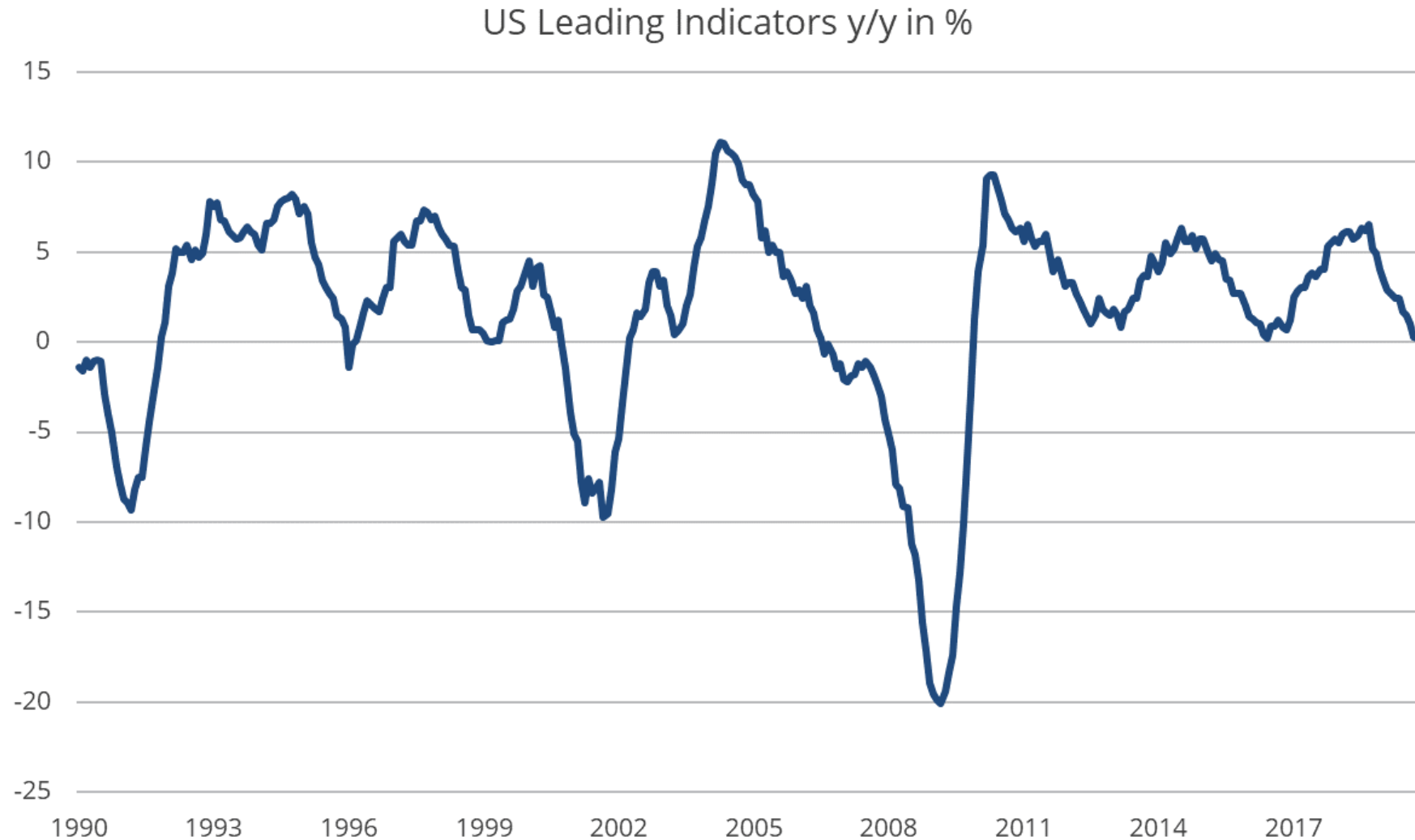
Source: Bloomberg and Saxo Bank

Recession: US yield curve (3M/10Y) has inverted again...any signal value?



