



ECONOMIC SITUATION AND STRATEGY December 11, 2020

Outlook for 2021 (IV): Technical analysis – What comes after 2020 roller coaster?

The year 2020 is drawing to a close after a veritable roller coaster ride on the world's stock markets. Investors have been shaken up this year. Stocks reached record highs at the beginning, only to plunge rapidly and then in many cases return to the levels from which they started. And we have seen in many places that the wild ride on the markets has made some queasy. But what is the coming year likely to bring?

Joe Biden will be inaugurated as the 46th US president on January 20, 2021. How have the stock markets acted in the first year of past newly elected presidents? In the last hundred years, the S&P 500, the world's largest index by market capitalization, has increased an average 8.7% in a new president's first year. The statistic looks even better when a Democrat follows a Republican. In that case, the increase amounts to 17.8%. Only once a newly elected Democratic president had to bear responsibility for a negative S&P result in their first year, this was Jimmy Carter in 1977 (-11.5%). From this angle, history argues for a good stock market year in 2021.

What kind of shape is the US market in generally? For this, we look at the Value Line Arithmetic Index, which, as an equally weighted index detached from the market capitalization differences of index members, serves as a very good broad market indicator. While the index long struggled in the middle of 2020 to climb above its highs of 2018 or at the beginning of 2020, this pent-up power was released after the US presidential election and the news of coronavirus vaccines. The index is thus fully back on track in the uptrend that began in 2009. However, and this is the fly in the ointment compared with

the above-mentioned "Democrat follows Republican" principle, the upper edge of the trend channel runs to the end of 2021 projected at about 8,200 points, which represents a target calculated from the current level equivalent to an opportunity of just over 8%.



Source: Reuters, Dec. 1, 2020

The S&P 500 index seemed only fleetingly impressed by the global stock market slump caused by the covid-19 outbreak. It reached its 2019 year-end level again already by the beginning of June. However, the quick recovery was brought about especially by technology stocks heavily weighted in the index, resulting in a divergence from the broad market. However, this circumstance has meanwhile been corrected, and the S&P 500 is on its way to further new highs market-wide. However, a look at the guardrails formed by the upward trend channel intact since the 1930s, from which there has been only one notable upward departure, reveals that the good times are not likely to keep rolling forever. The index "paid for" the exaggeration from 1997 to the high of March 2000 by consolidating for more than 13 years.

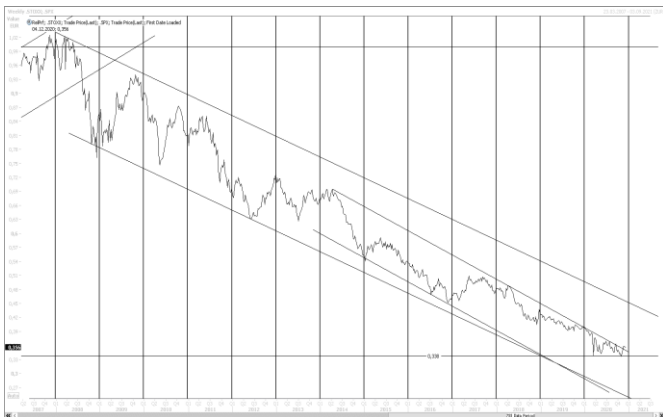
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It took until March 2013 for the index to significantly surpass its high of March 2000. But the good news is that there is still some way to go before the top line is reached. That is running at the end of 2021 at a level of just over 4,000 points. Incidentally, this target can also be obtained by means of a Fibonacci projection. On the bottom end, the exponential 200-week line at just over 2,850 points and the marks around 2,950 points, the old all-time high of 2018, and the round number of 3,000 points, which constitutes the bottom edge of the upward trend channel of 2009, must be defended in order to keep the positive underlying trend going.



Source: Reuters, Dec. 1, 2020

But what about the "Old World"? Europe's stock markets have been lagging far behind their US counterparts for over a decade. This poorer performance is particularly evident when we consider the relative performance of the Stoxx 600 Europe in relation to the S&P 500. Nevertheless, a ray of hope may be seen on the horizon. Relative performance reached its low in March 2020 and has successfully defended it since then. Now, signs of a first, small trend break are emerging that might well reverse the weaker price performance of European stocks compared with US stocks at least temporarily.



