



# **SECOR Asset Management**

## Market and Credit Update

December 6, 2021

# Market Update

- Santa may not deliver presents to investors in 2021 (probably because of travel restrictions)
  - Spread of Omicron (a new COVID variant) puts into question the pace of economic recovery
  - Jerome Powell indicated concerns about inflation and stated that unwind of quantitative easing will start sooner than previously forecast
  - Market support from retail investors in waning – previously popular retail names have been underperforming
- Equities down slightly, bonds and USD are up; defensive sectors outperformed

## Performance of Selected Benchmarks as of December 3, 2021

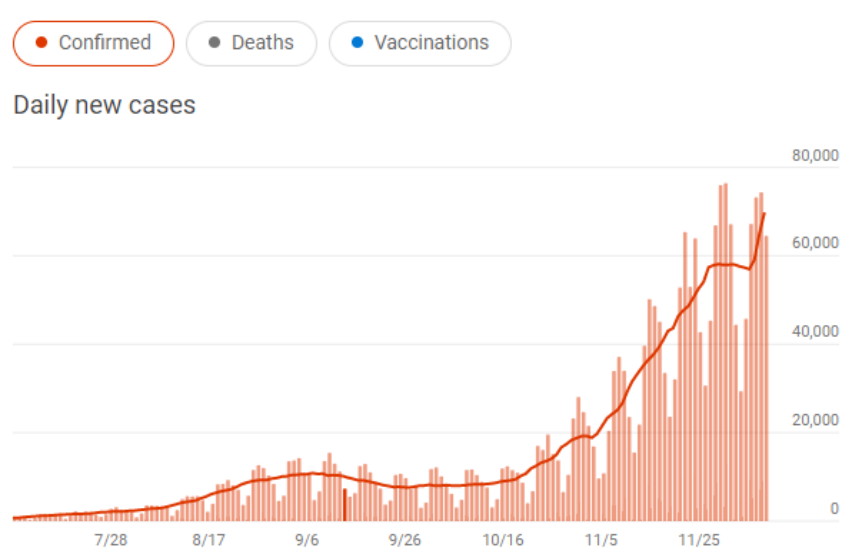
	ACWI LOCAL	MSCI Europe Local	S&P500	MSCI EM LOCAL	US Small Cap	MSCI EM (USD)	US 10 Yr Futures	UK Gilt Index	EM Bonds	HY	EUR	JPY	GBP
Oct 31 - Dec 3	-2.0%	-2.2%	-1.3%	-2.3%	-5.9%	-3.0%	1.2%	3.4%	-0.5%	-0.6%	-2.1%	1.1%	-3.3%
QTD	2.8%	1.5%	5.6%	-1.4%	-1.9%	-2.1%	0.5%	5.8%	-0.4%	-0.7%	-2.3%	-1.4%	-1.8%
YTD	16.2%	16.8%	22.4%	-0.7%	10.3%	-3.3%	-2.3%	-2.2%	-1.9%	3.8%	-7.4%	-8.4%	-3.2%

