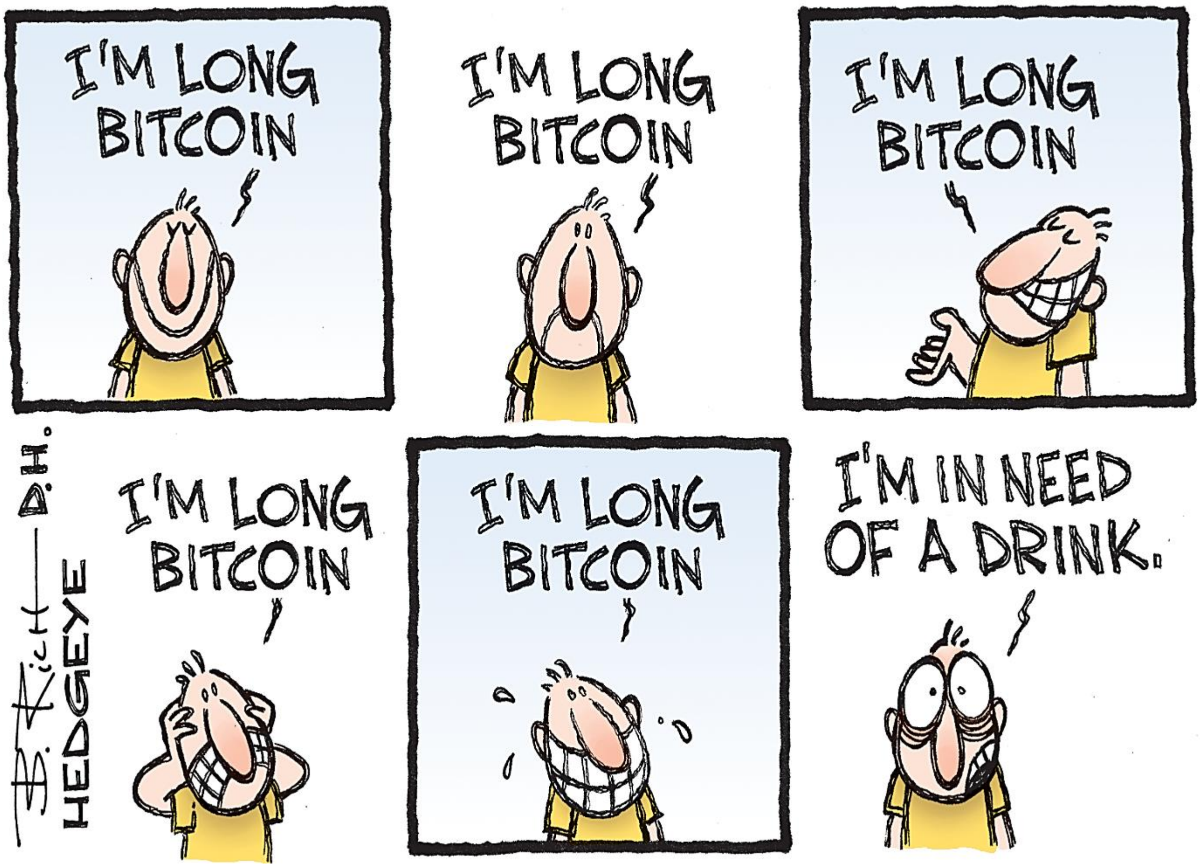
Market review June 2021



Risky assets continued to perform well in May on an optimistic front amid reopenings in the Western world and robust economic statistics. Some geographical areas are experiencing temporarily various fortunes, such as Southeast Asia, where some countries like Singapore have imposed new lockdowns. The fact remains that investors are paying less and less attention to Covid. The latter should therefore have a limited impact on stock market movements in the future, unless a new vaccine-resistant variant emerges. Most equity indexes therefore returned 2 to 4% over the month, with the exception of the Nasdaq (-1.26%) and technology sub-indexes, which continue to suffer from sector rotation pressures in favor of cyclical stocks. With the reopening of markets, we noted a logical outperformance of the European consumer discretionary sub-index (+6.05%), mainly helped by strong gains in the luxury goods sector. The cars sub-index (+4.93%) as well as the banking sub-index (+4.9%) also performed well, the latter continuing to benefit from the increase in inflationary expectations.

