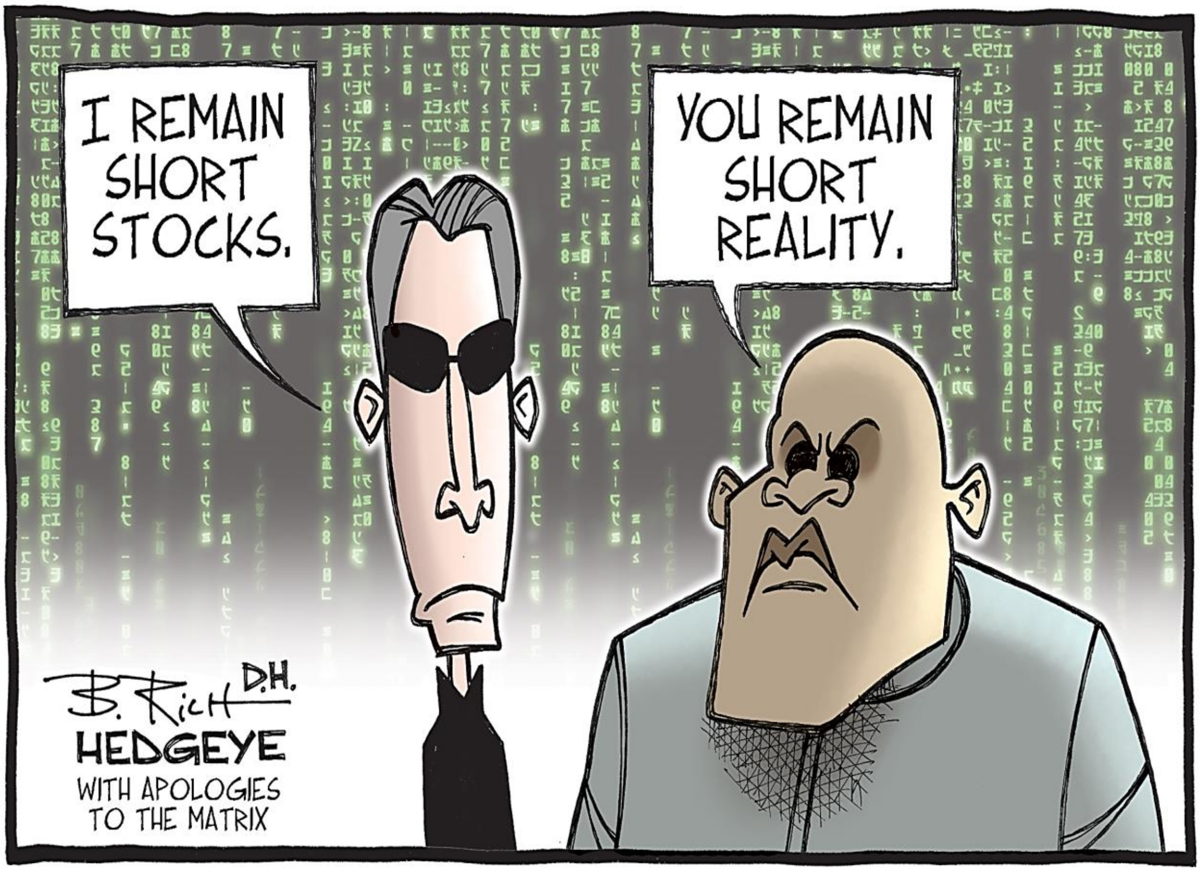
Market review July 2021



Equity indices performed well once again for the last month of the semester with a new outperformance of US equities. The Nasdaq benefited from a strong return of interest in growth stocks, rising 6.34% over the month. It even had the luxury of breaking its highest historical level. On the other hand, after an amazing year in 2020 for reasons we all know, technology stocks tended to underperform cyclical stocks. The latter, more penalized by the consequences of the multiple lockdowns linked to Covid-19, are logically more wanted by investors since the beginning of the year in view of the reopenings. This is why the best performing sectors since the end of December 2020 are energy, base metals and financials. Assuming that the sector rotation in favor of cyclical could last for some time, we continue to believe that the secular upside potential of growth stocks remains intact.