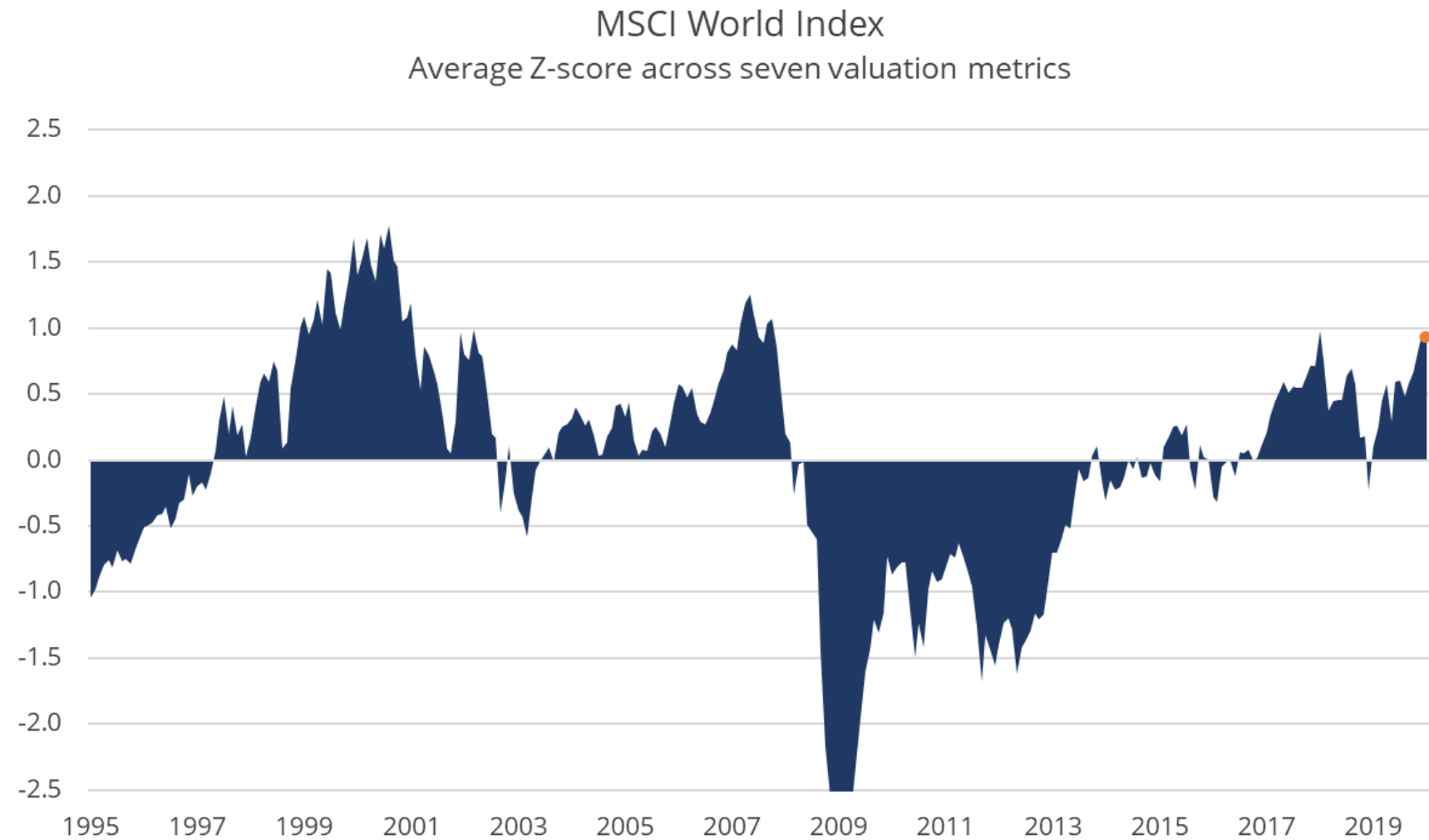
Source: Bloomberg

Recession: US leading indicators are stabilising



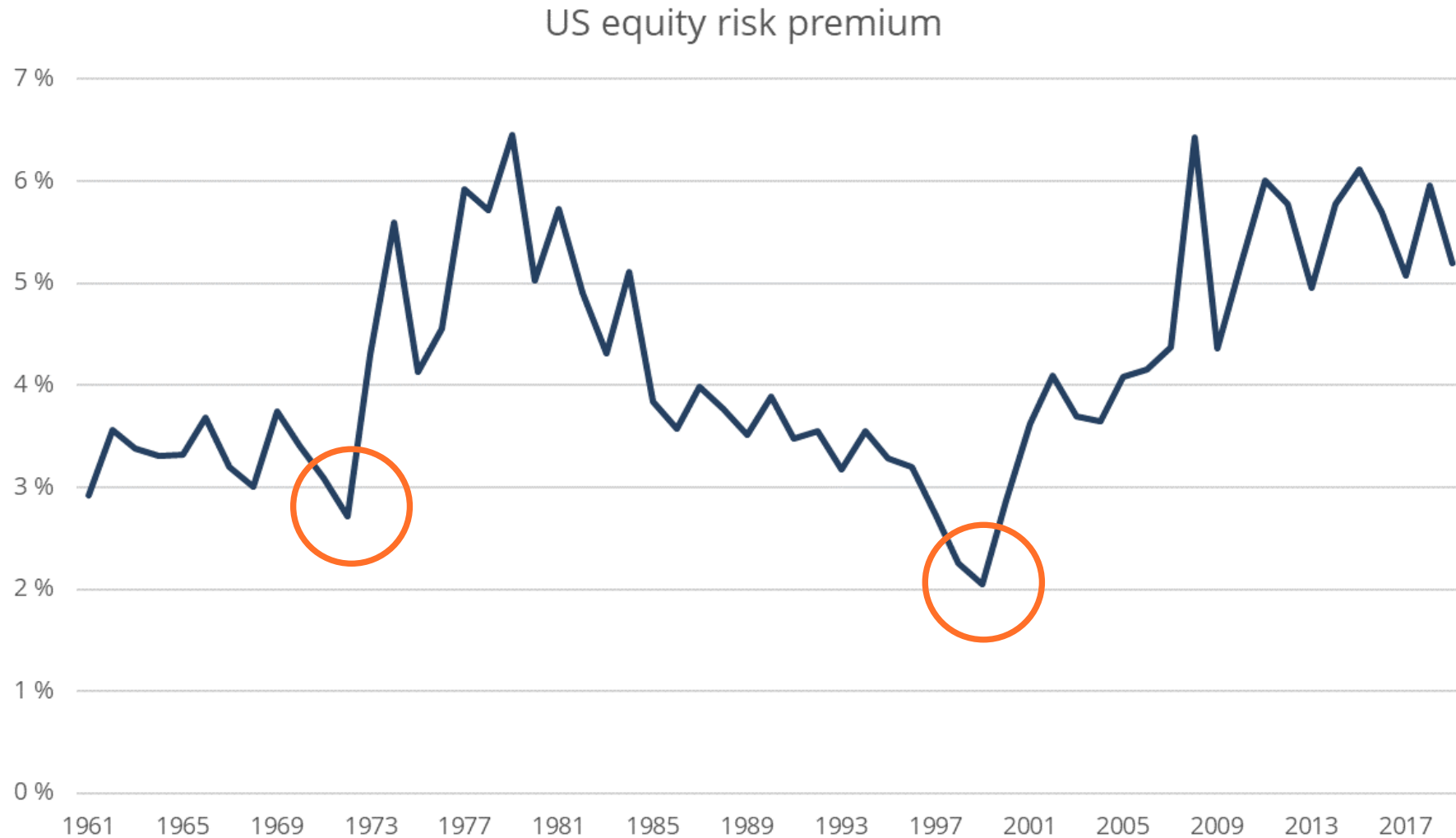
Source: Bloomberg and Saxo Group

Valuation: Global equity valuations are the highest in 13 years but could go much higher