Source: Bloomberg, SECOR. Data as of December 3, 2021

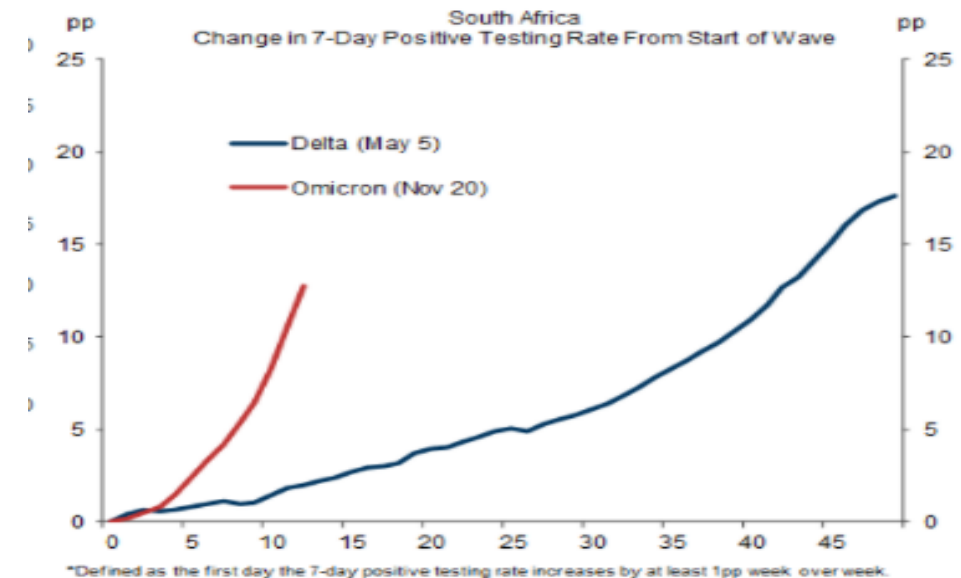
# COVID Update

- Strong COVID wave in Europe forced several countries (Austria, Germany) to impose travel restrictions / partial lockdowns
- Omicron is a new variant that originated in Africa and is now spreading rapidly, particularly in South Africa
  - It's more contagious than Delta
  - It has ~30 mutations in spike protein putting into question effectiveness of vaccines (proper analysis if Pfizer and Moderna vaccines is expected by Dec 10 and Dec 13, respectively)