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Source : Bloomberg, Morgan Stanley Research

As we have said several times over the past few months, the gradual reopenings have put upward pressure on inflationary expectations, causing an increase in long-term rates and a generalized recovery of the yield curve since the beginning of the year. This steepening was quite pronounced between January and March, but the yield curve has tended to flatten as central bankers continue to argue that the acceleration in inflation is only a temporary situation. Commodity indices have also seen an upturn of interest throughout the semester, with oil reaching its highest level since 2018 at $74 per barrel and copper near its all-time high of $9'300 per ton.

Market trends at the end of June 2021

			Equities in Local Currencies					
End of June	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
Perf 1 Month	1,40%	2,22%	0,61%	0,94%	-3,58%	5,10%	-0,11%	-2,02%
Perf 3 Month	7,31%	8,17%	3,70%	7,26%	2,81%	8,10%	4,42%	3,48%
Perf YTD	12,16%	14,41%	14,40%	17,23%	9,26%	11,58%	6,46%	0,24%

	Commodities				Currencies vs EUR			
End of June	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	10,78%	8,38%	-7,17%	-8,61%	3,12%	1,69%	0,37%	0,20%
Perf 3 Month	24,19%	18,24%	3,65%	6,70%	-1,07%	-1,43%	-0,71%	0,92%
Perf YTD	51,42%	45,04%	-6,76%	20,71%	3,03%	-4,23%	4,31%	-1,43%

			Bloomberg Indices Bonds Total returns					
