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# Market Insights

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**January 2021**



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# Global Economy

- **A huge global race in which countries try to vaccinate their populations as quickly as possible**
- It is now possible to summarize that **Southeast Asia coped better**. Countries from that region have deal with epidemics in the past, learned methods of closure from the Chinese, quickly set up epidemiological research systems, responded quickly and effectively
- In the end game **China was hurt the least and it feels like it came out victorious** from the epidemic it brought into the world. **China increases the bet to replace the US as a world leader**. The Chinese economy is set to overtake the U.S. faster than previously anticipated, soon as 2028, after weathering the Coronavirus pandemic better than the west
- **In the 12 months ending on Q3 2020, Southeast Asian countries GDP has grown by about 2%. In parallel, EU has lost over 4%.**
- The main explanation for the **dichotomy between the stock exchanges and the economy** can be understood by counting the total fiscal and monetary aid stimulus that stands at more than \$ 20 trillion while the cumulative damage to the world economy is estimated at about \$ 7 trillion
- A record in the number of **governments whose rankings were downgraded**. The rating agency Fitch has made 32 such rating downgrades, including huge lenders like Italy and Mexico. **Another third of the countries ranked were given a warning against ranking damage.**
- Harvard Un., estimated that 28% of small businesses in New York, and 31% of those in New Jersey, have closed since January 2020. The devastation that has fallen on the heads of small businesses well illustrates another problem: Is there at all an effective mechanism for dispersing the trillions so that they will not only help huge companies but also reach the suffocating small businesses?



- **US national debt-to-GDP ratio was 109%, before the arrival of COVID 19. In December 2020 the rate is 131%**
- The rapid recovery recorded in the summer months came to a halt after the previous \$ 3 trillion aid program that was transferred exhausted itself. Hence, at last, **a bipartisan agreement on an additional \$ 900 billion aid package has huge importance**
- The second wave of **Coronavirus cases is furious hitting the economy as well**
- Optimism, but alongside it a continued commitment to support the economy, is the tone reflected in the words of Fed Chairman, Jerome Powell: "Yes, we see the light at the end of the tunnel, yet determined to support the economy until it recovers." The Fed expects strong growth (2021: 4.2%, 2022: 3.2%), and believes that this may be the beginning of a long economic cycle
- An important date is January 5<sup>th</sup> as there will be a second round of Senate elections. In this round only two senators are elected. Republicans currently have a majority and it can be assumed that as long as they maintain it, there will be no further aid package beyond the current one
- It became common for large companies to finance their activities relatively easily and increase leverage, due to cheap financing costs. Background for this phenomena is solid household balances and their saving rate per disposable income that is historically high. Still, according to Moody's, the insolvency rate of US public companies has tripled since February. According to S&P, this rate is expected to reach 12.5% of businesses in early 2021. In addition, the agency downgraded the credit rating of 37% of S&P companies and 30% of banks



- **A huge wave of new Coronavirus cases**, which has led to a lot of new restrictions, and **has apparently pushed the economy towards a renewed contraction**, hence a double-dip recession
- The ECB has launched a fresh burst of stimulus to help the eurozone economy recover from the Coronavirus pandemic, promising to buy €500B more (in addition to € 1.35B that was launched earlier this year) bonds over a longer period and providing extra cheap funding for banks
- **Optimism about vaccines supports risk assets and the Brexit agreement are main reasons for EUR stabilizing above 1.20**
- **An agreement was signed between Britain and the EU.** Terms of trade between the parties will remain virtually unchanged. The UK will be subject to European standards in the field of labor relations, environment and society. If the British government prefers local companies it will work against a European demand for compensation. Freedom of movement will be restricted. Britain will be able to sign trade agreements and will not be subject to the European Court of Justice. Negotiations will be held regarding the accessibility of the financial centers to European markets. The EU will now strive for more integration that was avoided when Britain was part of it
- Mario Draghi, former president of the ECB: "You can give a certain amount of resuscitation but at some point the companies will be left without air, no matter how large the liquidity flow. Former central bankers recently published a report saying "there is a growing debt and repayment crisis in companies. Many entered the Corona crisis with an unusual and particularly high level of debt." Therefore "we reject the thought that the worst is behind us. It will be a long and lasting recession."



- **Israel's export is expected to approach an all-time high of \$132B in 2020** – due to the surge of the hightech sector. 10% of Israel's workforce is directly employed by the hightech sector (double the level employed in OECD) with even more who are indirectly involved in hightech. On the other hand - **Import has declined substantially**
- The **Corona crisis has accelerated technological developments at rates estimated at a jump of 5 years within a year.** **The main beneficiaries are high-tech companies, and Israel**, where the weight of this industry is the highest in the world.
- **Direct foreign investment in Israel in 2020 is 20% higher than 2019** – approaching an estimated \$25B. Mostly to high-tech
- **Foreign exchange reserves as a percentage of GDP is 3<sup>rd</sup> among OECD countries.** Israel's total foreign exchange reserves is all-time high at \$170B, of which \$17B acquired in 2020. Notwithstanding **unprecedented** Dollar acquisition by Bank of Israel – but due to the unprecedented level of foreign investment – **Israel's Shekel is gaining strength: from a rate above 3.80 per US Dollar on March 2020 to touching 3.20 on in December 2020**
- **Israel's public saving in 2020 has increased by 1.4% compared to 2019.** National debt-to-GDP ratio was 60%, before COVID 19, compared to 66% in OECD. In December 2020 it is 77%, compared to 80% in OECD
- **Peace treaties with the United Arab Emirates and Bahrain** are expected to add to GDP, through agricultural and hightech export, incoming hightech investments, oil import and mutual tourism
- **First two million vaccines will be given by the end of January 2021**, which will put an end to the closures and will quickly return the Israeli economy to its original path. So far Israel is number 1 in percentage of vaccination doses administered





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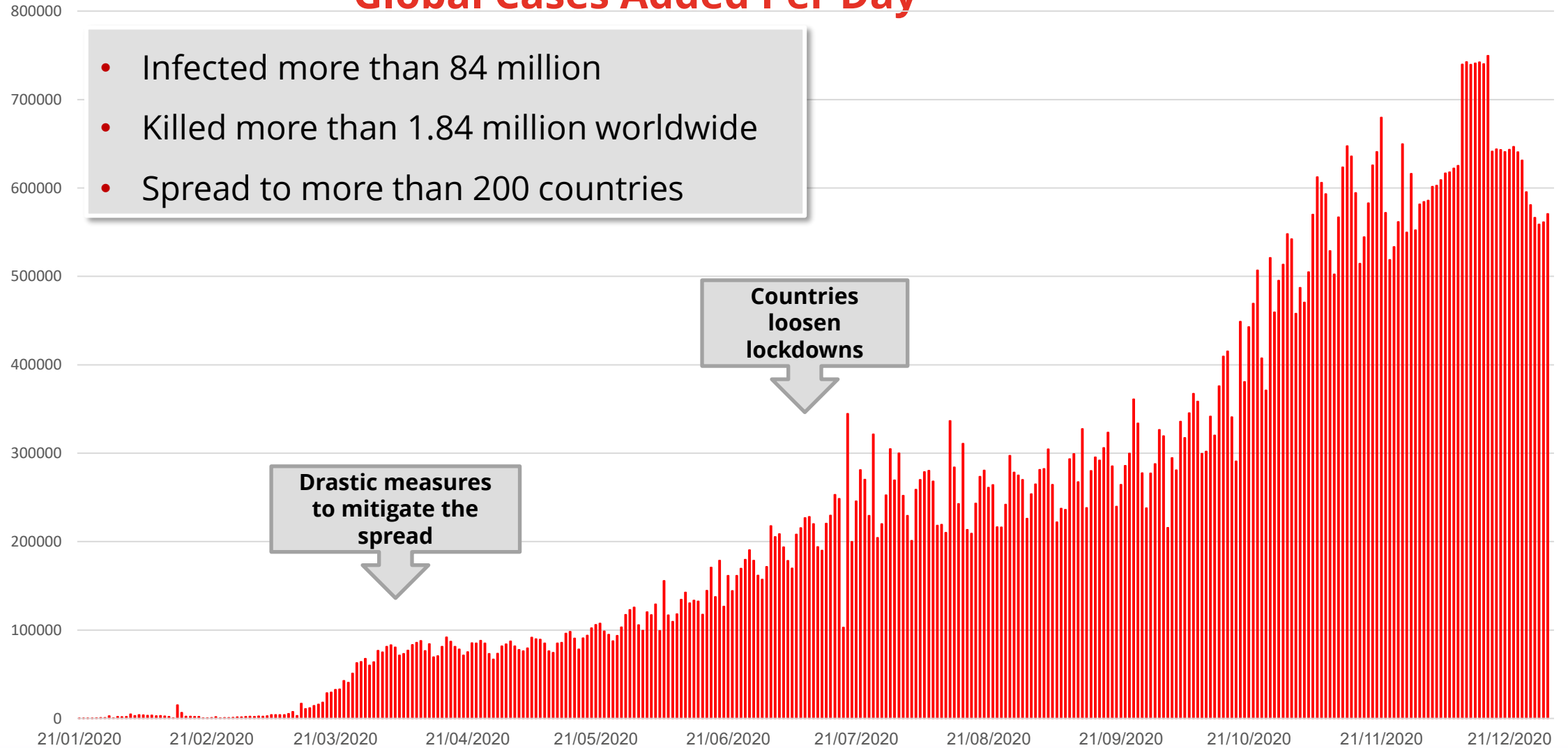
# Global Economy



