Market Review March 2021

After a month of January with no real trend, equity markets rebounded in February. Most stock market indices performed between 2 and 6%. The Nasdaq 100 ended the month with a very slight decline and continues to be affected by sector rotations in favor of cyclical companies. The SMI was also under pressure, mainly due to the decline of its heavyweights, which are mainly defensive stocks. In Europe, southern countries such as Italy and Spain outperformed, with the exception of Portugal, more severely affected by the new wave of the virus. In terms of sectors, we find Banks (+19.1% over the month) and Leisure (+15.6%) among the top performers. The more defensive sectors were the most neglected, such as Healthcare (-3%) and Consumer Staples (-3.5%). Utilities (-5.4%) also suffered from the recent increase in long-term rates.

Long-term rates, precisely! We have been talking about reflation for a few months now. The latter has made quite a name for itself in the last few weeks with the economic outlook which, with the gradual lifting of restrictions, should improve over 2021. This reflation is reflected in higher prices for most raw materials and the increase of long-term rates. Oil is up by more than 27% since the beginning of the year, as well as copper, which is favored in the current context. Gold, on the other hand, remains down with a disappointing -8.6% since the beginning of the year.

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Market trends at the end of February 2021

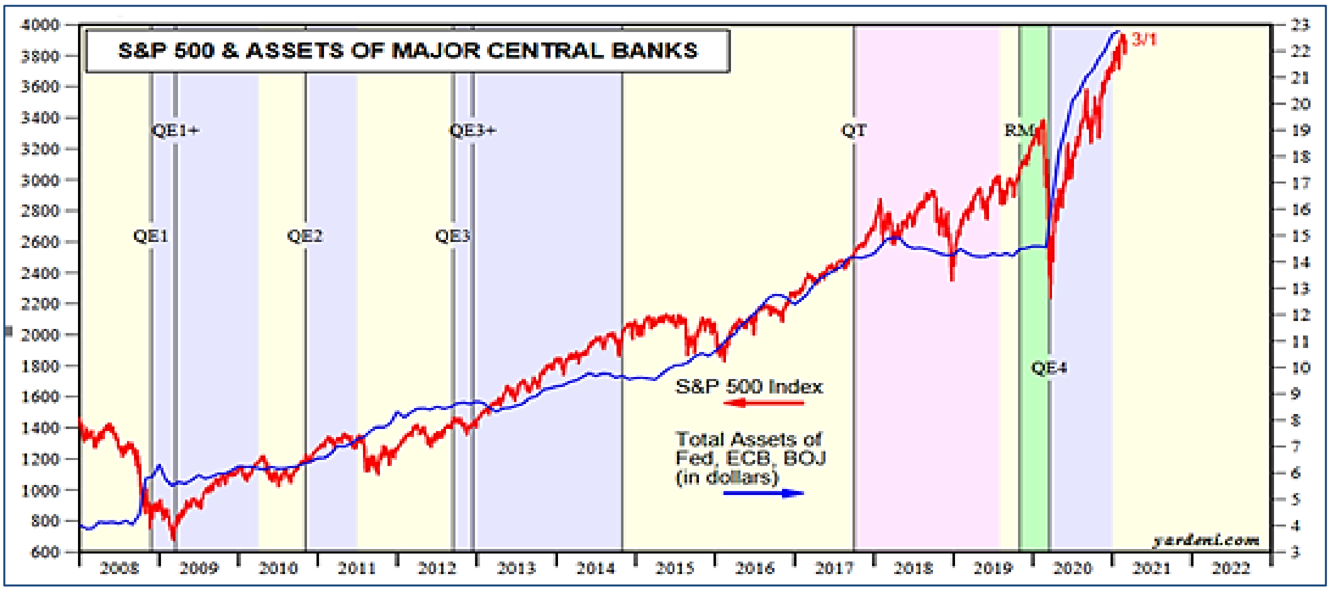
End of December	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
	Equities in Local Currencies							
Perf 1 Month	2,45%	2,61%	4,45%	5,63%	6,03%	-0,65%	0,73%	-0,28%
Perf 3 Month	5,57%	5,23%	4,12%	3,35%	1,83%	0,44%	11,14%	7,59%
Perf YTD	1,37%	1,47%	2,36%	2,73%	1,87%	-1,69%	3,72%	2,41%