End of June	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
Perf 1 Month	-0,88%	0,70%	0,39%	0,86%	1,36%	-0,06%	0,20%	0,72%
Perf 3 Month	1,31%	1,83%	-0,40%	2,51%	-0,58%	2,34%	3,06%	2,99%
Perf YTD	-3,21%	-1,60%	-2,28%	-3,46%	-6,89%	-1,93%	2,08%	-0,59%

Source : Bloomberg 30/06/21.

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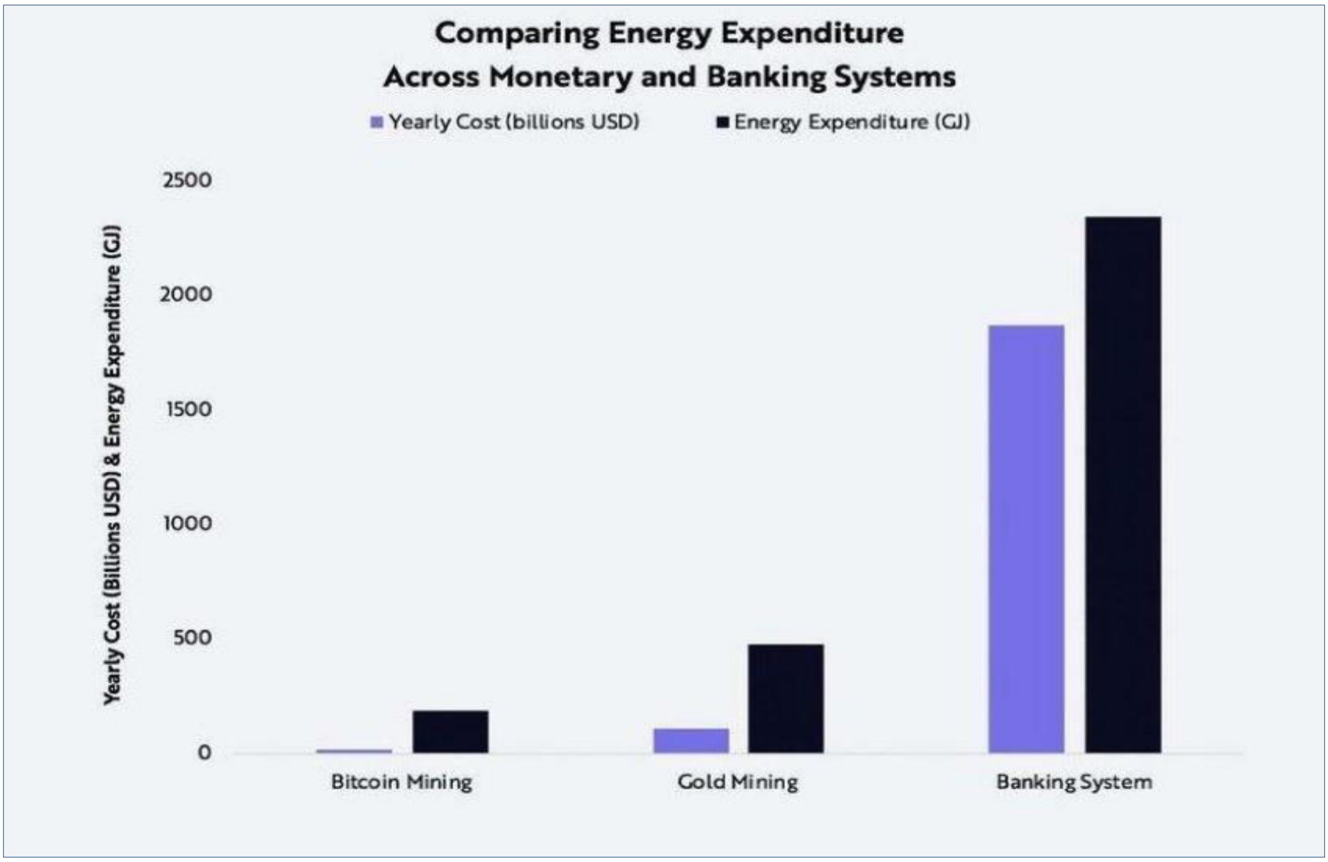
The dollar has been quite volatile in the first half and ended with a 2.5% gain since the beginning of the year thanks to a strong acceleration in June following the FED meeting, which we will discuss below. As we told you in May, we continue to follow closely the important support of 90 on the Dollar Index (DXY). Still on the subject of performance, it would be hard not to mention digital assets, which have experienced extreme volatility during the semester. After a strong start of the year, various crosswinds invited themselves to the party. We have extensively presented them in our previous letters, namely Elon Musk's about-face on the use of Bitcoin and the Chinese regulator who sees this emerging industry with a bad eye. Cryptocurrencies have once again been fairly volatile in June. While Bitcoin managed to finish down 5.7%, Ethereum gave up almost 14% of its performance over the month. Our view on the subject has not changed. This asset class is dedicated to sophisticated investors and should not disappear with a wave of a magic wand.