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# Coronavirus Meter

## Global Cases Added Per Day

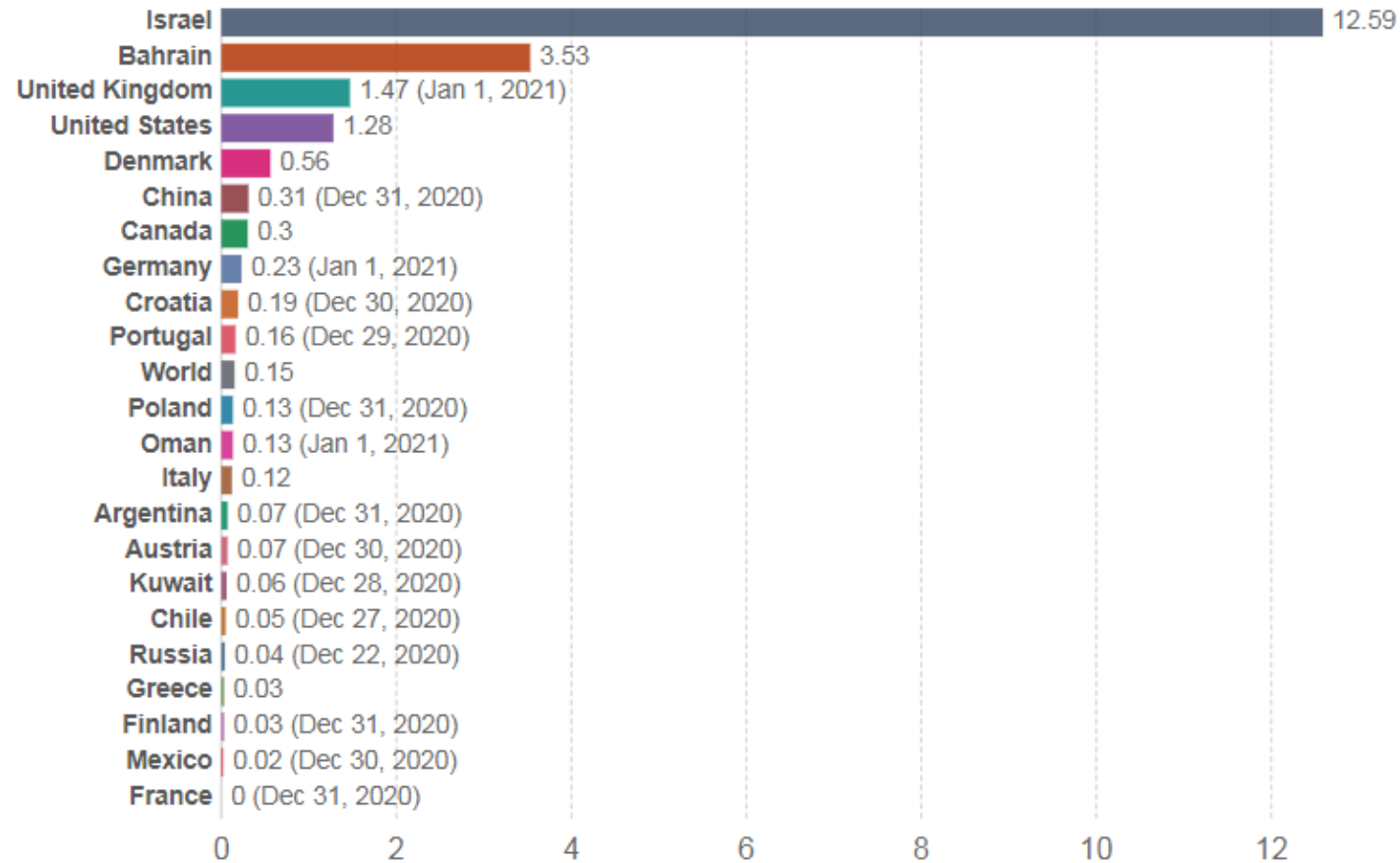




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# COVID-19 Vaccination

Number of Vaccination Doses Administered per 100 People







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# Endless Liquidity

## Global Money Supply (M2)



The money supply roughly includes both cash and deposits that can be used almost as easily as cash



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# US Economy



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# Core Economic Indicator

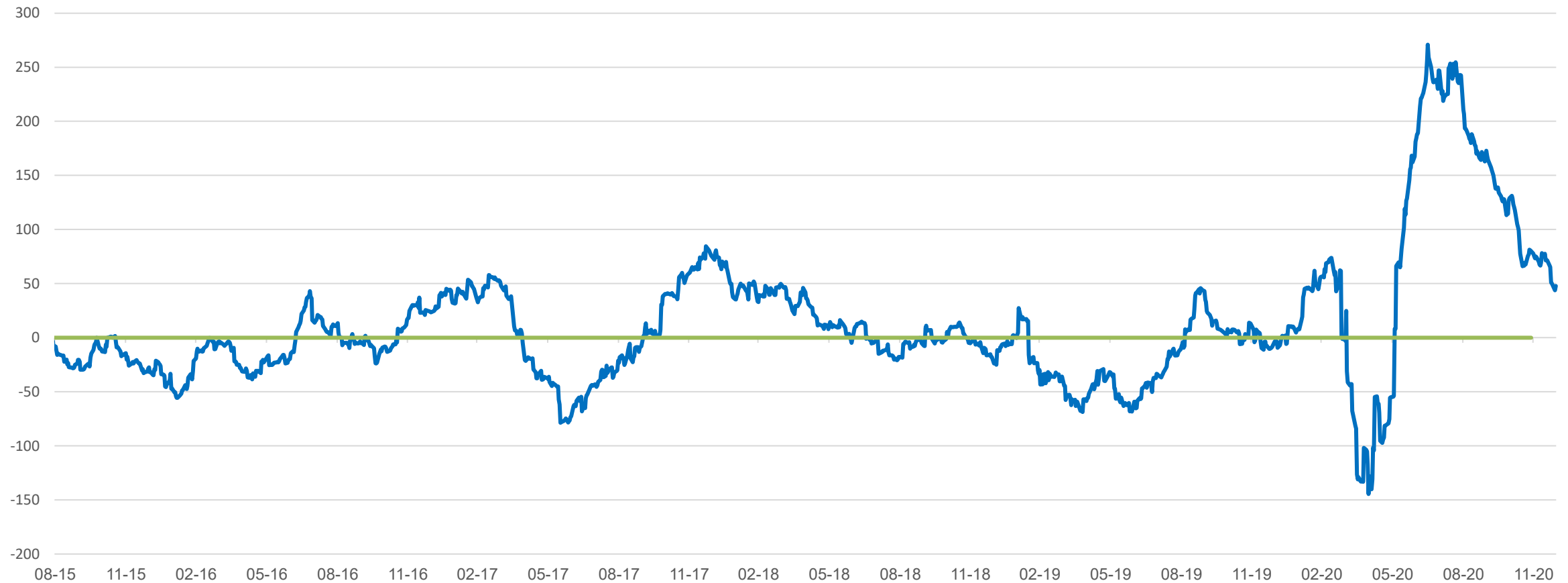
Economic Indicator	Latest Figure	Reference Period
Growth Rate	33.4%	Q3-2020
Unemployment Rate	6.7%	November-2020
Inflation Rate (Core PCE, YoY)	1.4%	November-2020
Central Bank Interest Rate	0%-0.25%	December-2020
10 Years Yield	0.95%	December-2020
Ratio of Surplus in Current Account to GDP	-2.59%	Q3-2020
Ratio of Public Debt to GDP	127.36%	July-2020



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# Performance is Close to Expectations