End of December	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
	Commodities				Currencies vs EUR			
Perf 1 Month	17,82%	18,34%	-6,15%	15,54%	0,53%	-1,20%	2,24%	-1,47%
Perf 3 Month	35,64%	38,96%	-2,41%	19,75%	-1,22%	3,42%	3,31%	1,21%
Perf YTD	26,75%	27,66%	-8,66%	16,88%	1,18%	-1,94%	3,17%	-1,45%

End of December	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
	Bloomberg Indices Bonds Total returns							
Perf 1 Month	-1,72%	-1,44%	-1,55%	-2,35%	-4,45%	-1,44%	0,14%	-1,42%
Perf 3 Month	-1,28%	-2,02%	-1,86%	-3,70%	-5,65%	-1,11%	2,44%	-0,78%
Perf YTD	-2,59%	-2,15%	-2,00%	-3,45%	-5,79%	-2,34%	-0,03%	-2,26%

Source : Bloomberg 28/02/21.

This caused a fairly fast movement in US 10-year yields from 1.06% to 1.40% after hitting a high of 1.60%. Indeed, these yields remain historically low. What could be worrying is not so much that this trend continues, but rather the speed at which it is unfolding. A fast increase could put pressure on central bankers (hammering to anyone who wants to hear, that inflation is not a problem in the short and medium term) and encourage them to change their speech. We are still a long way from that, but this subject remains to be watched "like milk on the stove". As we have repeated several times these past months, the main risk for risky assets lies with central banks and a possible error in their monetary policy. The economy is still recovering, and investors don't want to hear about potential reductions in liquidity.



Source: Yardeni, Federal Reserve Board, Standard & Poor's and Haver Analytics

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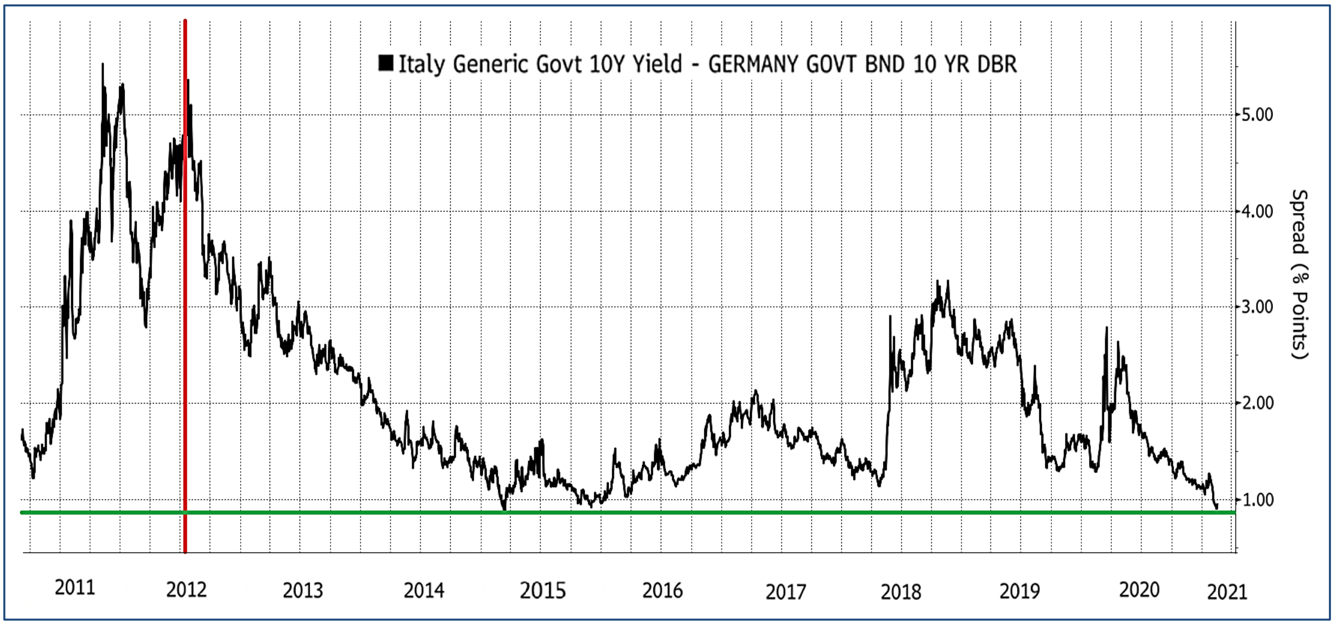
In Europe, long rates have as well increased, but remain at much lower levels - find the error! The German 10-year yield went from -0.5% to -0.2% in less than a month. European inflation is not as omnipresent as in the US, but it is obvious that the massive liquidity injections of the last few months will sooner or later also have an impact. Moreover, the Italian and Greek 10-year yields are still less profitable than the US 10-year yield.
European news, in the past few weeks, have also been marked by the arrival of "Super Mario" at the head of the Italian government. The latter is clearly popular, because all parties in the country have agreed to give him their support. Even with all the will in the world, Mr. Draghi will not be able to make miracles in a country that has changed government 131 times in 130 years... On the other hand, he could be the right man to reduce the growing gap between the countries of Northern and Southern Europe. With his notoriety and a more technocratic approach, he could succeed where many politicians have failed. In any case, he deserves the benefit of the doubt, and that is what investors seem to be doing when we see the rebound of the Italian stock market and the narrowing of the spread between the Italian and German 10-year since his nomination.