  - Good news: symptoms appear to be mild, and rate of hospitalization is similar or lower than among people infected with Delta
- Major lockdowns remain unlikely in the US unless the number of cases growth to the same number of cases (proportionally to population) as in Germany

Daily New Cases as of December 3, 2021



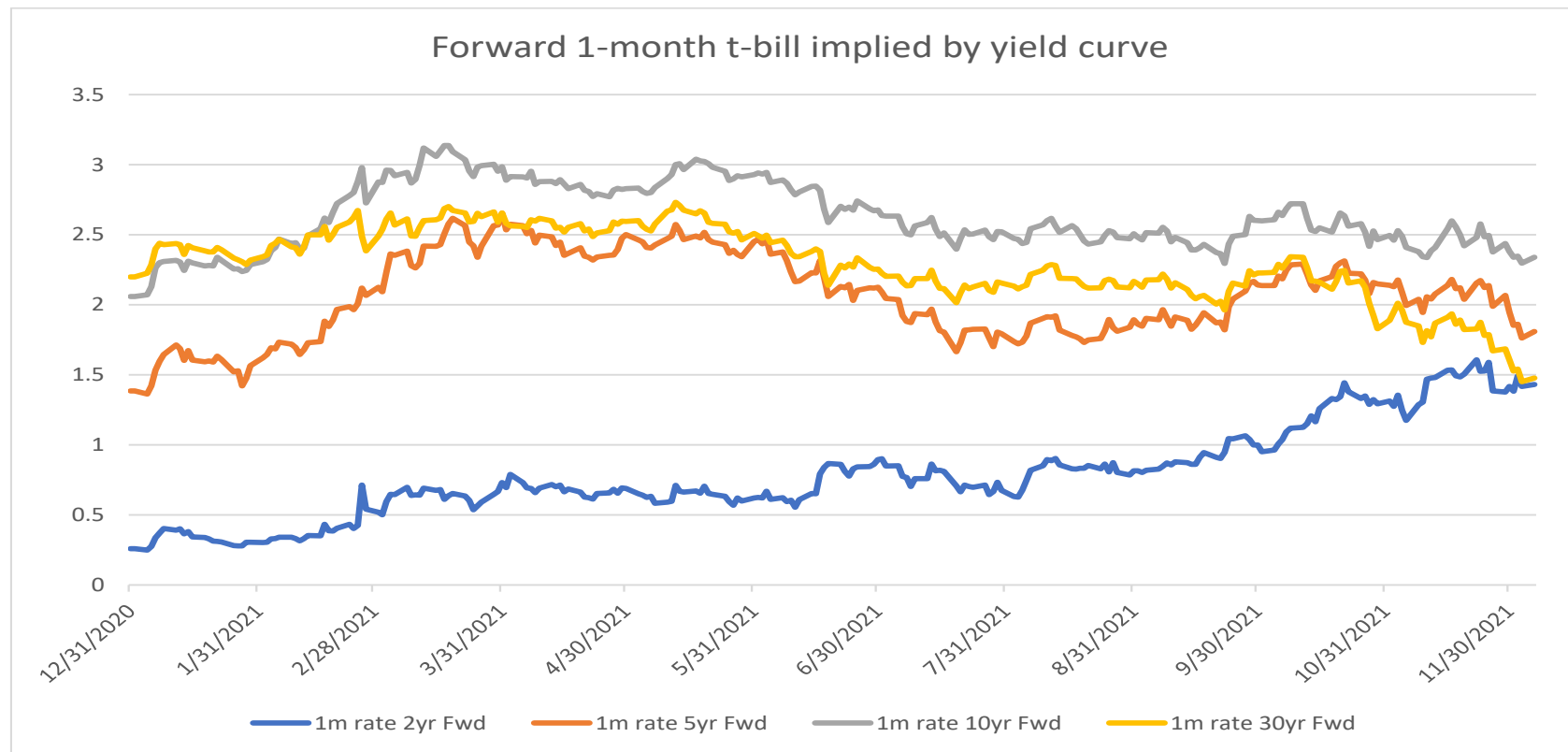
SA Change in 7-day positivity rate as of December 3, 2021