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Market trends at the end of May 2021

			Equities in Local Currencies					
End of May	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
Perf 1 Month	1,26%	0,55%	1,63%	2,83%	3,79%	3,09%	2,12%	4,06%
Perf 3 Month	9,12%	10,31%	11,08%	13,04%	11,23%	7,99%	2,76%	-0,10%
Perf YTD	10,62%	11,93%	13,70%	16,14%	13,32%	6,17%	6,58%	2,31%
		Commodities				Currencies vs EUR		
End of May	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	4,31%	3,08%	7,79%	4,41%	-1,69%	-1,92%	1,15%	-0,11%
Perf 3 Month	7,84%	4,82%	9,97%	13,01%	-1,26%	-3,96%	0,73%	-0,17%
Perf YTD	36,69%	33,82%	0,45%	32,09%	-0,09%	-5,81%	3,92%	-1,62%
			Bloomberg Indices Bonds Total returns					
End of May	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
Perf 1 Month	0,94%	0,33%	-0,08%	0,60%	-0,26%	1,03%	0,94%	0,92%
Perf 3 Month	0,25%	-0,14%	-0,68%	-0,87%	-2,49%	0,49%	1,91%	0,98%
Perf YTD	-2,35%	-2,29%	-2,67%	-4,28%	-8,14%	-1,87%	1,88%	-1,30%

Source : Bloomberg 31/05/21.

The dollar was again under pressure against most currencies. The Dollar Index (DXY) laid down again on its important support of 89. We can note that short positions are increasing since a few months.

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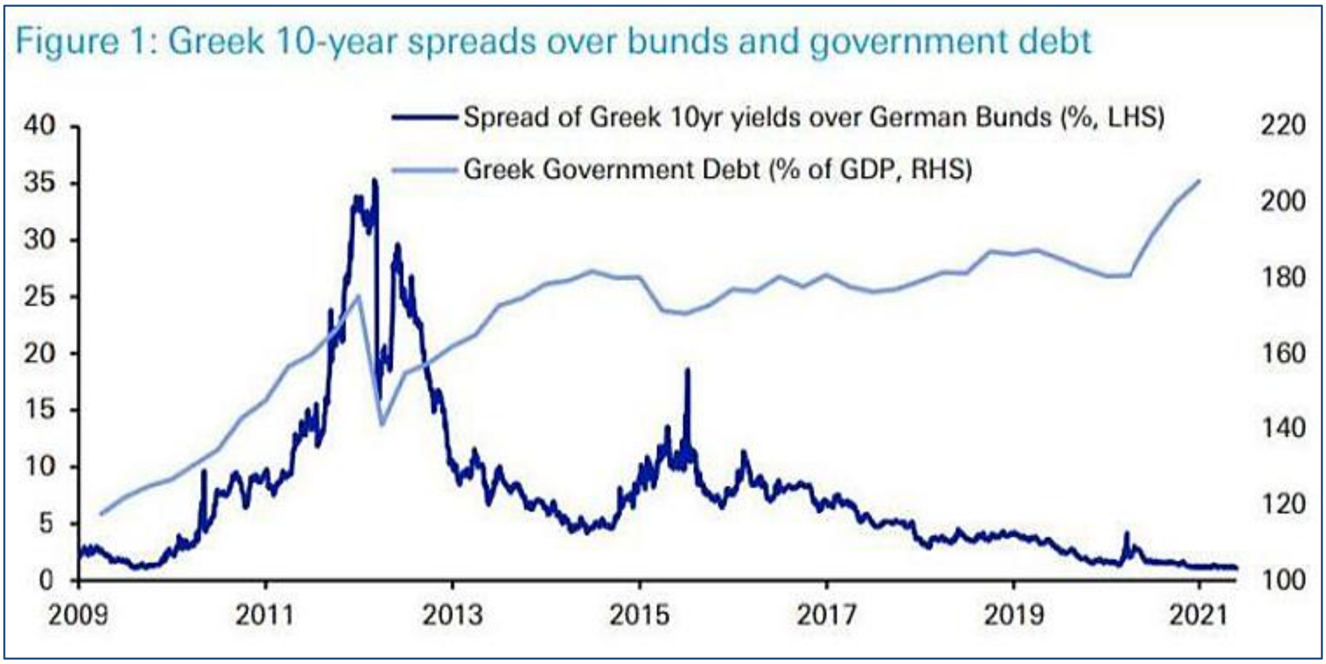
We believe that the current economic environment should continue to weigh on the US dollar. On the other hand, the Chinese Renminbi reached its highest level since 2018. In the long run, it will be necessary to consider this currency, which is becoming more and more important in world trades.