Source : Bloomberg (the vertical red bar represents the arrival of Mr. Draghi at the head of the ECB)

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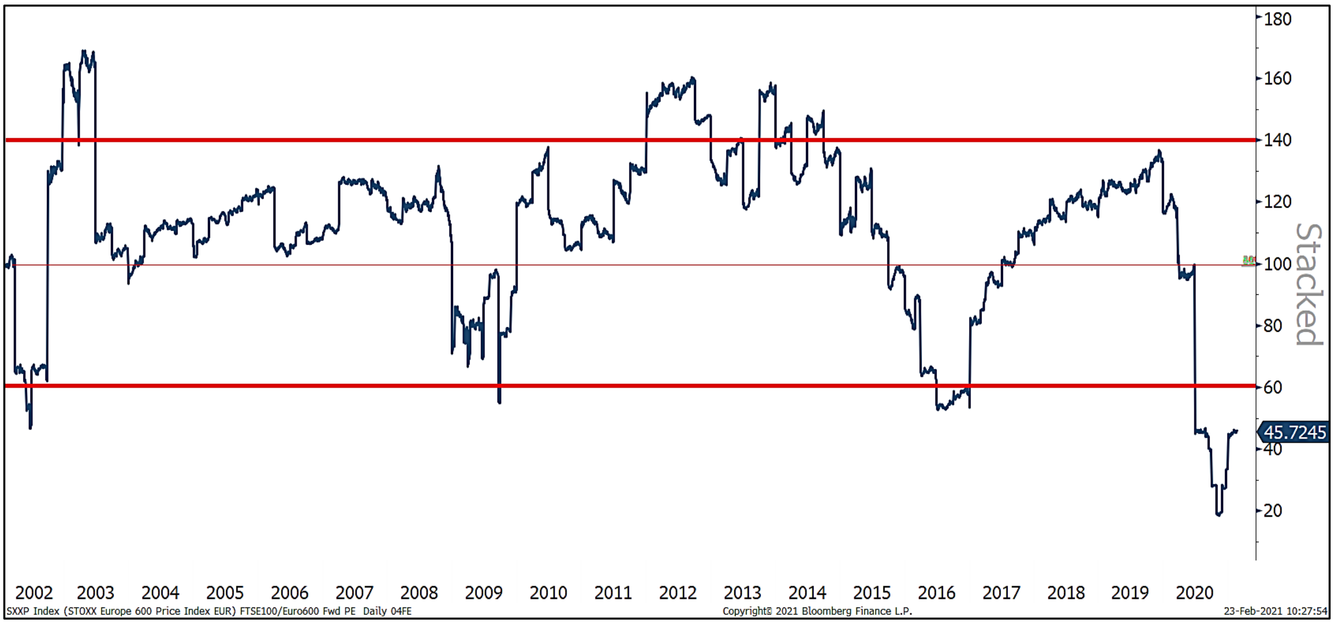
The reflation scenario is also fuelled by the progress of the Covid-19 vaccination campaign. While the launch of the latter has been relatively chaotic in quite a few countries (and it is still the case in some), it seems to have reached a cruising speed which gives a better visibility of a gradual reopening of the economy. Of course, the most contagious variants are taking up more space in the statistics, but these are slowing down significantly and the main fear of hospital saturation is gradually fading away.