Source: CDC, WHO, ECDC, New York times, data as of 4-December-2021

# Fed Update

- Jerome Powell surprised markets last Tuesday stating that FOMC will discuss accelerating the taper and ending asset purchases at its December meeting – a few months earlier than previously projected – and highlighted importance of price stability – Fed speak for “we are more concerned about inflation than we stated before”.
- Larry Summers is calling for 4 rate hikes in 2022 to be the base-case for Fed (market is expecting 3 rate hikes in 2022)
- Yield Curve flattened – implied rates look extreme

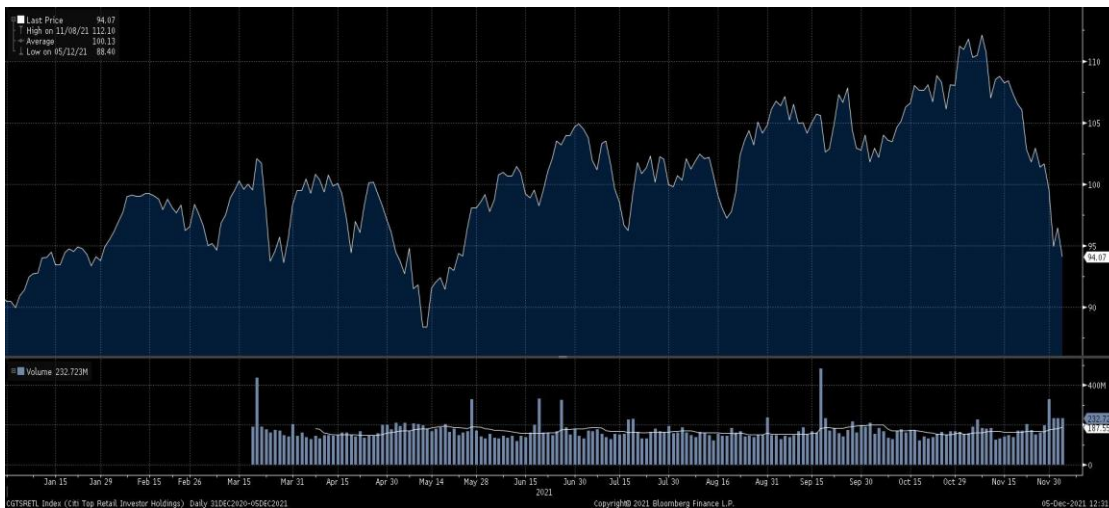


Source: Bloomberg, data as of 4-December-2021

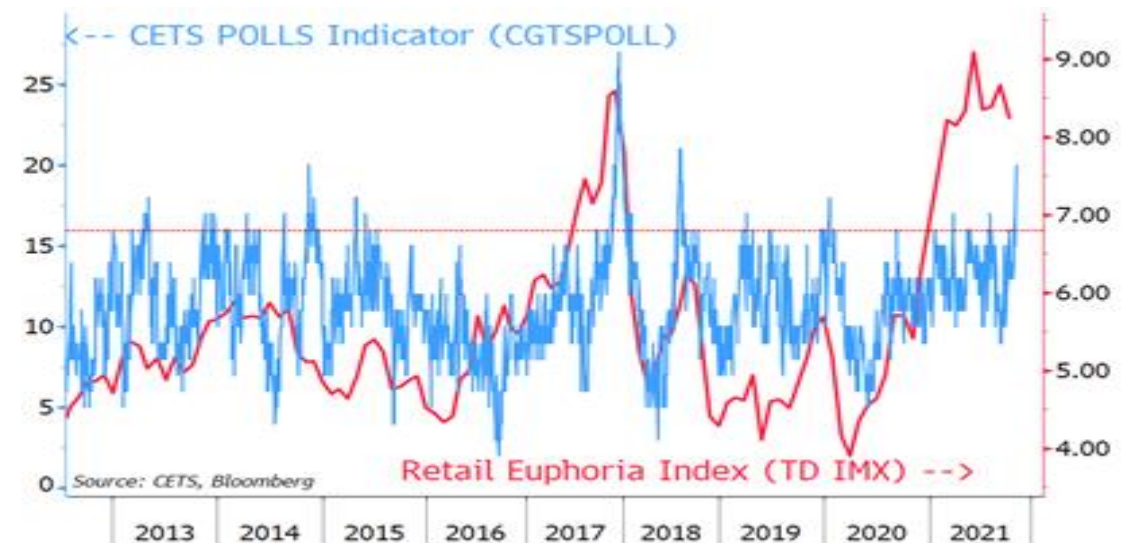
# Retail Investors Update

- Professional investors have been unwinding long equity positions for a few weeks; retail investors started selling in the last couple of days
- Performance of retail-favorite stocks is very poor, but measures of Euphoria is still high (based on Citigroup research) – more pain is likely