## Citi Economic Surprise

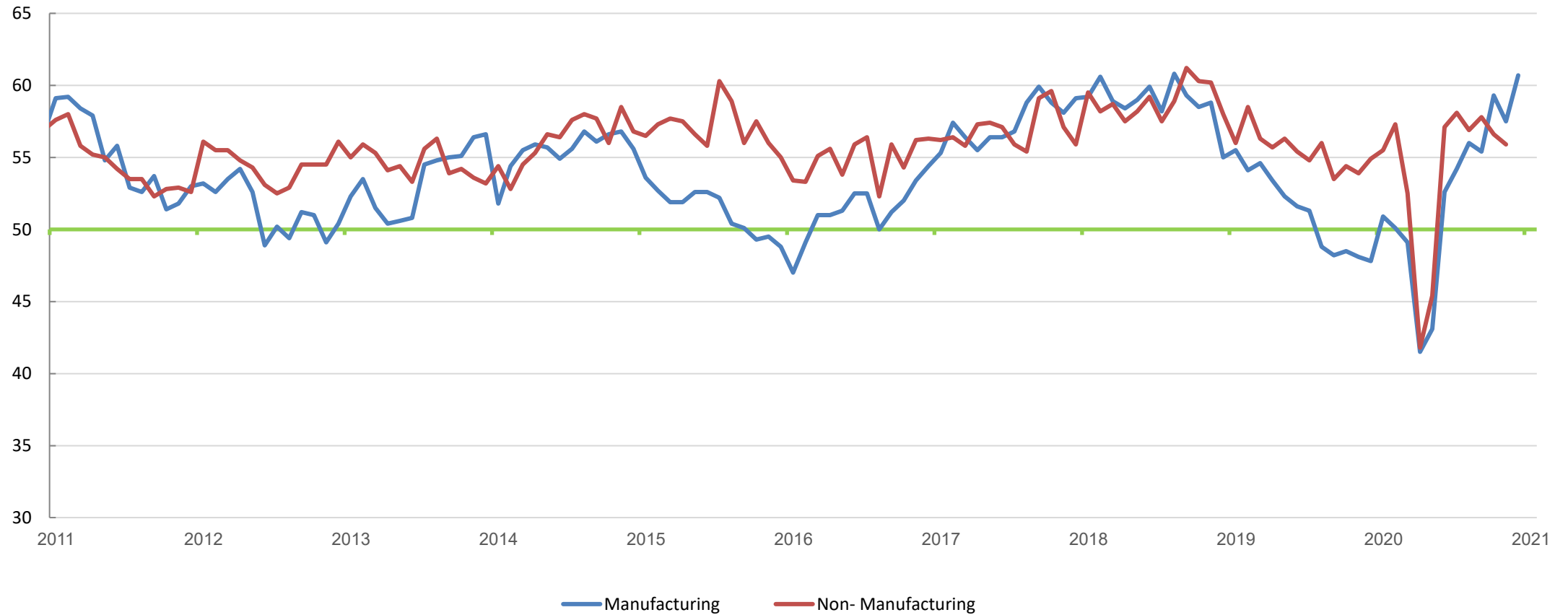




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# V Shaped Recovery

## ISM





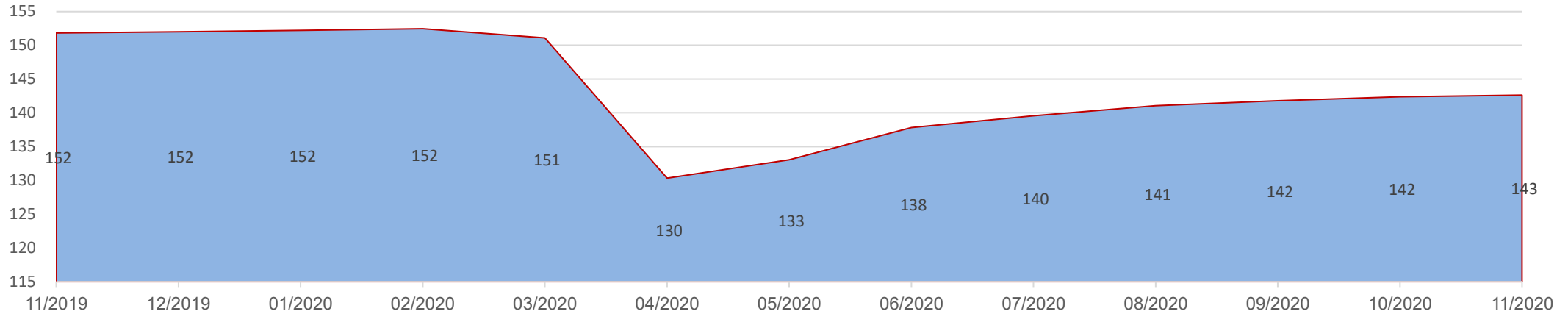


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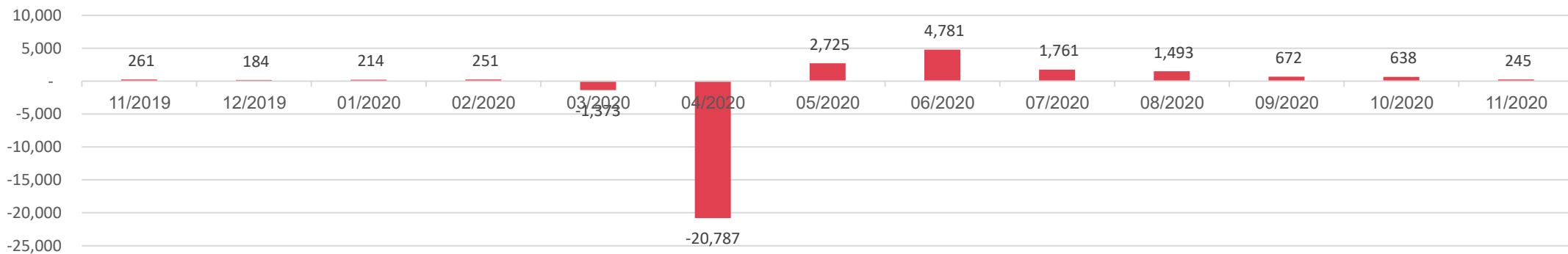
# The Road to Full Recovery is Still Long.

## Total Employment and the Monthly Change in Employment

Millions



Thousands



— Total Employment (Millions) — Change in Employment (Thousands)



# First Indications of Price Pressures





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# Long Term Yields Start Rising