In this environment of real negative interest rates, gold appreciated by 7.8% over the month and, as it is often the case, took silver (+8.14%) along in its movement. Oil continued its recovery gaining another 5% in May. On the interest rate side, it was quiet. It is interesting to note that the yield spread between the German 10-year and the Greek 10-year reached its lowest level since October 2008 at 1.01%. As a reminder, the latter had touched 33% in 2011…something to think about.



Source: Bloomberg Finance, Deutsche Bank

Months come and go but are not the same on digital assets. After a stratospheric month of April, most crypto-currencies had a "hangover" in May. First, it was Elon Musk's tweets announcing that Tesla would not accept payment in Bitcoin because it is too energy intensive (seriously?? Did he just realize it?) that pushed the price of Bitcoin and its peers down. A few days later, the PBOC (China's regulator) announced that it would not recognize crypto currencies as a means of payment and banned the country's financial institutions from offering services related to them. The cocktail was perfect for an atmosphere of panic. Especially since many speculators on these assets use leverage to maximize their gains (and on this occasion their losses…), this logically caused margin calls and therefore liquidations of positions at low prices. It may be noted that Bitcoin is still up 26.5% since the beginning of the year and Ethereum is up 251%, just to name the most important ones. As we have said many times, life is not going to be a smooth ride for this asset class; however, it seems unlikely that they will disappear overnight. The various technologies associated with crypto-currencies are already used on a daily basis and it is unlikely that they will disappear from the landscape with a simple sweep.

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Let's take a look at the U.S. macroeconomic statistics. Last summer, we talked about the various forms of recovery (L, V, U, W, K...). Today, we can see that most indicators of economic activity exceeded their pre-crisis levels, even reaching 10-year highs for some. The reopening is accelerating this trend and creating, as already mentioned, bottlenecks in some segments such as the semiconductor industry or the supply of construction metals. This puts a lot of pressure on companies, which have no choice but to assume these increases in production costs (and thus reduce their profit margins) or to allocate them to consumers by increasing the prices of their products. At this point, some companies are able to increase their prices, but not all of them. So we will have to keep a close eye on the quality of results in the next quarters. For companies that are able to do so, this generates inflation on consumable goods which already reflects in the statistics. In April, the U.S. consumer price index increased by 4.2% compared to 2020.