Source: Bloomberg and Saxo Bank

Valuation: US equity risk premium remains elevated due to low rates



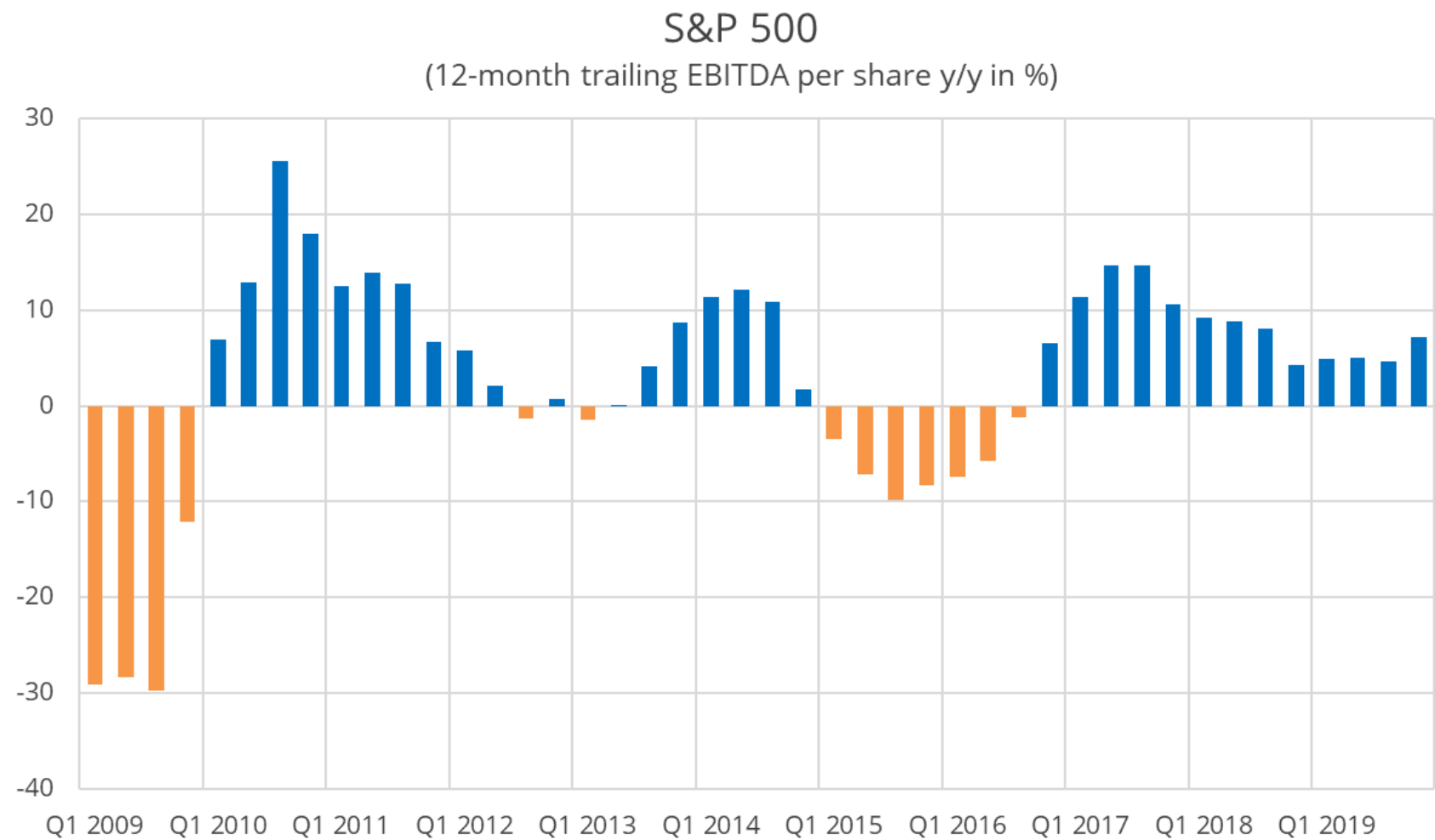
Source: Aswath Damodaran (<http://pages.stern.nyu.edu/~adamodar/>)