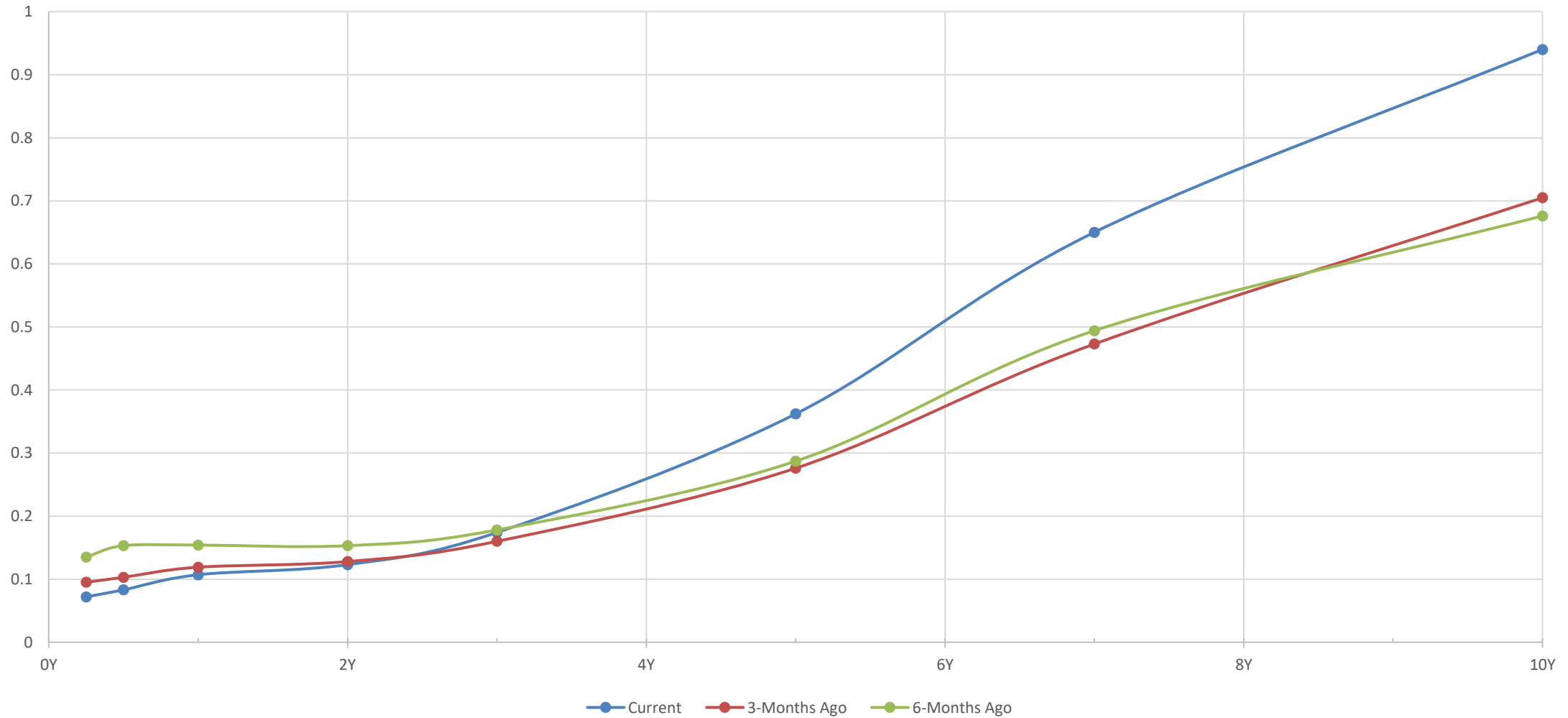
## 10YR Treasury Yield to Maturity





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# US Treasury Yield Curve

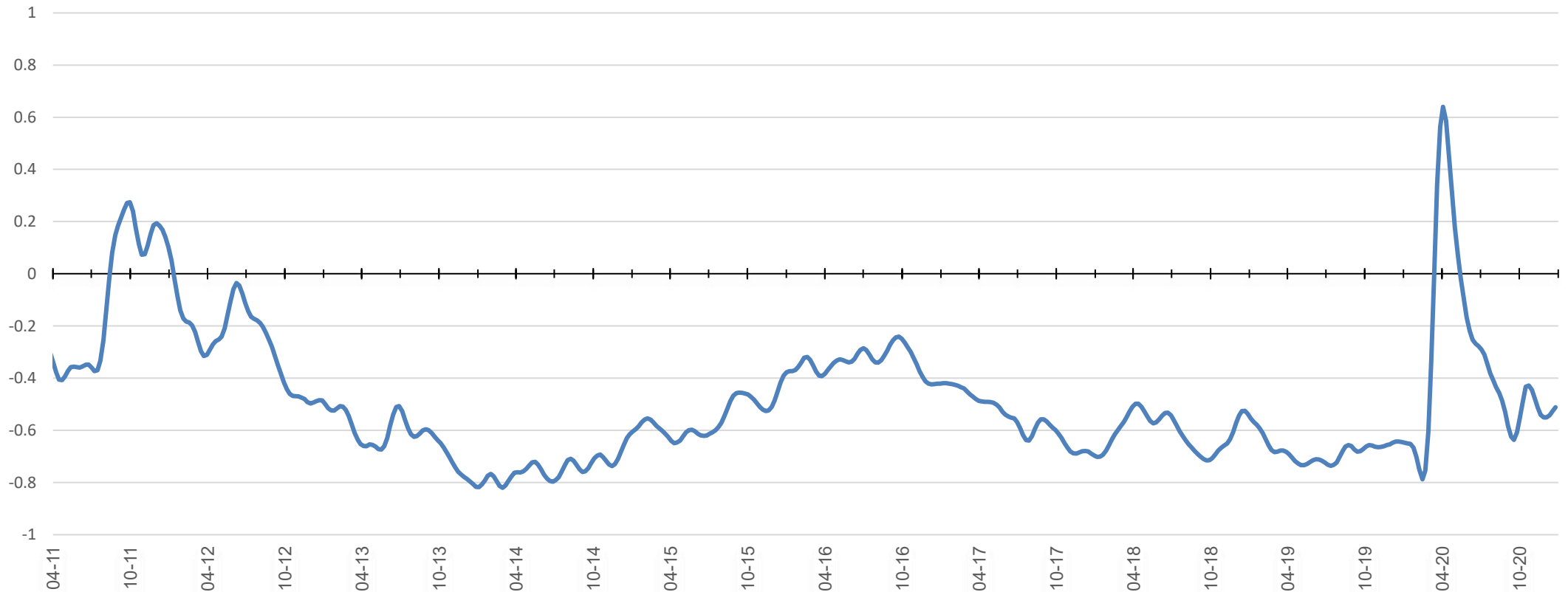




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# Ultra Accommodative Monetary Conditions.....

## Chicago Feds National Financial Condition Index (NFCI)



The NFCI provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets and the traditional and “shadow” banking systems. Negative values have been historically associated with looser-than-average financial conditions

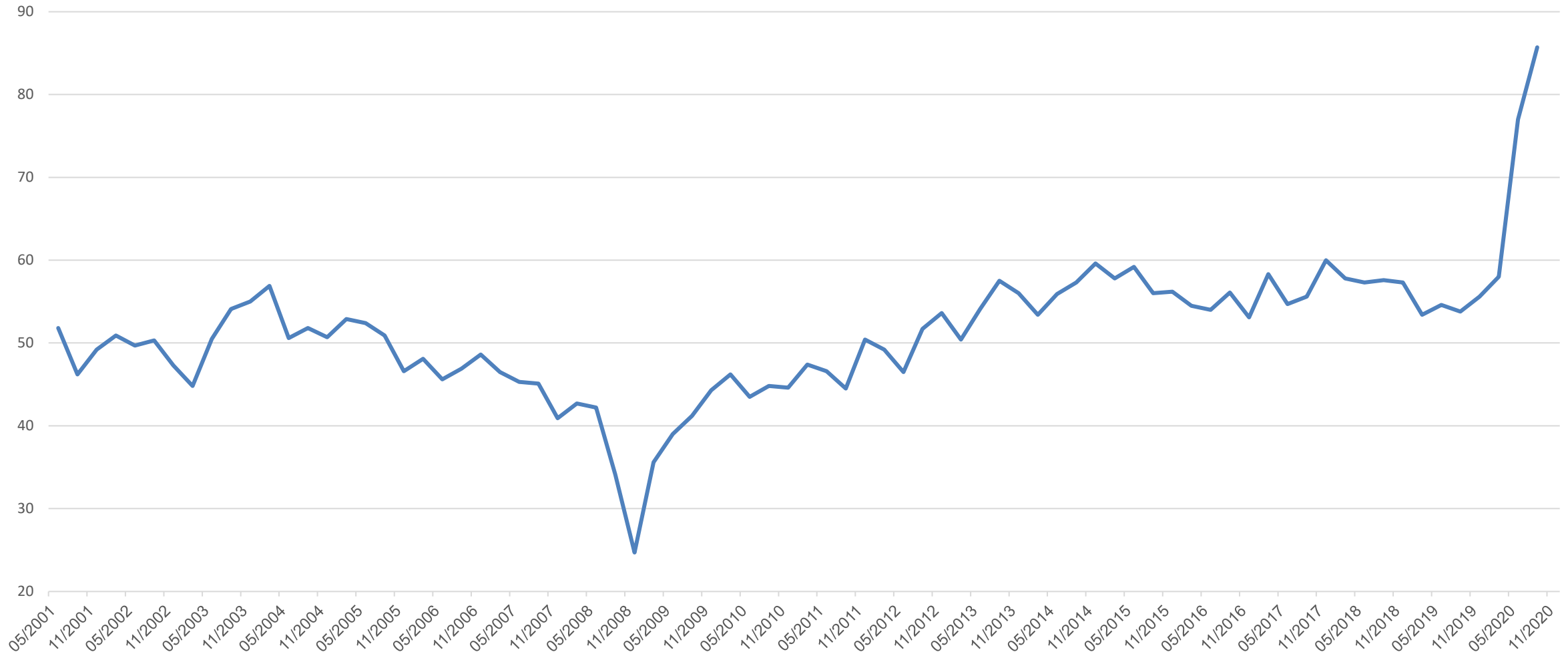




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# Housing Market Sentiment is at a Record High

## US Housing Market Index (NAHB)





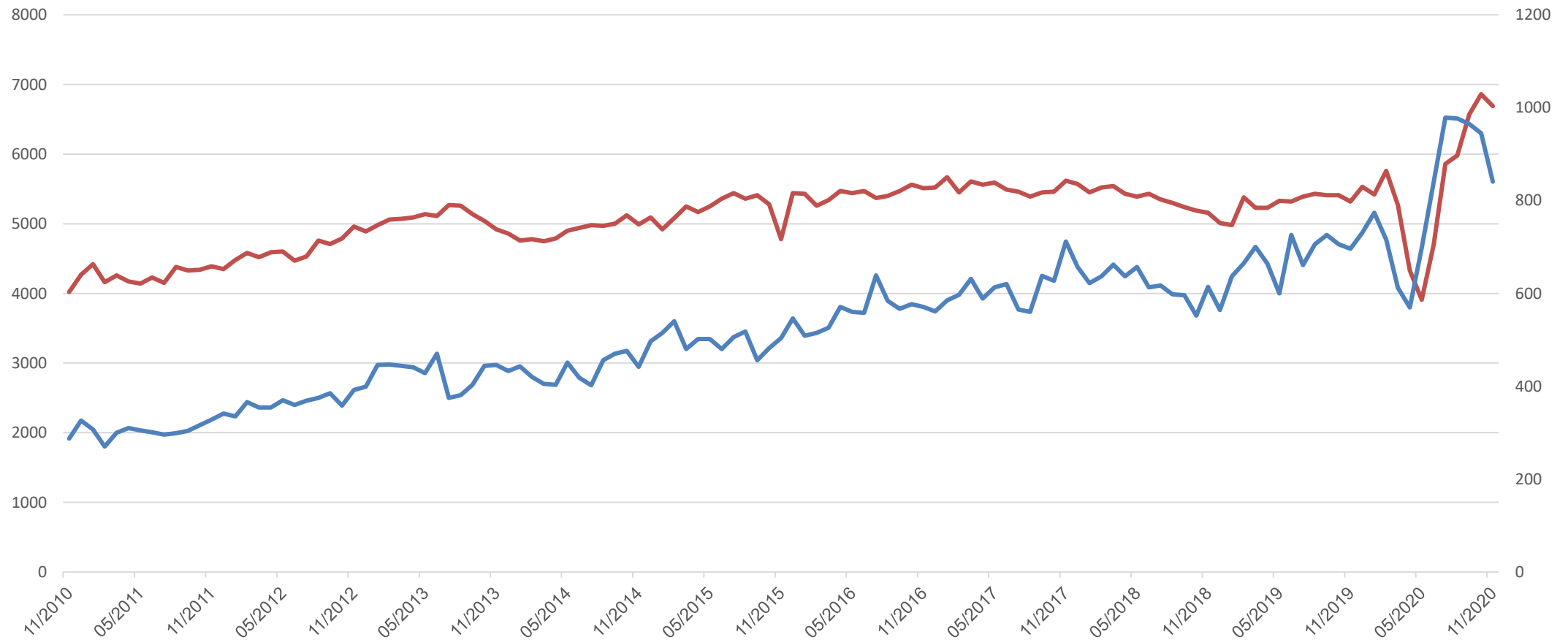
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# Robust Activity in Housing Market