Source : Ark Investment Management LLC, medium.com.

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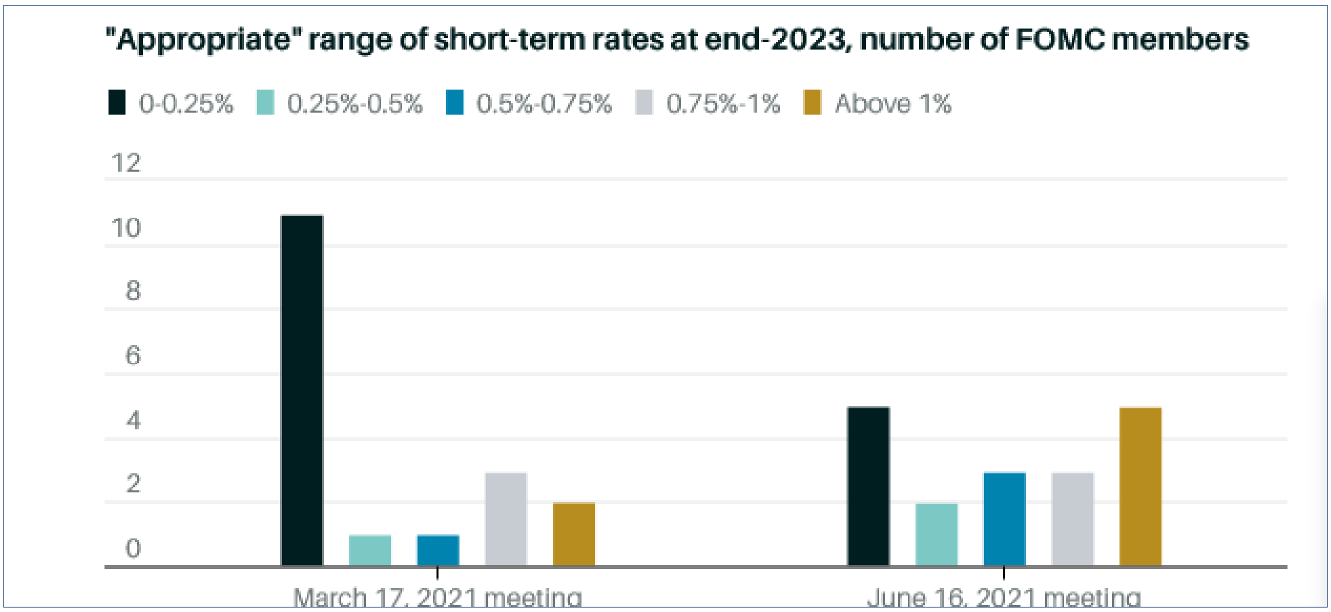
In contrast to the Biden/Putin meeting in Geneva, the US Federal Reserve meeting held on the same day did not give “birth to a mouse”. Its Chairman, Jerome Powell, confirmed that the current rise in inflation is only transitory and that, even if it is above the FED's long-term objective of 2%, it should not last. For the moment, some statistics such as the job creation figures which were below expectations for the second consecutive month, confirm the assuption of a temporary rise in inflation.
On the other hand, Mr. Powell also suggested that there could be 2 rate increases in 2023, which was perceived as less accommodating (and therefore less dovish) than expected. He also said that the start of the liquidity injection slowdown (the famous "tapering" that everyone is talking about) should not occur before early 2022. We can still see on the chart below that the "zero interest rate policy" is less and less consensual within the committee. This triggered an immediate upward reaction on US long term rates (but the rebound did not last long because the next day, rates returned to the same level as before the announcement...), an upward reaction on the dollar and a downward reaction on equities (which did not last either...). Moreover, the institution increased its inflation forecast for 2021 and now expects 3.4% against 2.4% previously. GDP growth forecasts have also been revised upwards. The U.S. economy is expected to grow by 7% this year and not by 6.5% as previously expected. The unemployment rate is expected to reach 3.5% (the pre-crisis level) during 2023. The next major dates that could allow investors to see more clearly on the monetary policy of the FED are Jackson Hole at the end of August and the next meeting of the committee which will be held on September 22.