Valuation: There is no alternative to equities



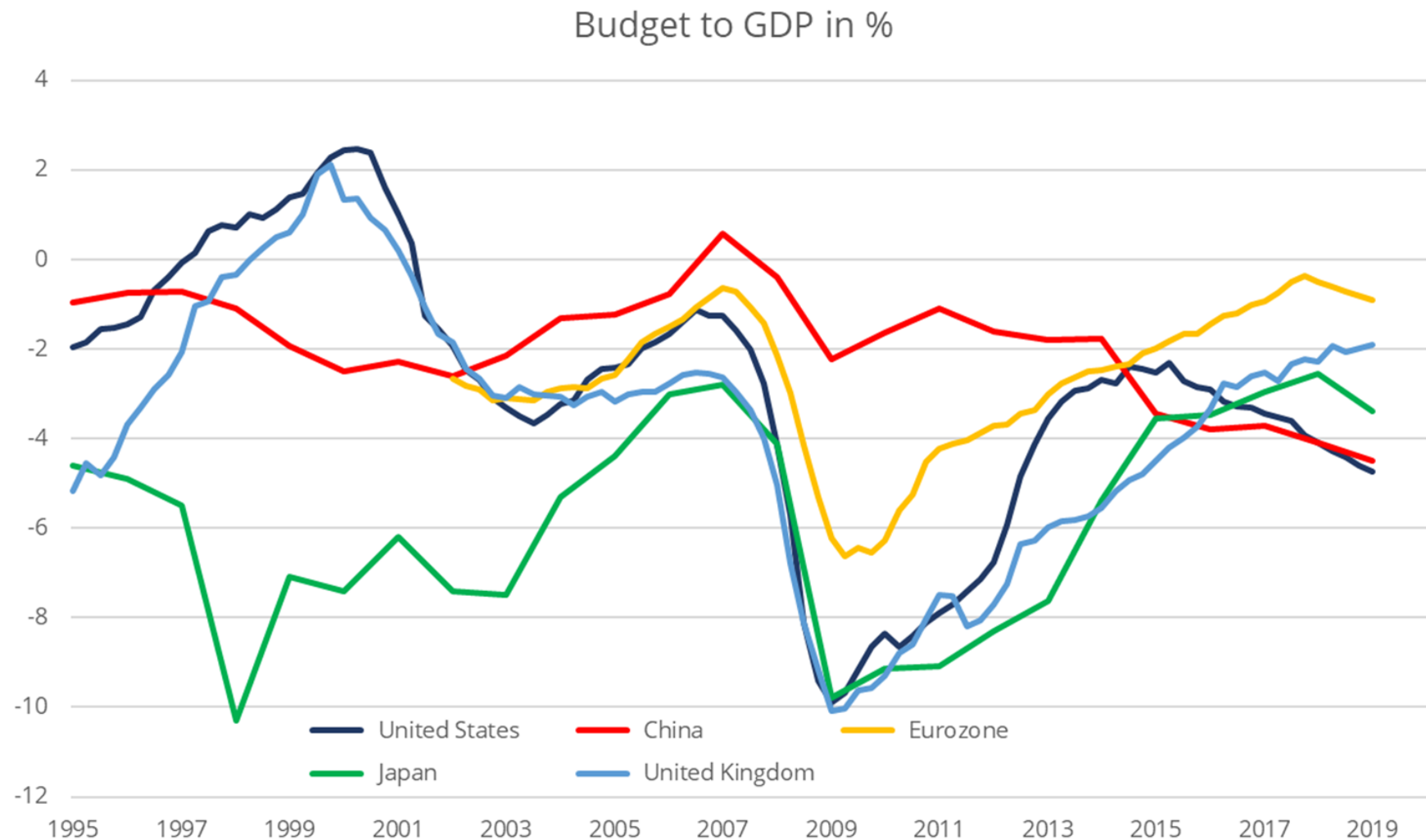
Source: Bloomberg

Growth: Corporate earnings are still looking good



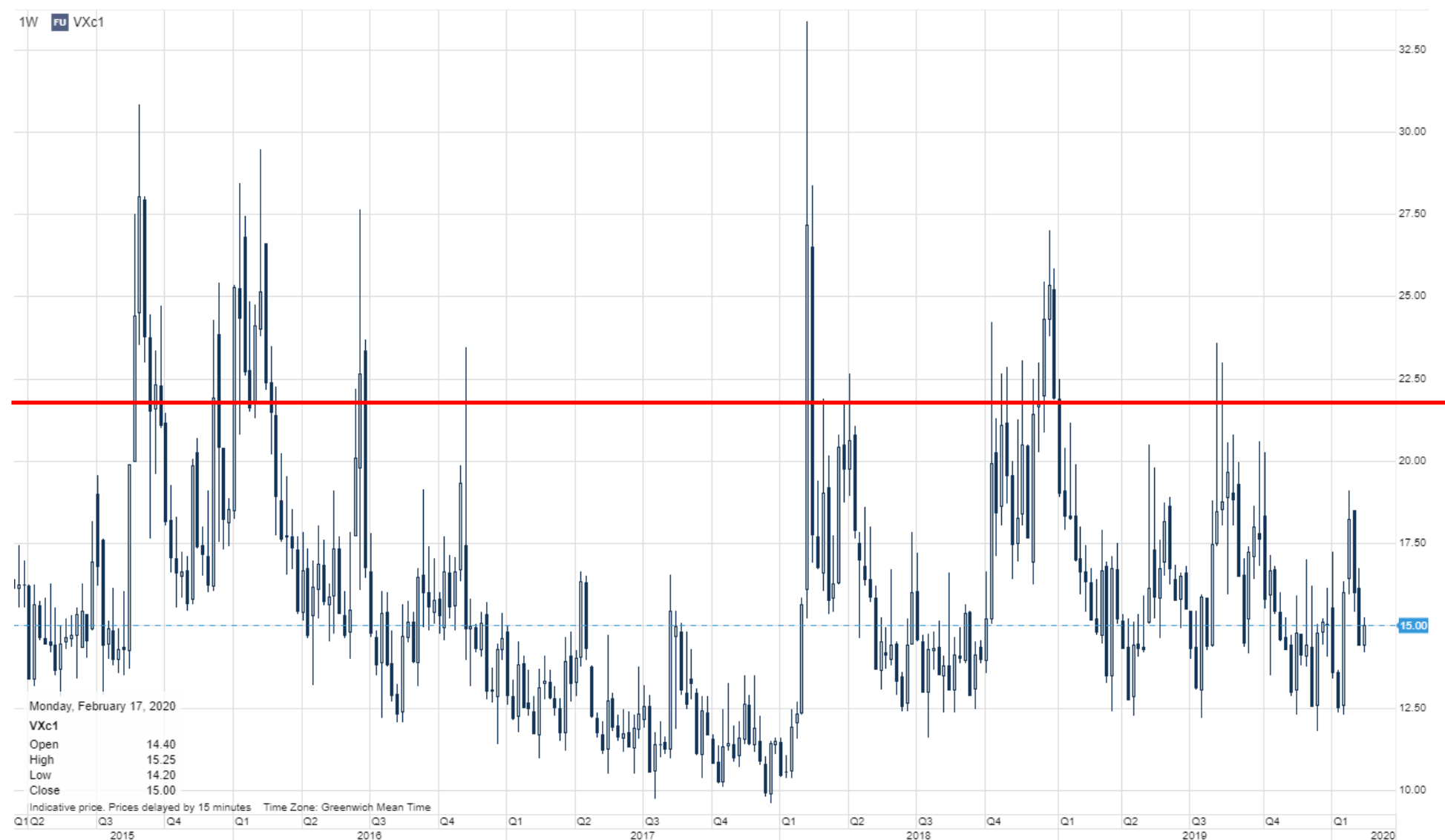