Crowded Retail Basket YTD Performance



Retail Euphoria is still high



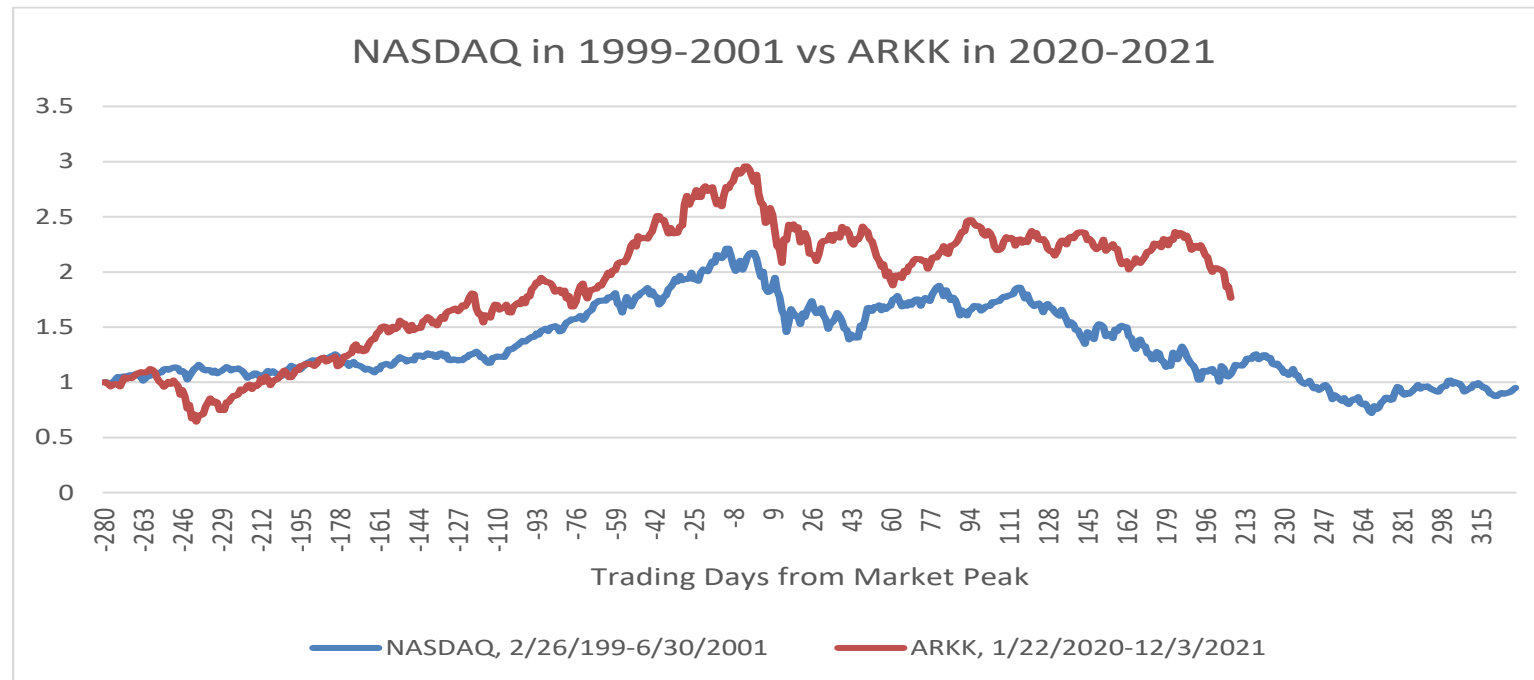
Source: Bloomberg, Citigroup; data as of 4-December-2021

# Retail Investors Update (Cont.)

- Frothy stocks (represented by ARK ETFs) have performed poorly in 2021, but sell-off in these names is likely to continue

**Retail-favorite ETFs' Performance**

	ARK INNOVATION ETF	ARK NEXT GENERATION INTERNET	ARK GENOMIC REVOLUTION ETF	FIRST TRUST NASDAQ CLEAN EDG	RENAISSANCE IPO ETF	ISHARES RUSSELL 2000 GROWTH	ISHARES RUSSELL 2000 VALUE E
YTD 2021	-24.9%	-15.1%	-37.4%	0.1%	-11.0%	-0.9%	22.7%
From 12/31/1999	89.9%	118.5%	75.7%	184.1%	85.1%	33.4%	28.4%



Source: Bloomberg, as of 4-December-2021

# Inflation: Case for Equity Repricing down ~20%-25% (revisited)

- This week\* CPI announcement is likely to put 12-month YOY inflation above 4% - P/E ratio for S&P500 when inflation was between 4% and 6% was between 10 and 20. Current trailing P/E ratio is 25...