Source: Bloomberg

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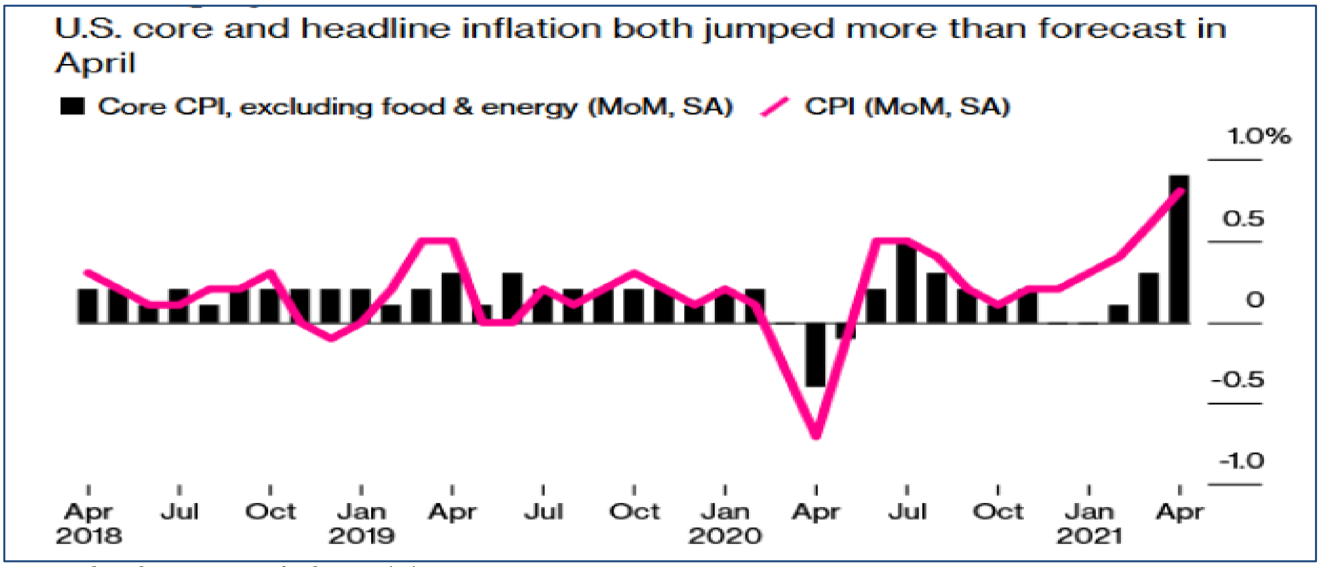
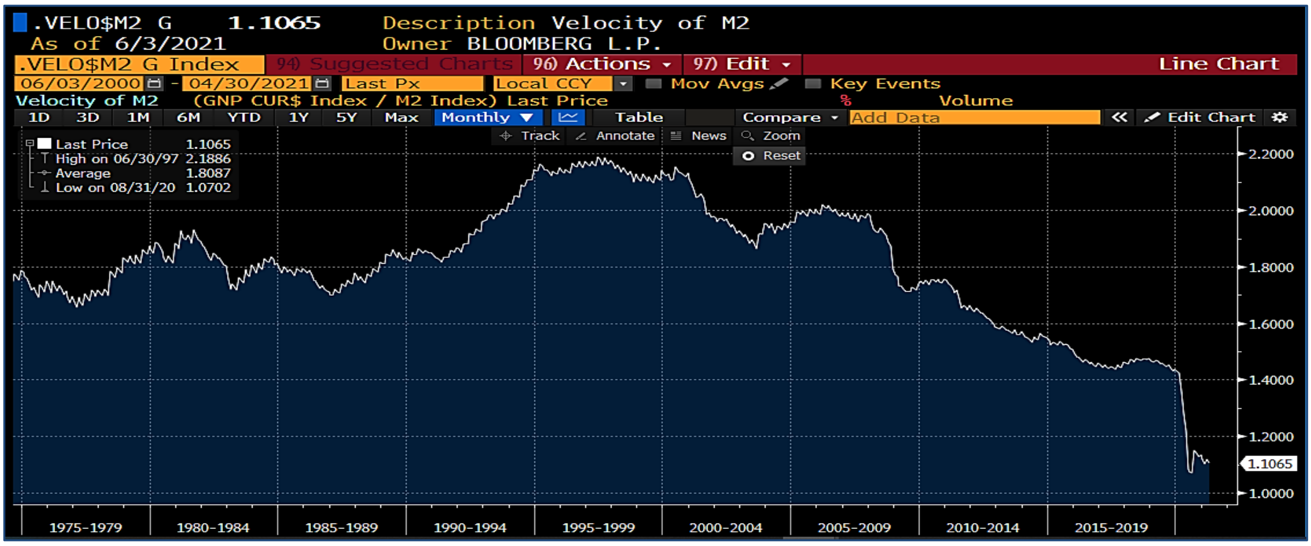
With oil prices up by more than 37% since the beginning of the year, energy prices are of course in large part responsible for this increase, but not only...we can see on the graph below (inflation excluding food and energy) that inflation is also setting in other sectors and even in services.