Source: Bloomberg and Saxo Bank

Growth: Fiscal impulse will underpin growth in 2020



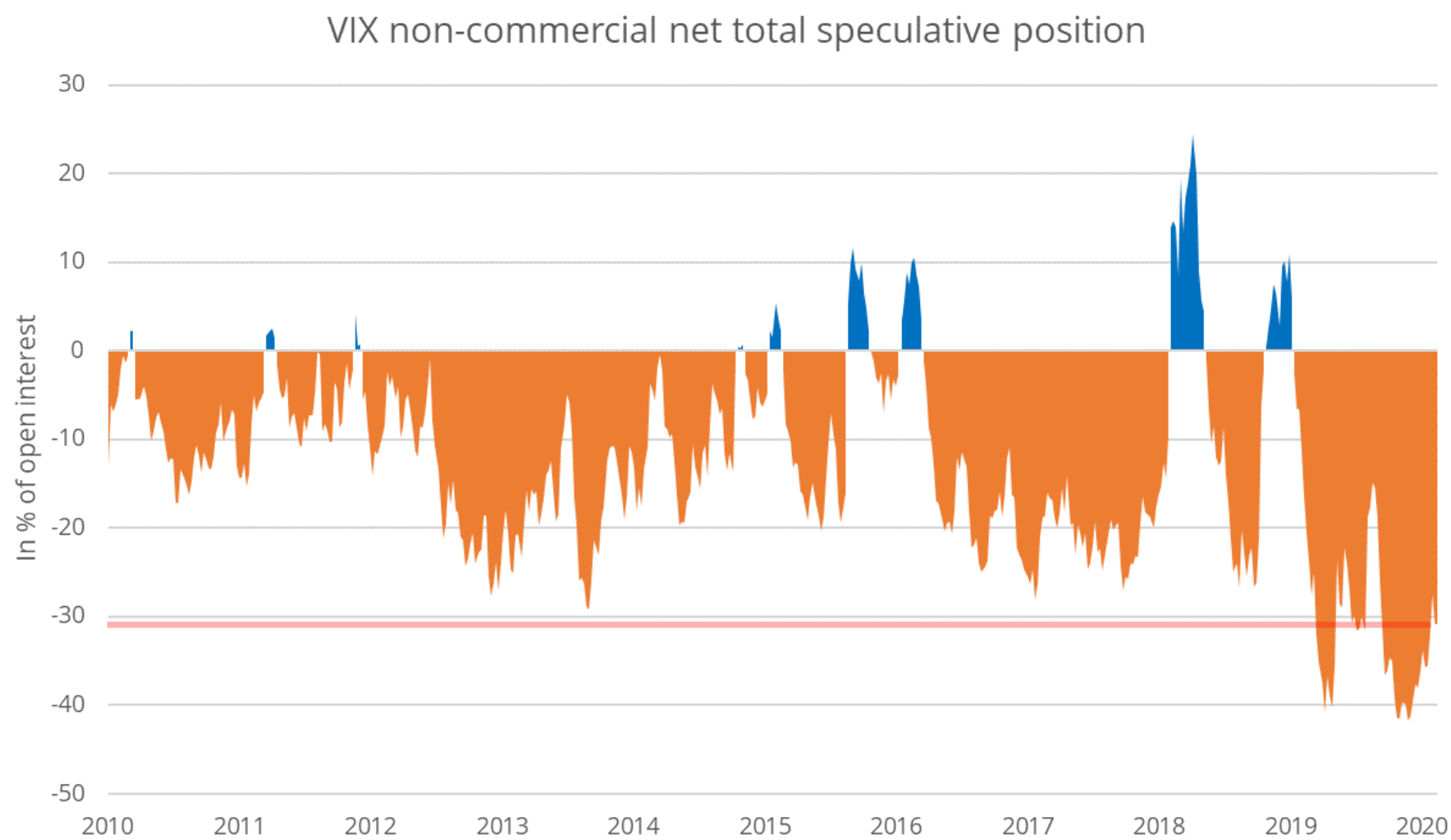
Source: Bloomberg and Saxo Bank