Source: Reuters, Dec. 1, 2020

So, what about Germany's DAX index? It is in an upward trend starting from its low in 2003, which was also confirmed again with the sell-off in March 2020. However, it is equally evident that the index has regularly run out of steam over the years in the area around 13,500 points. Consequently, its net movement has been sideways for years, which is confirmed by the sideways-oriented exponential 200-week line. However, a consolidation can also be a constructive gathering of forces. We may thus expect that if the gap at 13,500 points that the index ripped in February is overcome, that will represent an end of the consolidation. The medium-term minimum price target in case of success may be calculated as the difference between the top and bottom of the trading range, which is just over 1,800 points. Price targets of 15,000 points and slightly higher could thus be derived. On the bottom end, a further severe sell-off on the order of 1,000 points threatens to occur on a drop below the zone around 11,400 points.

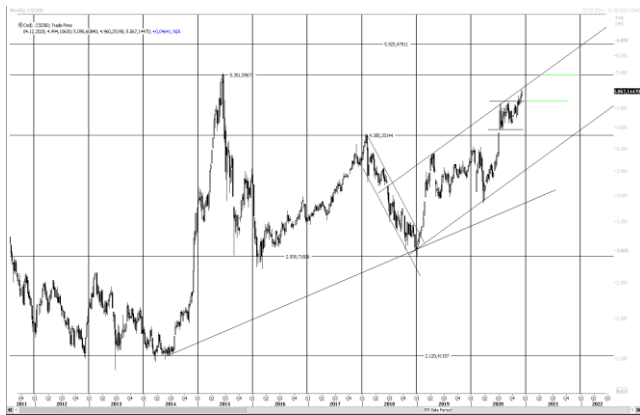


Source: Reuters, Dec. 1, 2020

If we are seeking alternatives to US stocks and want to limit home bias, then a chart from the world's second-largest economy looks quite promising. The CSI 300 is a stock index that tracks companies from mainland China's Shenzhen and Shanghai regions. It thus also most clearly tracks the economic performance of the Chinese domestic market. Since forming a multi-year floor between 2012 and 2014, the index has established a new upward trend. In an initial excessive exaggeration, the index shot up 150% within 12 months. The subsequent correction ended almost exactly at 3,000 points. This mark has constituted the ultimate support since then. Starting from the 2016 low, the index entered another steep ascent and then corrected again in the area of 3,000 points. A double-floor support was thus established at that mark. The subsequent upward movement has run since then in a trend channel. It is especially noteworthy that the crash due to the covid-19 slump did

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not bring the index even close to the area of the 2018 low, which thus demonstrated relative strength in relation to other world stock markets. Even better, it jumped over the cycle high of 2015 without major skirmishes on a weekly basis and with a long white candlestick and afterwards a gap. Now, the next target may also be derived directly at 5,350 points from the subsequent consolidation zone. In the course of 2021, the trend channel may lead the index into regions of just under 5,900 points or in immediate reach of the all-time high achieved in 2007.



Source: Reuters, Dec. 2, 2020

The price of gold continues to appear interesting and promising from the standpoint of technical analysis. After upward movement for about 10 years starting in 2001, gold prices corrected over an almost equally long period in a flag formation until mid-2019. That was followed by a spurt to a new all-time high above USD

2,000. The latest correction to the upward trend established since mid-2019 now presents an attractive entry level. If the trend is confirmed, a medium-term price target above USD 2,600 may be derived with a Fibonacci projection of the multi-year movement segments described at the outset. It is a prerequisite of a continuing constructive chart picture that there be no drop below the exponential 200-week line or the flatter upward trend established since the end of 2015. Assuming the upward trend continues, we may set a minimum target of USD 2,100 for the end of 2021.



Source: Reuters, Dec. 2, 2020

Technical analysis thus arrives at similar conclusions as those of fundamental analysis. Next year should be a good one for stock investors!