Source : Mirabaud Securities

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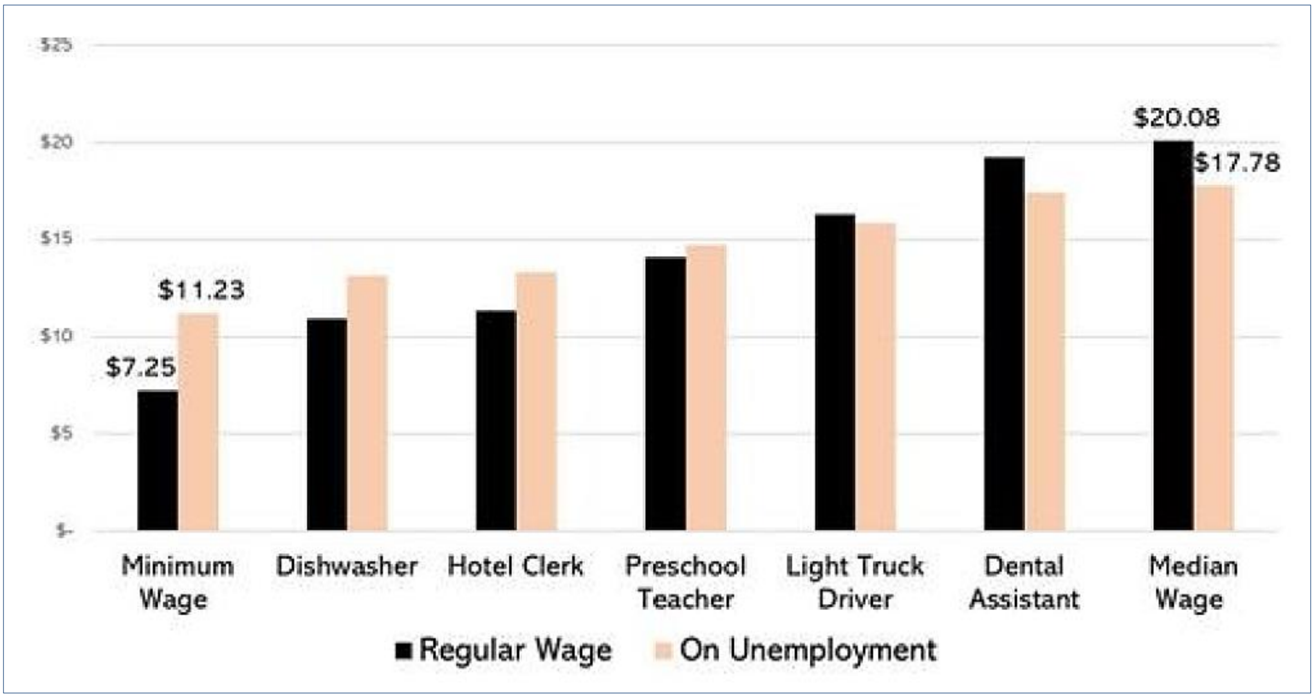
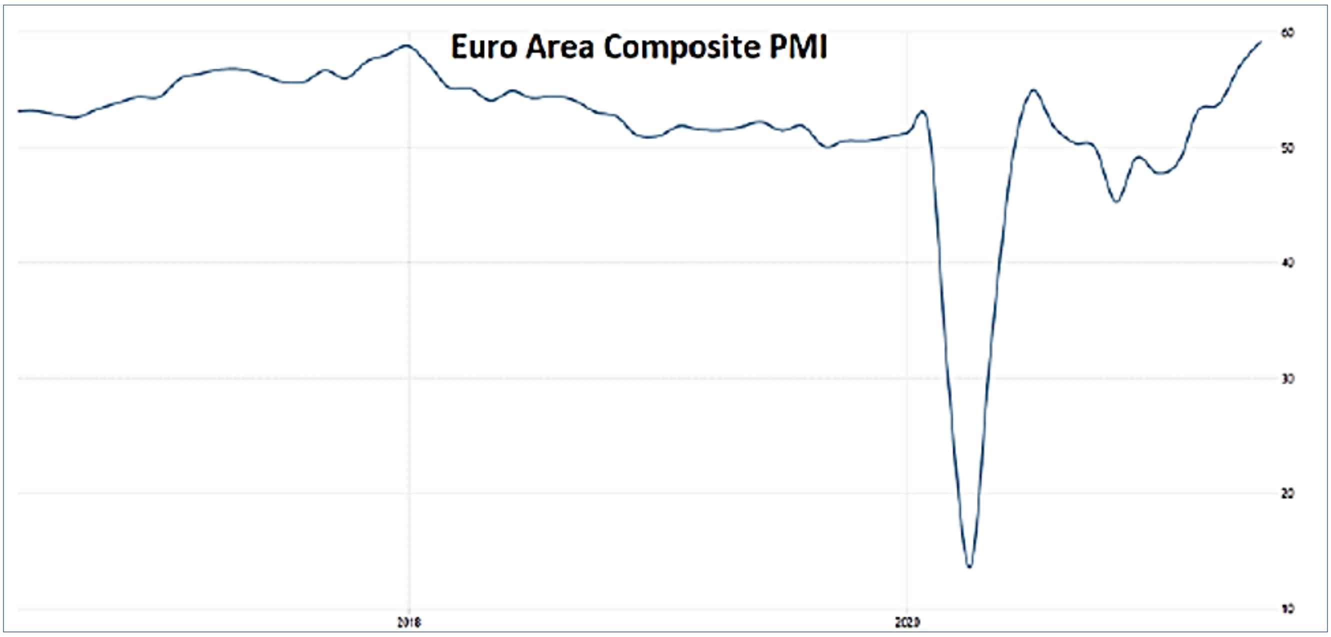
The return to work of Americans could also have an impact on inflation by putting pressure on wages. On the other hand, even though the country has been gradually reopening for several weeks, we can see that many business owners are complaining about the difficulty in finding workers, but this is not so surprising. As is explicitly shown below, low-income Americans receive almost the same hourly wage by staying at home and receiving subsidies as if they were working. This is likely to change with the end of federal support in the coming weeks. Mr. Biden even raised his voice recently by saying that Americans who are offered a job and refuse will no longer be eligible for unemployment benefits… that should be a wake-up call for many.