P/E ratio and Inflation



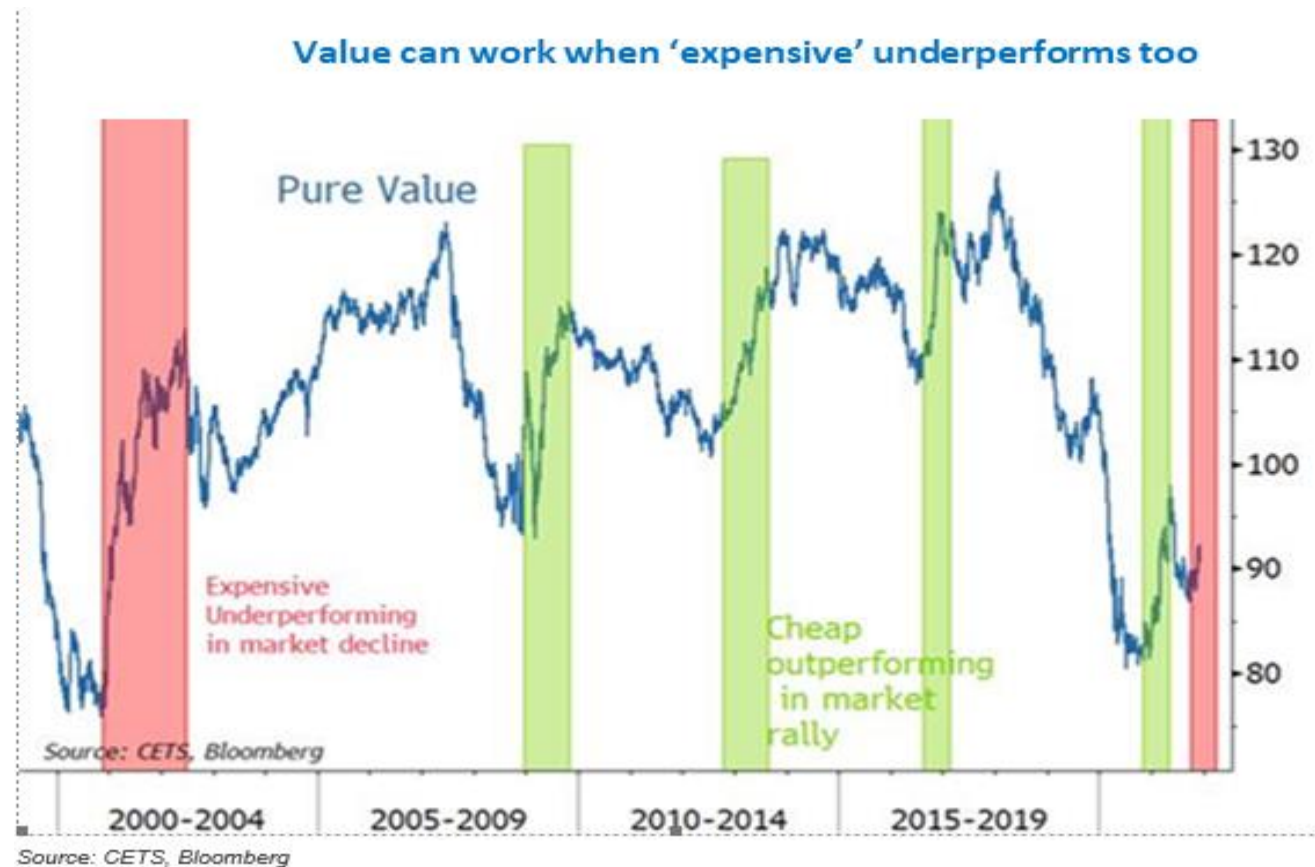
\*Week commencing 6 December 2021

Source: Citigroup

# Case for Value

- Value stocks outperformed in the last few weeks as expensive names sold off
- If this unwind of frothy names continues, Value maybe back in vogue