## Existing Home Sales (Left) and New Home Sales (Right)

Thousands

Thousands





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# US Dollar Fell to 3 Years Low

US Dollar Index (DXY)

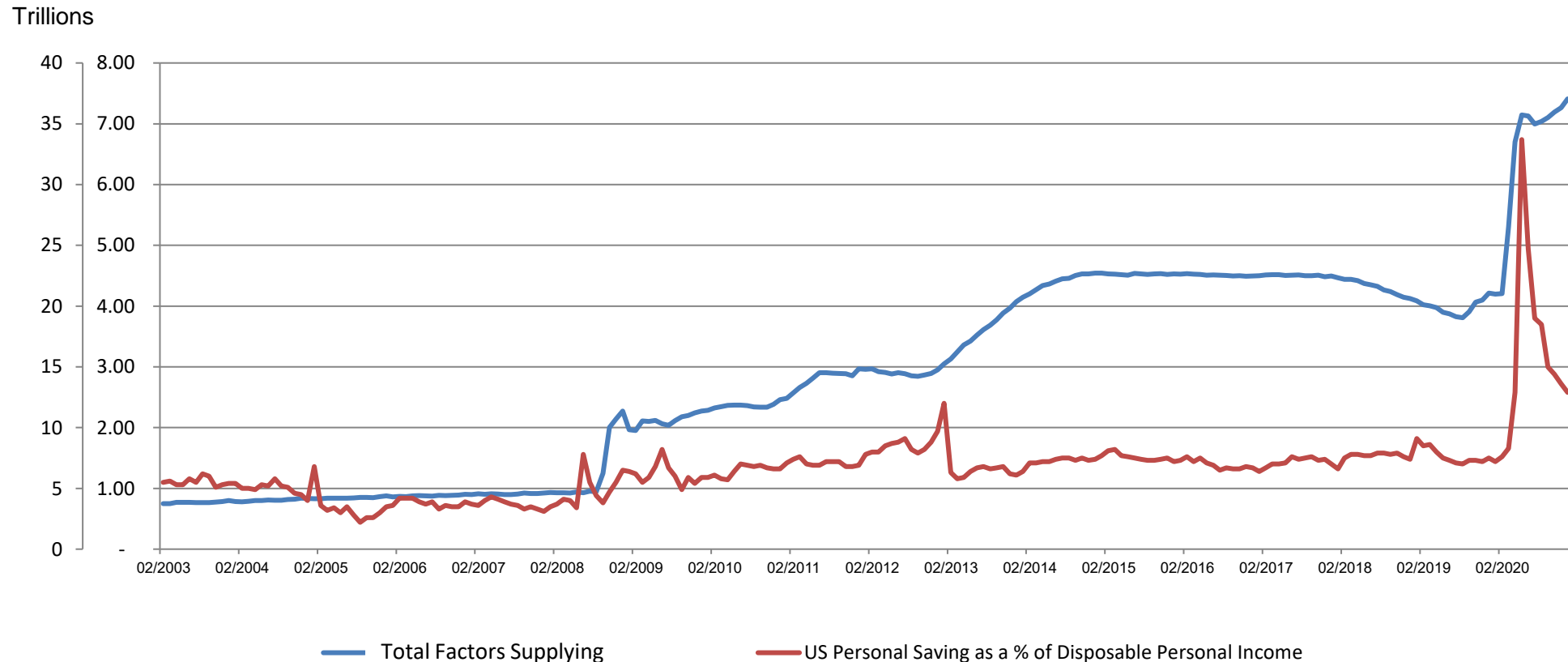




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# The Fed Enables the V Shaped Recovery

Total Factors Supplying Reserve Funds (Weekly Average) in USD Trillions  
and Personal Saving as % of Personal Income



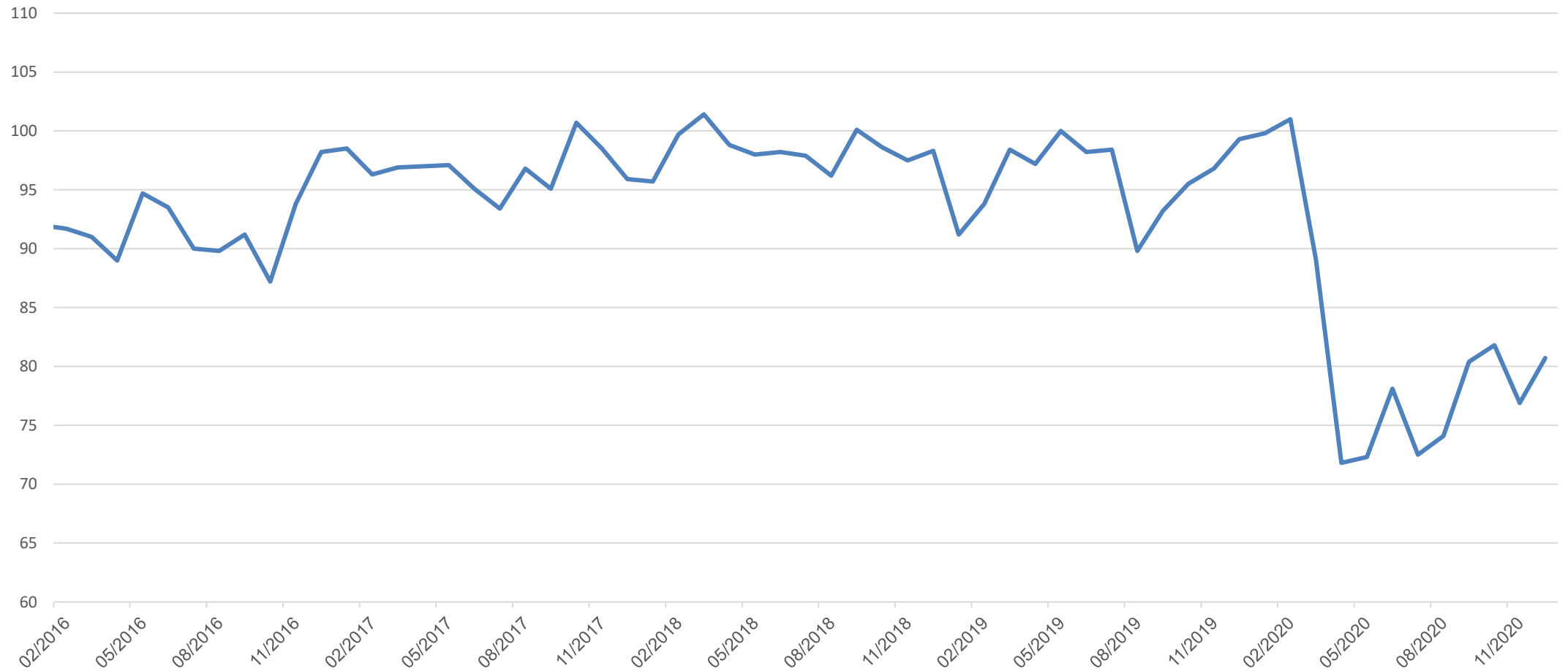
Total factors supplying reserve funds are the sum of "Reserve Bank credit," "gold stock," the "special drawing right certificate account" and "Treasury currency outstanding"



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# The Consumers are Still Worried About the Future.