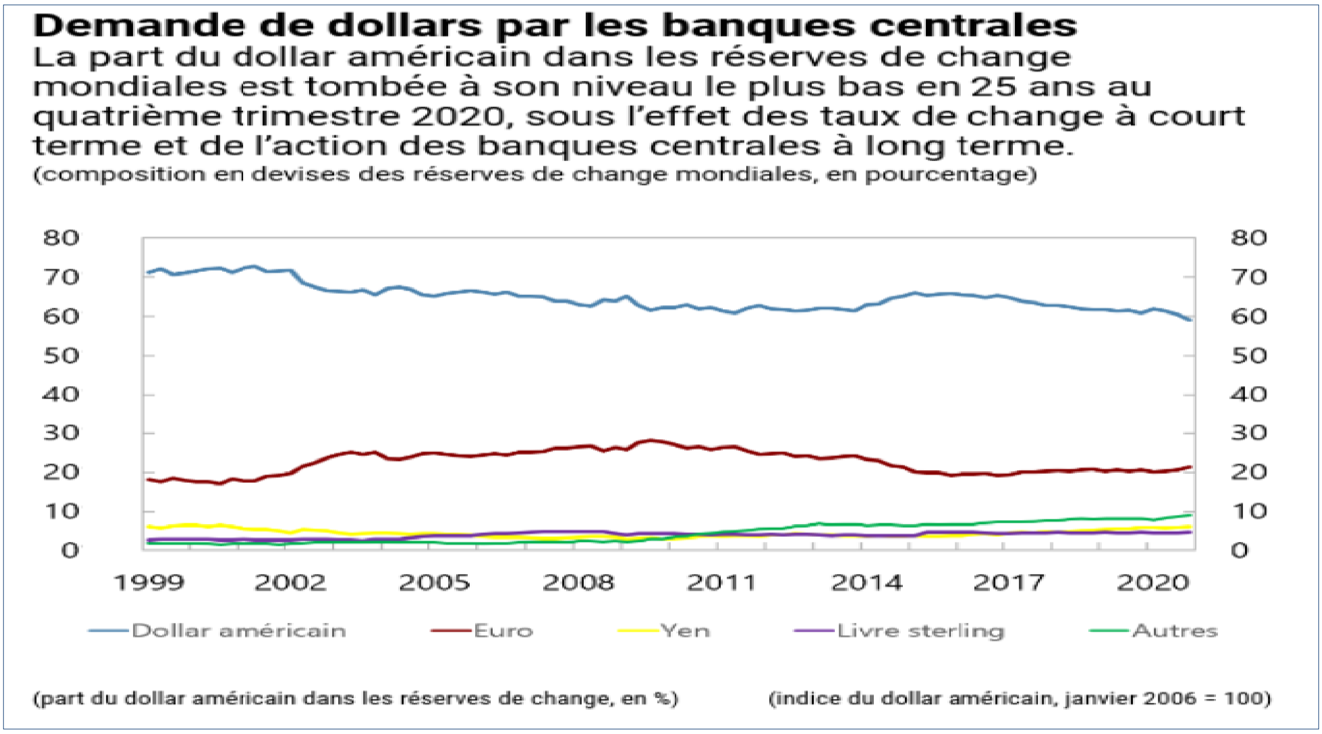
Source : Bureau of Labor Statistics, Commonwealth of Pennsylvania.

The European Central Bank also increased its growth and inflation forecasts for the current year and for 2022 at its June meeting. It now expects a European GDP growth of 4.6% in 2021 and 4.7% in 2022 while inflation is expected to be 1.9% in 2021 and 1.5% in 2022. The release was fully in line with market expectations and the monthly bond purchases of 80 billion per month remains unchanged for now. Its upward growth revisions are fully justified by the strongly accelerating economic data as we can see below on the PMIs which are at its hightest since 15 years.



Source : Mirabaud Securities

We learned during the month that a $119 billion Russian sovereign wealth fundmade the decision to reduce its exposure to the US dollar to zero in favor of the Euro, Reminbi and Pound Sterling. This choice was made to reduce the impact of the sanctions that Russia undergoes from the USA. As we can see below, the trend to reduce the dollar in reserves has already been declining for several years.