Volatility: Low implied volatility points to further equity upside



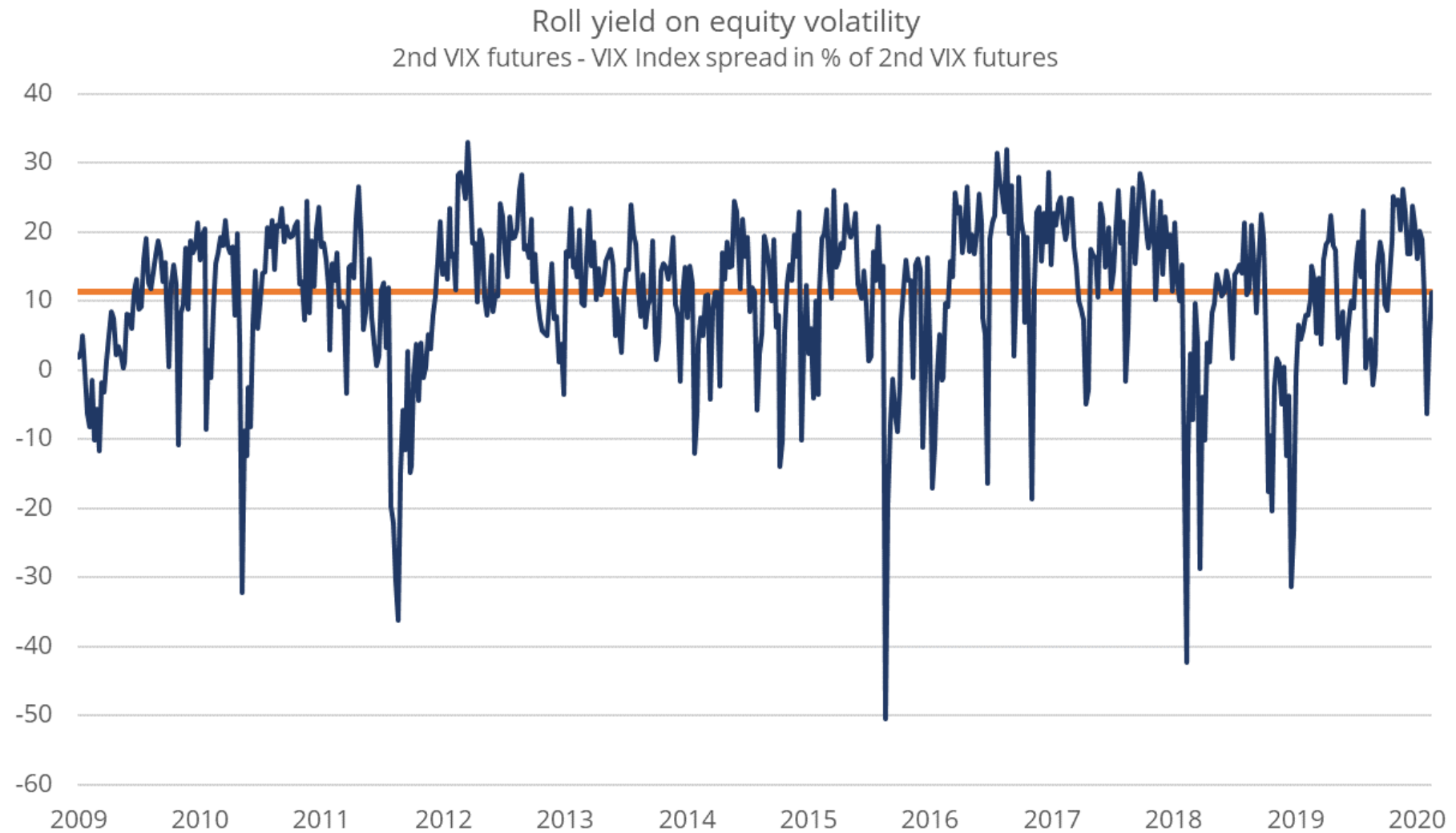
Source: Saxo Group

Volatility: Net short positioning in VIX is getting cut somewhat



Source: Bloomberg and Saxo Group

Volatility: VIX forward curve back into contango



Source: Bloomberg and Saxo Bank

Disclaimer

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