## University of Michigan Consumer Sentiment Index







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# Eurozone Economy

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# Core Economic Indicator

Economic Indicator	Latest Figure	Reference Period
Growth Rate	60.0%	Q3-2020
Unemployment Rate	8.4%	October-2020
Inflation Rate (Core, YoY)	0.2%	November-2020
Central Bank Interest Rate	0.00%	December-2020
10 Years Yield (Germany)	-0.57%	December-2020
Ratio of Surplus in Current Account to GDP	2.00%	Q3-2020
Ratio of Public Debt to GDP	95.10%	Q2-2020



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# Policy Makers are Changing the Economic Picture.

## Citi Economic Surprise

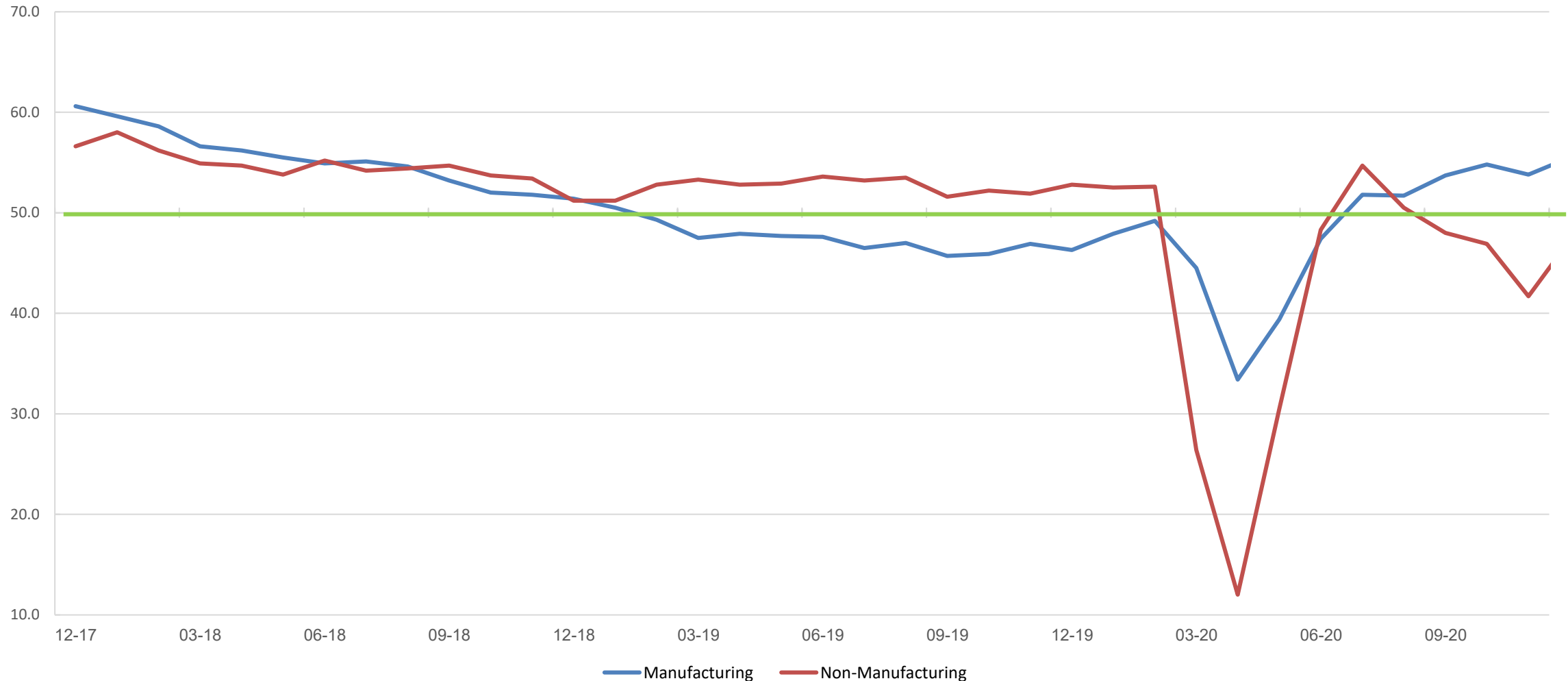




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# The Second Wave is Hitting Mostly the Services

Manufacturing and Non-Manufacturing PMI

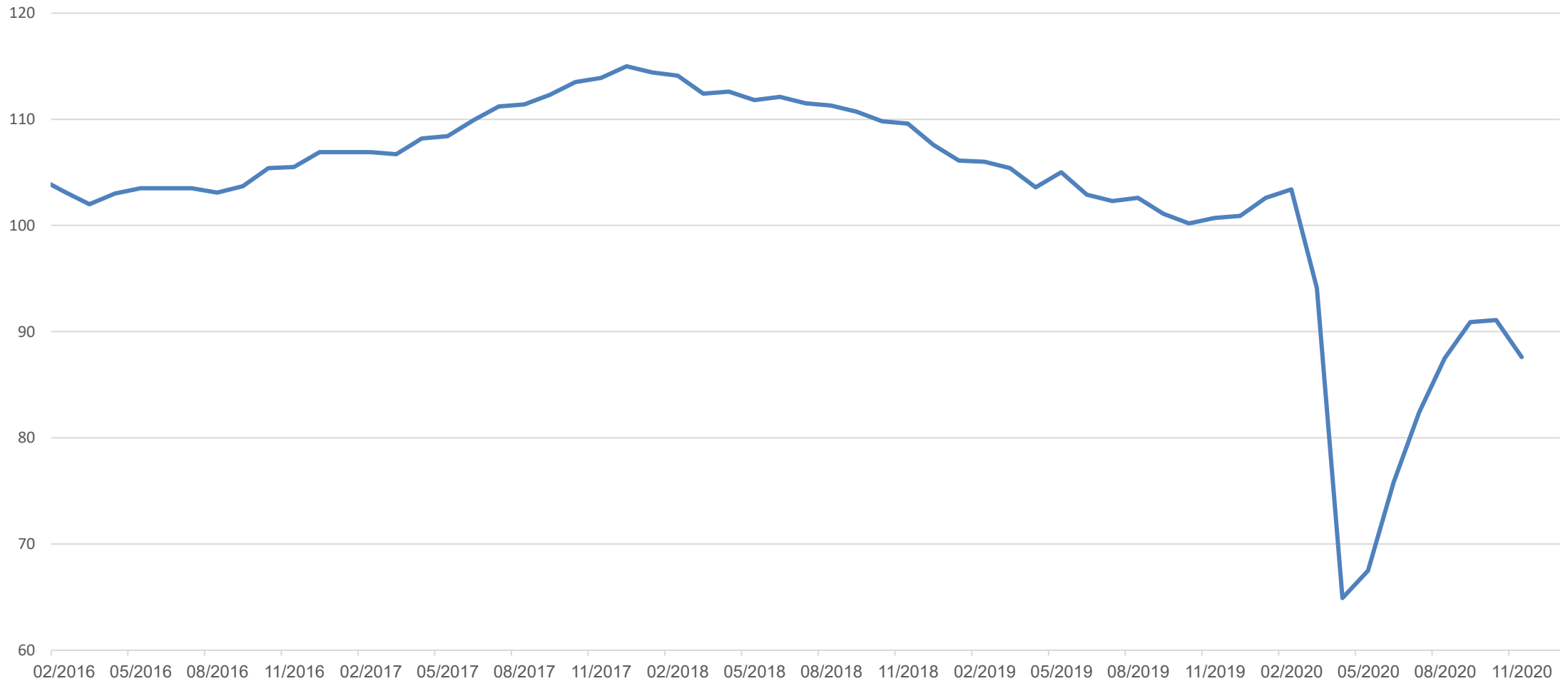




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# Second Wave Consumer Hesitance

## Euro Area Economic Sentiment







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# The Inflation is Still Subdued

CPI and Core CPI (YoY)