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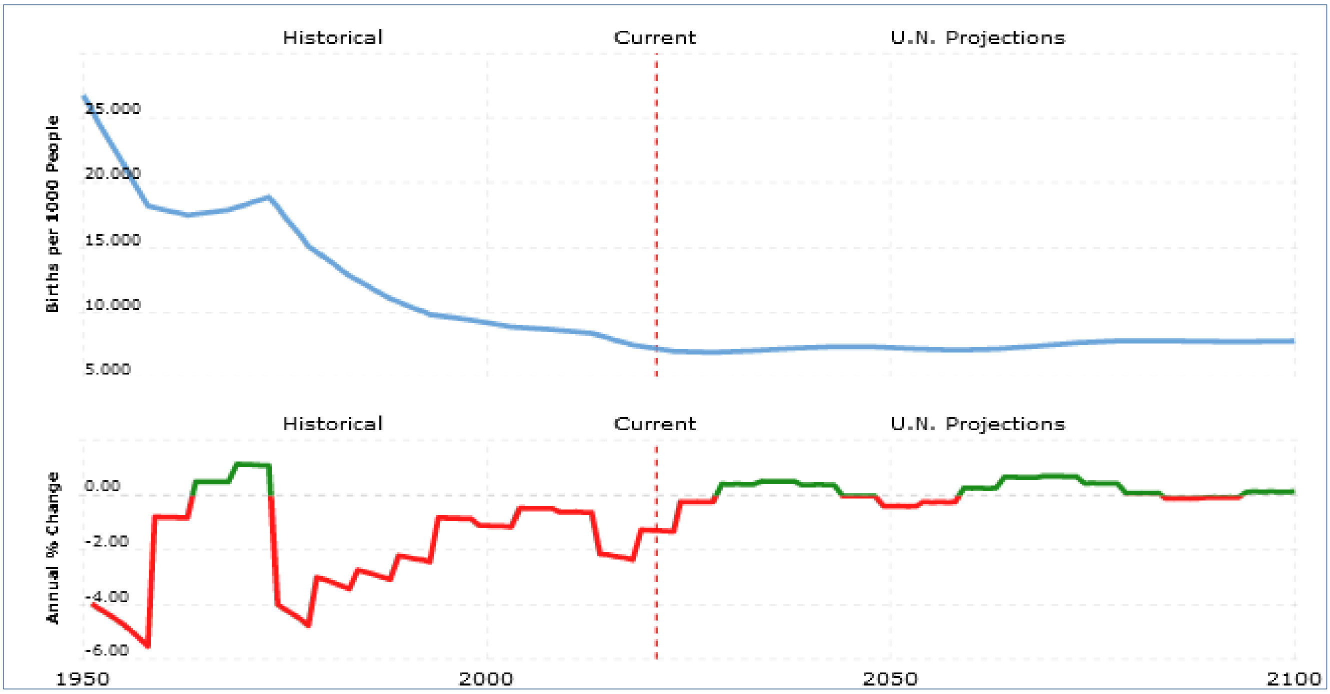
Another interesting news, but with limited impact on markets in the short term, the G7 seems to have agreed on a minimum corporate tax rate of 15%. This could put an end (or at least slow down the trend) to the hunt for tax bargains by large multinationals. We all know that some groups like Amazon or Google have saved billions in taxes thanks to non-transparent arrangements. Some countries that have benefited from these arrangements, such as Ireland, obviously do not see this decision as a very good thing. The battle is far from being won because other large nations that are not part of the G7 such as China will have to be convinced, but the will to put an end to these processes is there. That said, and as repeated many times, it is difficult to find a direct correlation between taxation and stock markets. On the other hand, to the image of Covid, this could put an additional brake on globalization. To be continued.



Source : Macrotrends, U.N.

Covid did not only impact stock markets. Japan announced its lowest birth rate ever. Indeed, there were "only" 7.2 births per 1'000 inhabitants last year, which represents one of the lowest birth rates in the world. Japanese authorities blame this on the uncertainties and lack of visibility related to Covid, but the trend has been downward for many years. The problem is not new and is not specific to Japan. We have all known for years that low population growth in industrialized countries is a real brake on future growth and that if it does not increase, serious societal problems could shake the world. In this regard, China also announced in June that it now allows couples to have 3 children (compared to 2 previously, and the limit was even 1 child for many years). Will this be put into “practice”? The future will tell us.

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As we close out the first half of the year, we continue to believe that there is no need to make major changes in portfolio allocations. Risky assets continue to benefit from the abundance of liquidity, global growth is recovering at various speeds depending on the region following the 2020 cataclysm, and central banks and governments are maintaining their unfailing support to the economy. The second half of the year is likely to be more challenging if inflation continues on its current trend, and this could undermine the trust that investors have in central bankers who continue to argue that this is only transitory. As well as the arrival of a fourth wave of Covid with the "Delta" variant causing lockdowns could slow down the economic recovery.
Have a great summer and happy holidays to those who can take some...

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