Market Data Overview

Stock marketes	As of	Change versus				
	11.12.2020 12:55	04.12.2020 -1 week	10.11.2020 -1 month	10.09.2020 -3 months	10.12.2019 -1 year	31.12.2019 YTD
Dow Jones	29999	-0,7%	2,0%	9,0%	7,6%	5,1%
S&P 500	3668	-0,8%	3,5%	9,8%	17,1%	13,5%
Nasdaq	12406	-0,5%	7,4%	13,6%	44,0%	38,3%
DAX	13027	-2,0%	-1,0%	-1,4%	-0,3%	-1,7%
MDAX	29411	-0,4%	5,1%	7,0%	7,8%	3,9%
TecDAX	3086	-1,0%	5,0%	0,4%	1,9%	2,4%
EuroStoxx 50	3470	-1,9%	0,8%	4,8%	-5,5%	-7,3%
Stoxx 50	3064	-0,9%	0,3%	2,9%	-7,8%	-10,0%
SMI (Swiss Market Index)	10325	-0,4%	-0,3%	-0,6%	-0,6%	-2,8%
Nikkei 225	26653	-0,4%	7,0%	14,7%	13,9%	12,7%
Brasilien BOVESPA	115129	1,2%	9,6%	16,5%	4,0%	-0,4%
Russland RTS	1401	3,2%	13,6%	15,1%	-3,7%	-9,6%
Indien BSE 30	46099	2,3%	6,5%	18,7%	14,6%	11,7%
China Shanghai Composite	3347	-2,8%	-0,4%	3,5%	14,7%	9,7%
MSCI Welt (in €)	2629	-0,1%	2,2%	8,6%	5,0%	3,3%
MSCI Emerging Markets (in €)	1255	0,7%	3,7%	13,1%	9,3%	4,4%
Bond markets						
Bund-Future	178,08	326	406	497	585	759
Bobl-Future	135,66	29	55	88	145	203
Schatz-Future	112,44	12	14	21	45	53
3 Monats Euribor	-0,55	-1	-4	-6	-15	-16
3M Euribor Future, Dec 2017	-0,54	-1	-2	-7	-13	0
3 Monats \$ Libor	0,22	-1	1	-3	-167	-169
Fed Funds Future, Dec 2017	0,09	0	1	2	-124	-1
10 year US Treasuries	0,89	-8	-8	20	-94	-103
10 year Bunds	-0,64	-9	-15	-21	-34	-45
10 year JGB	0,02	0	-2	-1	3	4
10 year Swiss Government	-0,53	-9	-12	-10	3	-6
US Treas 10Y Performance	715,86	0,6%	0,7%	-1,8%	11,7%	12,6%
Bund 10Y Performance	686,31	0,5%	1,0%	1,6%	3,1%	4,3%
REX Performance Index	500,47	0,3%	0,5%	0,1%	1,1%	1,5%
US mortgage rate	0,00	0	0	0	0	0
IBOXX AA, €	-0,02	-4	-10	-24	-27	-32
IBOXX BBB, €	0,53	-4	-19	-45	-36	-38
ML US High Yield	5,14	-1	-32	-77	-116	-90
Convertible Bonds, Exane 25	8178	0,0%	1,5%	4,4%	7,7%	6,8%
Commodities						
MG Base Metal Index	359,28	0,8%	10,3%	15,0%	23,1%	19,8%
Crude oil Brent	49,85	1,0%	14,1%	24,3%	-22,7%	-24,8%
Gold	1832,49	-0,1%	-2,8%	-6,4%	25,2%	20,5%
Silver	24,01	-0,5%	-1,5%	-11,5%	44,0%	34,0%
Aluminium	2047,89	0,9%	8,5%	16,9%	16,9%	15,0%
Copper	7860,75	1,4%	13,7%	17,5%	29,5%	27,8%
Iron ore	150,70	6,5%	25,3%	18,9%	65,0%	64,6%
Freight rates Baltic Dry Index	1161	-3,0%	-3,3%	-8,5%	-24,0%	6,5%
Currencies						
EUR/ USD	1,2115	-0,4%	2,6%	2,2%	9,4%	7,8%
EUR/ GBP	0,9189	2,0%	3,0%	-0,4%	9,1%	8,4%
EUR/ JPY	126,12	-0,3%	1,4%	0,3%	4,9%	3,4%
EUR/ CHF	1,0771	-0,5%	-0,4%	0,0%	-1,4%	-0,8%
USD/ CNY	6,5460	0,2%	-1,1%	-4,2%	-6,9%	-6,0%
USD/ JPY	104,22	0,1%	-1,0%	-1,8%	-4,1%	-4,1%
USD/ GBP	0,76	2,2%	0,5%	-2,4%	-0,1%	0,5%

Source: Refinitiv Datastream

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