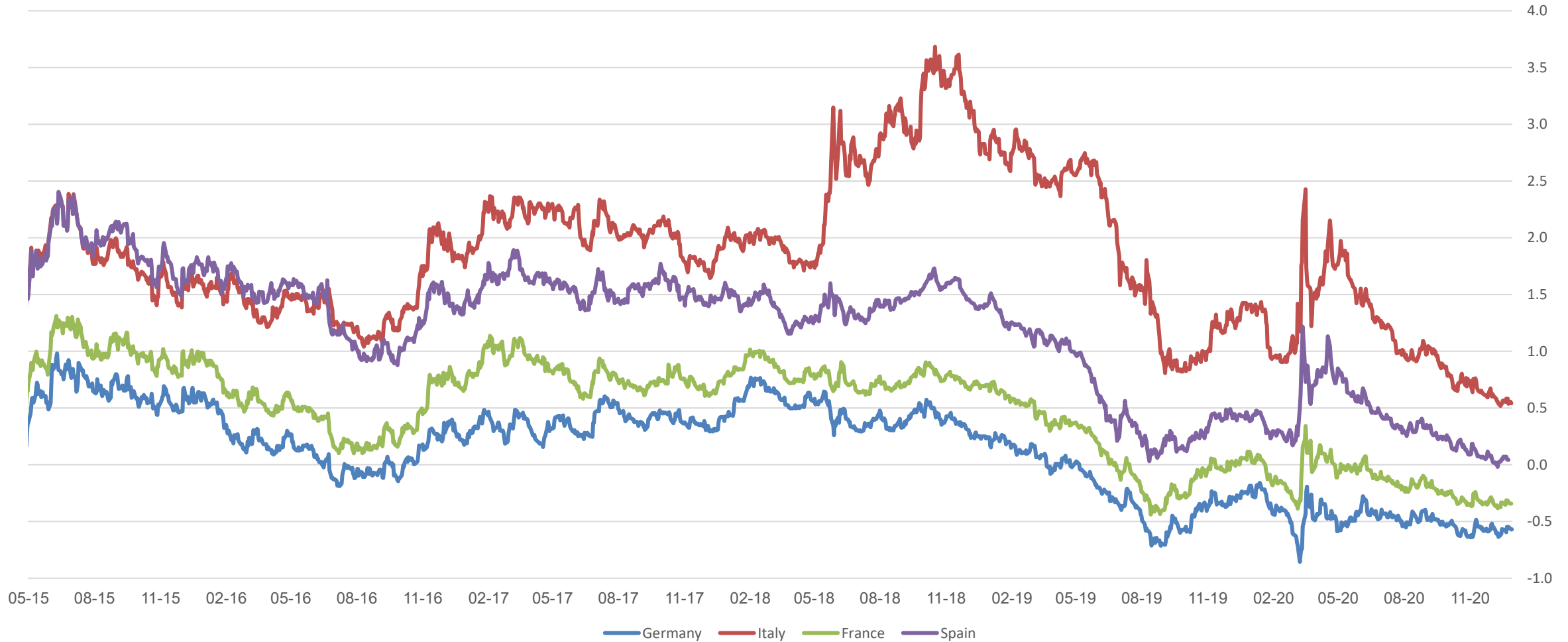




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# Fiscal Consolidation = Yield Convergence

10YR Government Bond Yield

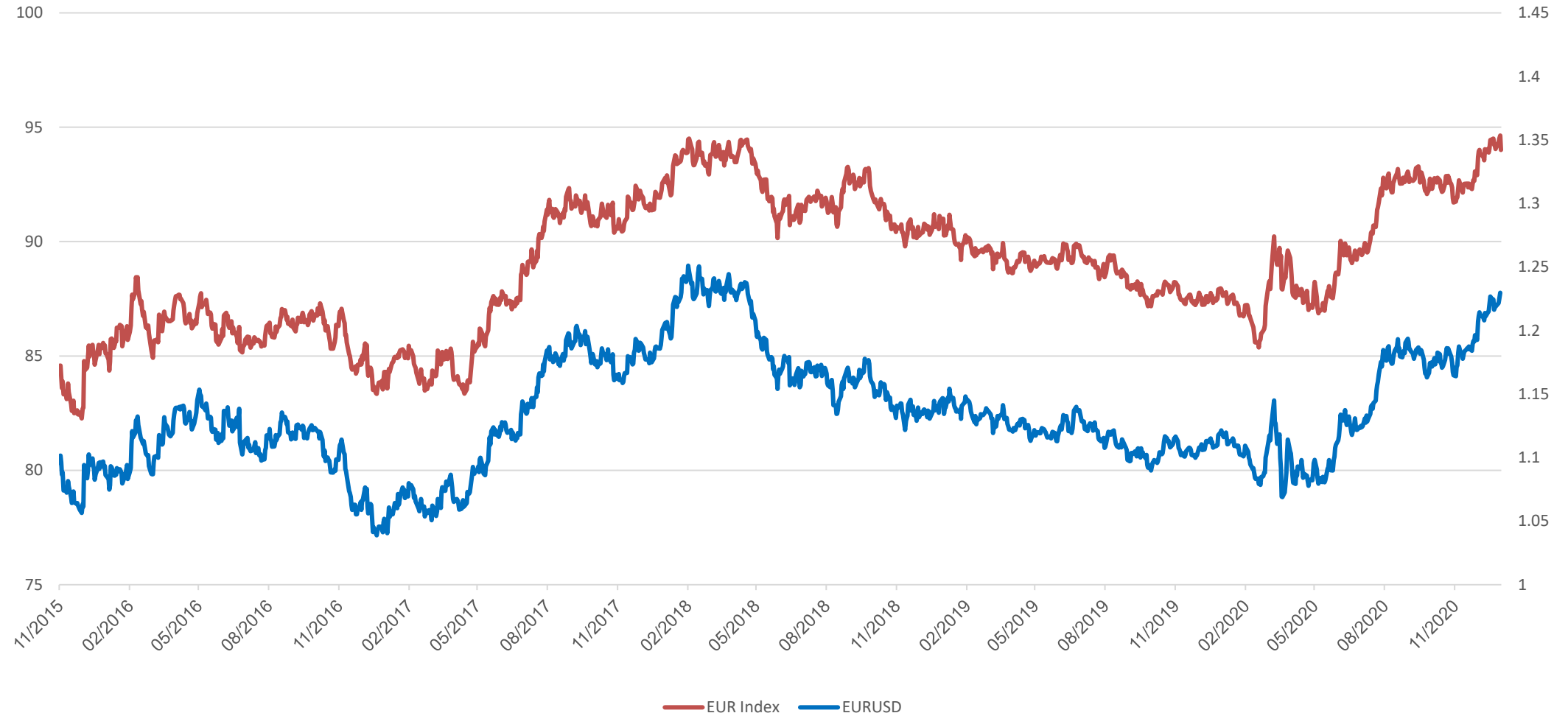




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## The Euro is Resilient to the Second Wave

EUR Index (Left) EURUSD (Right)





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# Israel Economy

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# Core Economic Indicator

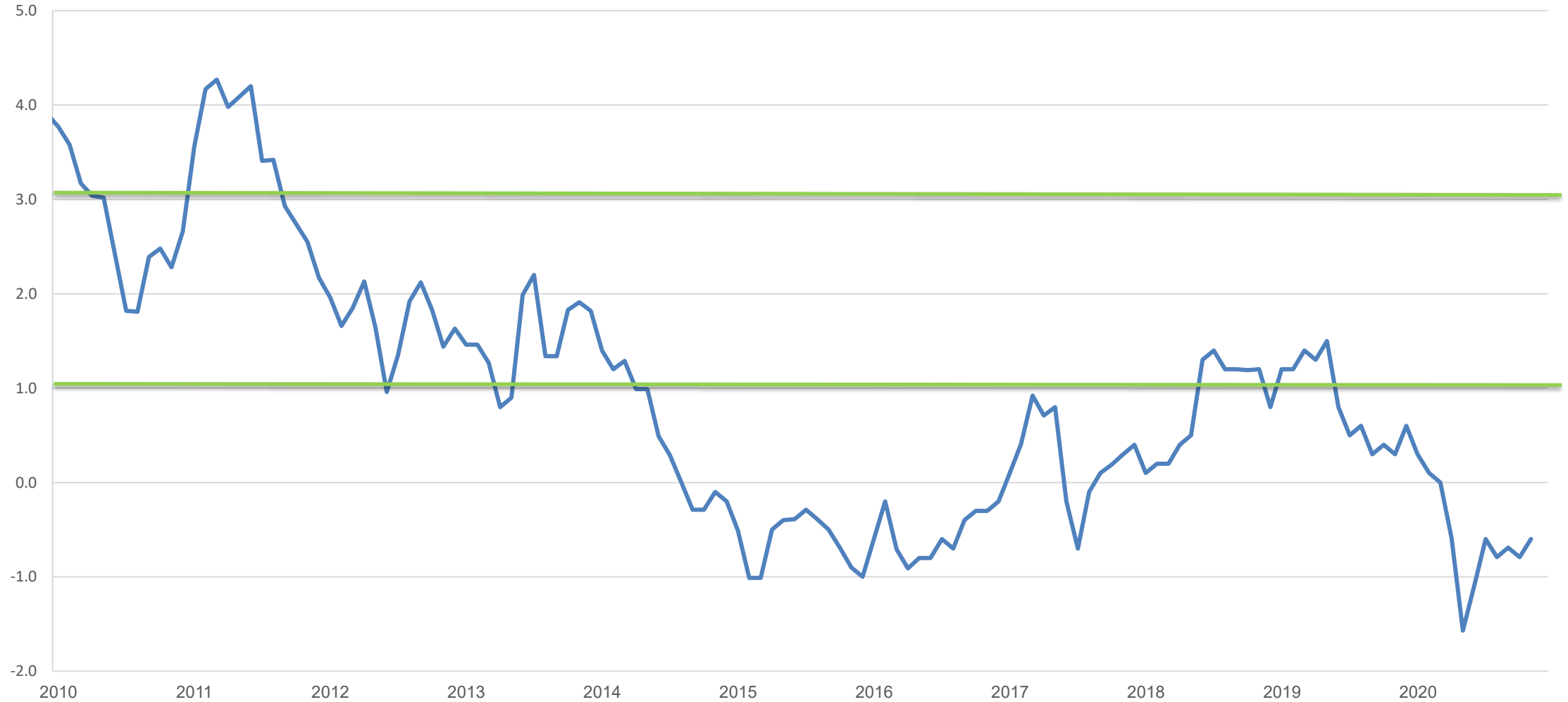
Economic Indicator	Latest Figure	Reference Period
Growth Rate	38.90%	Q3-2020
Unemployment Rate	4.8%	November-2020
Inflation Rate (YoY)	-0.6%	November-2020
Central Bank Interest Rate	0.10%	December-2020
10 Years Yield	0.77%	December-2020
Ratio of Surplus in Current Account to GDP	4.88%	Q3-2020
Ratio of Public Debt to GDP	61.00%	Q4-2017