Value Factor performance under different market conditions

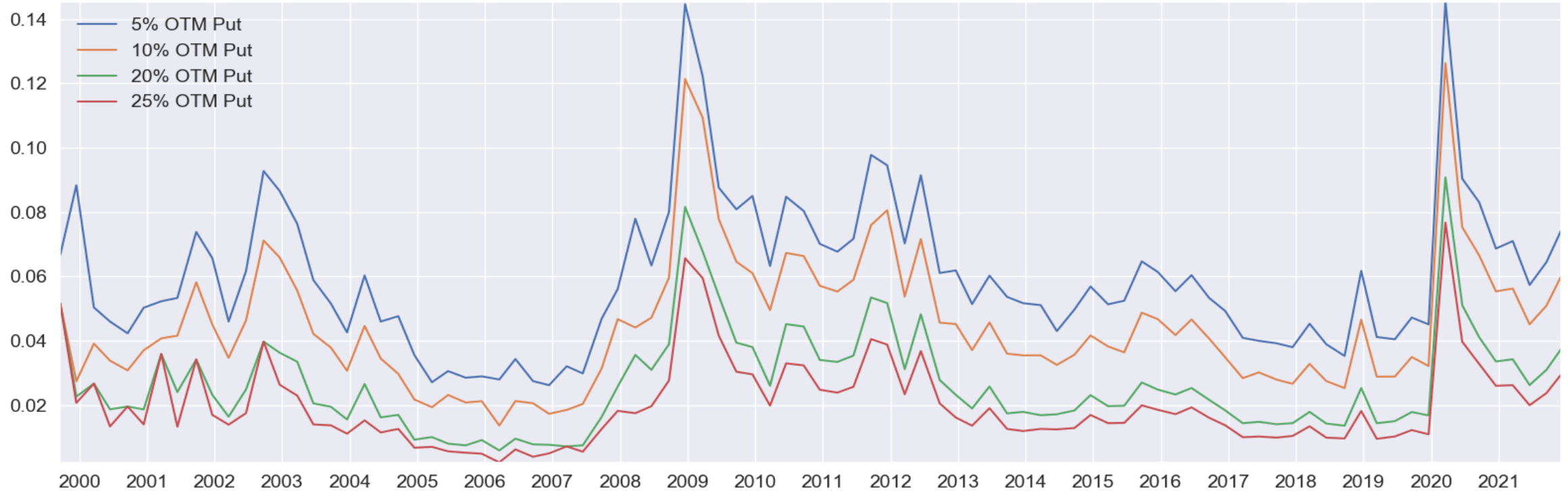


Source: Citigroup



# Historical Premium\*

Premium of 1-Year Put Options on S&P500



	5% OTM Put	10% OTM Put	20% OTM Put	25% OTM Put
<b>Price on 12/02/21</b>	7.4%	6.0%	3.7%	2.9%
Mean	6.0%	4.5%	2.7%	2.0%
Min	2.6%	1.4%	0.6%	0.2%
Max	14.5%	12.6%	9.1%	7.7%
25th Percentile	4.5%	3.1%	1.6%	1.2%
50th Percentile	5.6%	4.2%	2.3%	1.7%
75th Percentile	7.1%	5.5%	3.4%	2.6%
Current Percentile	78.9%	83.3%	82.2%	81.1%

\*Performance figures are based on hypothetical strategies and do not represent investment decisions taken by SECOR.  
Source: Bloomberg, SECOR; Quarterly Data (Annualized; March 2000 to December 2021)

## Conclusion

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- Risks have increased substantially in the last few weeks
- High risk and expensive markets created a dangerous environment for equity investors
- High implied volatility makes simple hedges expensive and require investors to be thoughtful

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## Credit Update

# Credit Update

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- Omicron variant and hawkish statements from the Fed led to spread widening across global credit and oil price declines
  - Oil prices corrected from \$83 to \$66 (WTI) on concerns for COVID-related travel restrictions
- Rising risk aversion pushed government bond yields lower, despite inflation concerns
  - US 10 Year Treasury yield fell from 1.56% to 1.46%, with a high of 1.69%
  - German 10 Year Bund yield fell from -0.09% to -0.34%
  - UK 10 Year Gilt yield fell from 1.03% to 0.81% (BoE left policy rate unchanged)
- US IG saw flat total returns, but underperformed government bonds
- US HY declined -1.04% in November
  - CCCs underperformed, reflecting risk-off environment: -1.43%
  - Airlines and Energy saw worst performance
- However, outlook for US HY is still broadly positive
  - Consumer and business demand remains strong
  - Default rate expected to remain below 1%
  - Anticipate 15% of US HY market to get upgraded to IG over next 18 months
- EMD saw varying losses: -1.84% for HC EMD Sovs, -3.59% for LC EMD Sovs, -0.55% for HC EMD Corps
- LC EMD was negatively impacted by USD appreciation

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## Emerging Market Debt Update