In addition, the licensing of new vaccines, such as that of Johnson & Johnson, which requires only one injection and benefits from less restrictive storage conditions, reduces the risk of logistical problems in the supply chain. Some countries, such as Israel, are moving closer to a return to normal life. In Europe, the United Kingdom is well ahead compared to its neighbors, which confirms all the good things we think about it and this is reflected in the performance of the pound sterling over the last few weeks. We particularly like this geographic area since the beginning of the year. Even if Brexit will still be the talk of the town in the future, it is ratified and both Europe and the United Kingdom can finally look forward and rebuild their relationship. English companies, compared to their foreign peers, could do well and see their 15 to 20% discount reduce over time.

EuroStoxx600/FTSE 100 – 12-month forward P/E



Source: Bloomberg, Weisshorn

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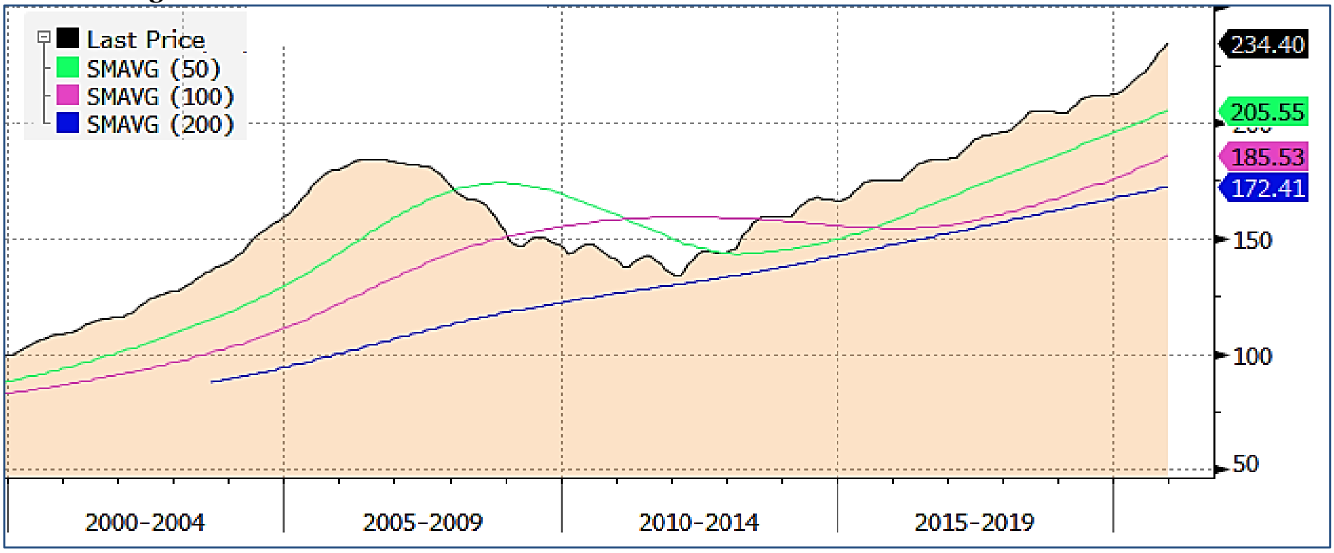
We also wanted to draw your attention to the American real estate market. We all still remember (at least those of us who have lived through it...) the terrible financial crisis of 2008 initiated by the "subprime" crisis. For those who had forgotten, the American real estate market is an essential contributor to growth for the US economy, and even for the world economy. It is currently doing very well, if not too well... Some regions of the country are close to overheating. Houses are trading at levels 40 or 50% higher than in 2006 (which was the peak of the market before the crisis). The national house price index is currently 25% above the then tops. Far from us wanting to shout out loud in an unjustied way... but we know the habits of middle class Americans. They tend to regularly re-evaluate their homes in order to adjust the amount of the mortgage attached to it and to consume or invest on the stock market the excess of cash released. This could potentially become a problem in the long run, especially in an environment of rising interest rates. If wages increase accordingly, it will not weigh or will hardly weigh in the wallet of the U.S. consumer... but if it doesn't, the problem could become real.

S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index



Source : Bloomberg, Weisshorn

We know, at this point, that the minimum wage of $15 per hour proposed in Mr. Biden's 1.9 trillion bailout plan will not pass the Senate. So the Democrats will have to work hard to find a "B" Plan and convince the majority in Parliament.
This does not prevent us from remaining optimistic about risky assets for the moment, at least as long as central banks remain so accommodating and even though they will probably experience more and more hectic periods.
Wishing you a nice beginning of spring.

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