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# Continuing Deflation

CPI (YoY)





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## **All Time Low Courtesy of the BOI**

### **10YR Government Bond Yield**



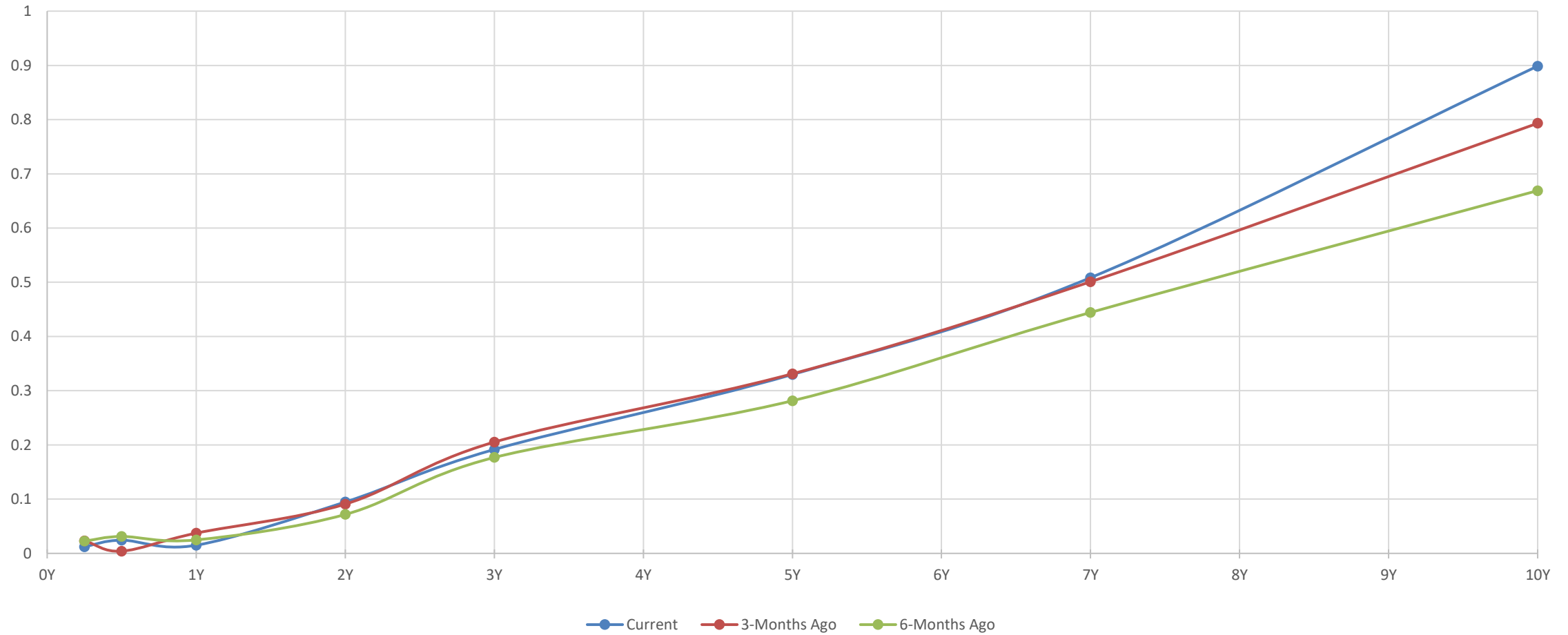




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# The Yield Curve is Getting Steeper

## Government Bond Yield Curve





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# The Hedging Cost Continues to Shrink

USDILS 1YR Forward Premium

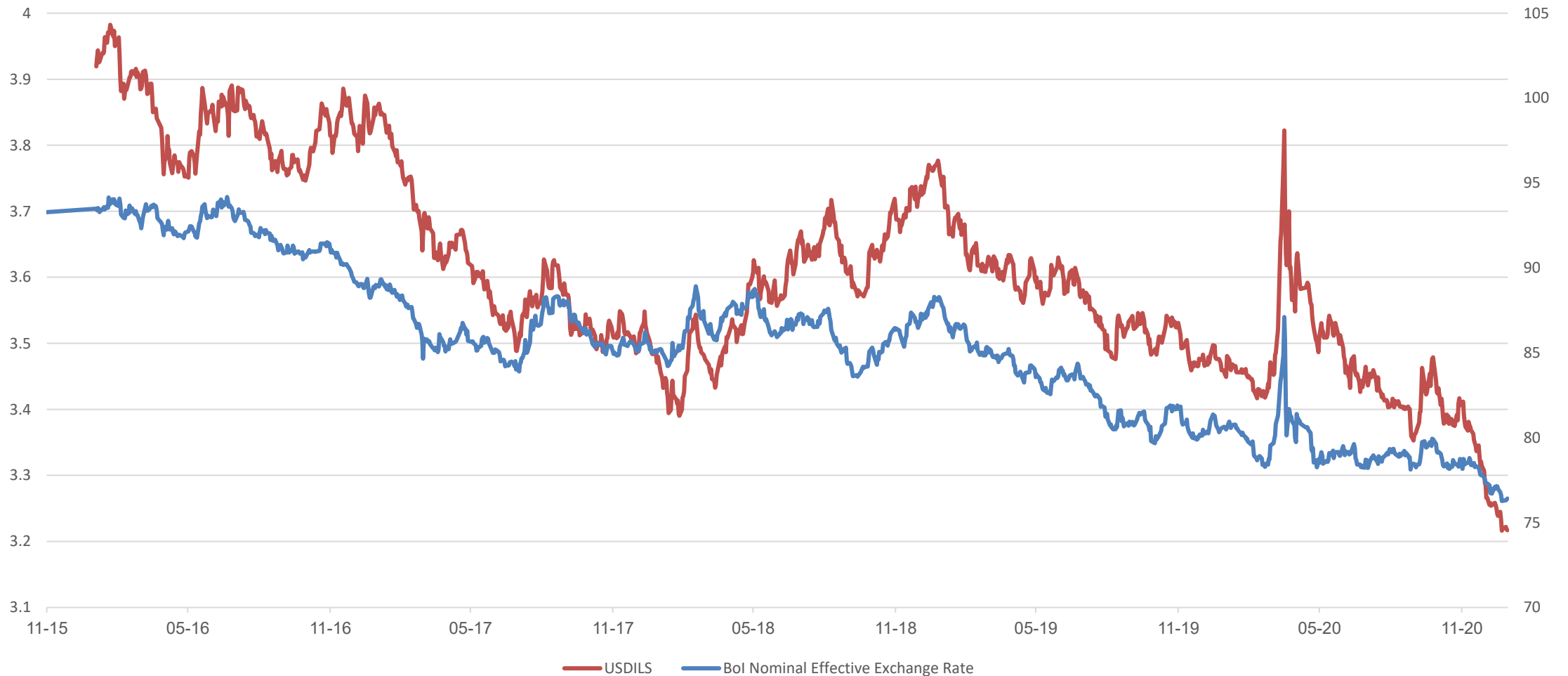




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# The Shekel is at an All Time High

USDILS (Left) BOI Nominal Effective Rate (Right)





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# Index Summary

Date	30/11/2020	31/12/2020	Change
USDILS	3.3072	3.2127	-2.86%
EURILS	3.945	3.9252	-0.50%
GBPILS	4.4067	4.3915	-0.34%
EURUSD	1.1927	1.2216	2.42%
GBPUSD	1.3323	1.367	2.60%
USDJPY	104.31	103.25	-1.02%
DXY	91.869	89.937	-2.10%
USDILS BOI Nominal Effective Rate	77.67614	76.49706	-1.52%

Date	30/11/2020	31/12/2020	Change
TA-125	1,513	1,568	3.63%
S&P 500	3,622	3,756	3.71%
DAX	13,291	13,719	3.22%
FTSE	6,266	6,461	3.10%
HANG SENG	26,341	27,231	3.38%
NIKKEI 225	26,434	27,444	3.82%
GOLD	1,777	1,898	6.83%
Crude OIL WTI	45.34	48.52	7.01%
CRB	484.39	510.72	5.44%



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**CONNECTING THE RIGHT DOTS**

**CREATING THE RIGHT PICTURE**