# EMD – November Performance Update

## Index Performance

External Debt Indices	1-mo	3-mo	YTD	12-mo
<b>EMBI Global</b>	<b>-1.45%</b>	<b>-3.33%</b>	<b>-2.89%</b>	<b>-1.15%</b>
Inv Grade	-0.11%	-1.48%	-2.17%	-1.49%
High Yield	-3.40%	-5.98%	-3.85%	-0.40%
<b>EMBI Global Div</b>	<b>-1.84%</b>	<b>-3.85%</b>	<b>-3.15%</b>	<b>-1.31%</b>
Inv Grade	-0.22%	-1.66%	-2.85%	-2.10%
High Yield	-3.49%	-6.06%	-3.26%	-0.13%
<b>EMBI+</b>	<b>-1.99%</b>	<b>-5.12%</b>	<b>-6.23%</b>	<b>-4.39%</b>
Inv Grade	-0.66%	-2.44%	-4.09%	-2.93%
High Yield	-3.66%	-8.38%	-8.68%	-5.73%
<b>EURO EMBI Global Div</b>	<b>-1.10%</b>	<b>-3.20%</b>	<b>-3.01%</b>	<b>-1.92%</b>
<b>NEXGEM</b>	<b>-4.28%</b>	<b>-6.80%</b>	<b>-3.01%</b>	<b>0.15%</b>
<b>JACI</b>	<b>0.24%</b>	<b>-2.73%</b>	<b>-2.21%</b>	<b>-1.59%</b>

Corporate Debt Indices	1-mo	3-mo	YTD	12-mo
<b>CEMBI Broad Diversified</b>	<b>-0.55%</b>	<b>-1.67%</b>	<b>0.50%</b>	<b>1.98%</b>
Inv Grade	0.03%	-0.92%	-0.07%	0.74%
High Yield	-1.27%	-2.59%	1.33%	3.74%
<b>CEMBI Diversified</b>	<b>-0.64%</b>	<b>-1.82%</b>	<b>0.06%</b>	<b>1.35%</b>
Inv Grade	-0.01%	-1.05%	-0.10%	0.75%
High Yield	-1.40%	-2.75%	0.40%	2.32%

Local Debt Indices	1-mo	3-mo	YTD	12-mo
<b>GBI-EM Global Div*</b>	<b>-2.74%</b>	<b>-7.32%</b>	<b>-10.15%</b>	<b>-7.02%</b>
Inv Grade*	-2.34%	-5.43%	-8.80%	-6.40%
<b>GBI-EM Div*</b>	<b>-3.59%</b>	<b>-8.85%</b>	<b>-11.19%</b>	<b>-8.15%</b>
<b>ELMI+*</b>	<b>-2.61%</b>	<b>-4.05%</b>	<b>-4.42%</b>	<b>-2.44%</b>
<b>GBI Aggregate Div*</b>	<b>-0.55%</b>	<b>-3.26%</b>	<b>-6.65%</b>	<b>-4.74%</b>
<b>GBI Global*</b>	<b>0.07%</b>	<b>-2.32%</b>	<b>-5.88%</b>	<b>-4.76%</b>

\*USD unhedged

Source: JPMorgan, as of 30 November 2021

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## High Yield Update

# HY – November Performance Update

Sector	Nov 2021	YTD 2021
Automotive	-0.11	4.38
Banking	0.03	4.24
Basic Industry	-0.70	3.02
Capital Goods	-0.60	3.27
Consumer Goods	-0.44	3.97
Energy	-1.84	10.56
Financial Services	-0.75	2.58
Healthcare	-1.02	0.76
Insurance	-1.15	2.88
Leisure	-1.14	4.43
Media	-1.31	-0.08
Real Estate	-1.04	3.12
Retail	-0.81	3.48
Services	-0.74	3.42
Technology	-0.77	1.53
Telecommunications	-1.49	-0.27
Transportation	-1.89	5.58
Utility	-1.07	0.12
<b>Total</b>	<b>-1.04</b>	<b>3.40</b>

Rating	Nov 2021	YTD 2021
BB	-0.96	2.60
B	-1.03	2.80
CCC	-1.35	7.43
CC	-4.38	16.79
C	2.31	118.72
D	-	40.72
<b>Total</b>	<b>-1.04</b>	<b>3.40</b>

Source: NCRAM



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