Source: Bloomberg, Bureau of Labor Statistics

The Federal Reserve had already announced last year that it could momentary let inflation run above its 2% target. Well it has been done! In spite of this, it maintains its very accommodating speech, insisting that inflation is transitory and should not last. We will see if it changes its tune on the next meeting on June 16. We still believe that one of the big risks for risky assets in 2021 would be a monetary policy mistake. We are not there (yet?) and agree with the FED as long as inflation does not have an impact on wages and as long as the velocity of the money supply (M2) does not accelerate.



Source: Bloomberg

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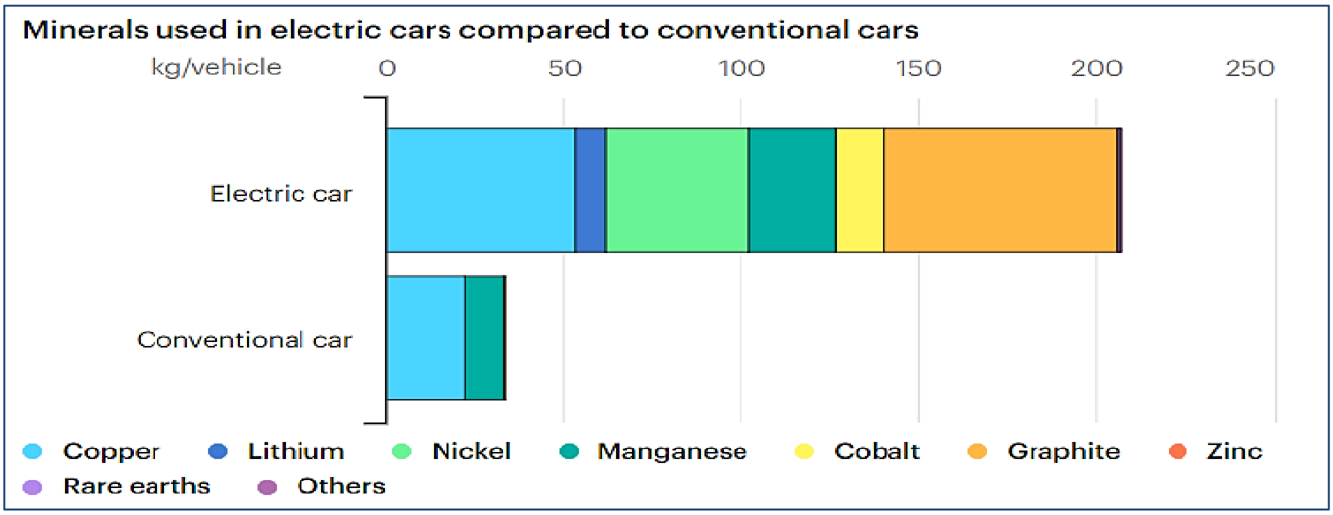
As mentioned above, the inflation currently observed is mainly due to the increase in the price of raw materials. An appetite has been developed in this segment in recent months, especially since some specialists have been talking about a probable shortage of certain metals due to the strong economic recovery, but also due to the search for a more sustainable consumption. For example, it currently takes less than 50 kg of various metals to build a traditional car with a combustion engine. Building an electric car requires 4x more of these metals.



Source: IEA

We face the same issue with wind and solar power generation compared to coal power generation, for example. If we take into consideration the objectives of most Western countries (and even China) to become carbon neutral by 2050-2060, this strong demand for these metals should continue over time. The assumption of a "supercycle" in raw materials is thus to be taken seriously. In fact, we can see on some charts that commodity indices are breaking their secular downtrend relative to equity indices. To be continued.

Source: Bloomberg

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We are aware that risky assets are at historically high levels. But the trillions poured into the economy since the beginning of the pandemic, the (also historically) low interest rates, as well as the strength of the current economic recovery seem to us to justify these valuations. Beware of future communications from central banks, however, as the slightest disappointment could make investors nervous. We wish you a good summer start.

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