Review of Financial Markets Q1 2021

- The COVID pandemic continued to have a significant impact on economic, political and social life. In Europe in particular, a new wave spread, resulting in prolonged and even tougher lockdown measures. In addition, the vaccination strategy was accompanied by mishaps, resulting in continental Europe lagging far behind the USA, UK and Israel.

- Joe Biden replaced Donald Trump as US president in January and immediately made a mark. Surprisingly quickly, another Corona aid package worth 1.9 trillion US dollars was passed by Congress. This brings the total government support to around 25 % of the gross domestic product, reaching a level last seen in wartime.

- Those responsible for US monetary policy emphasised that interest rates will remain low for some time to come so as not to jeopardise the economic recovery. A foreseeable rise in inflation will be tolerated, as this is likely to remain only a temporary phenomenon.

- The combination of extremely loose monetary policy and generous fiscal policy has boosted growth expectations for the US economy. The capital market reacted by raising the yield on 10-year US government bonds from 0.9% to 1.7% and lifting interest rates in the British pound, and less so in euro and CHF along with it. As a result, fixed income investments produced a negative return in the first quarter.

- Commodities benefited from the fact that Asia, and China in particular, were already well advanced in their economic normalisation. The oil price rose by around 20%, which was also a consequence of the production cutbacks by OPEC+. Aluminium and copper, traditional non-ferrous metals sensitive to economic cycles, rose by around 15%. Gold and silver prices reacted negatively to rising bond yields.

- Contrary to widespread opinion, the US dollar strengthened in the first quarter. In addition to the growing interest rate advantage, rising political uncertainty caused by a surprisingly clear position of the Biden administration vis-à-vis Russia and China may have boosted the currency. The currencies "traded" as alternatives to a weaker dollar, the Japanese yen and the Swiss franc, lost the most.

- The stock markets continued their upward trend in anticipation of a strong upturn in the global economy and various indices reached historic highs. Last year's losers became this year's winners: energy stocks, materials, industrials and financials stood out positively. For once, the performance of the IT sector was weak, but consumer and healthcare stocks also trended sideways. As a result of this sector rotation, the Euro Stoxx outperformed the S&P 500 for once.

Where do we go from here?

The economic recovery is proceeding asynchronously in the major economic blocs. The USA and China are likely to have grown significantly in the first quarter, while Europe shrank somewhat. The measures to curb the pandemic are hitting the European service sector hard. At the same time, the industrial sector is experiencing an exceptionally strong upswing. In the further course of the year, a certain normalisation should take place everywhere, so that the European economy will also gain momentum.

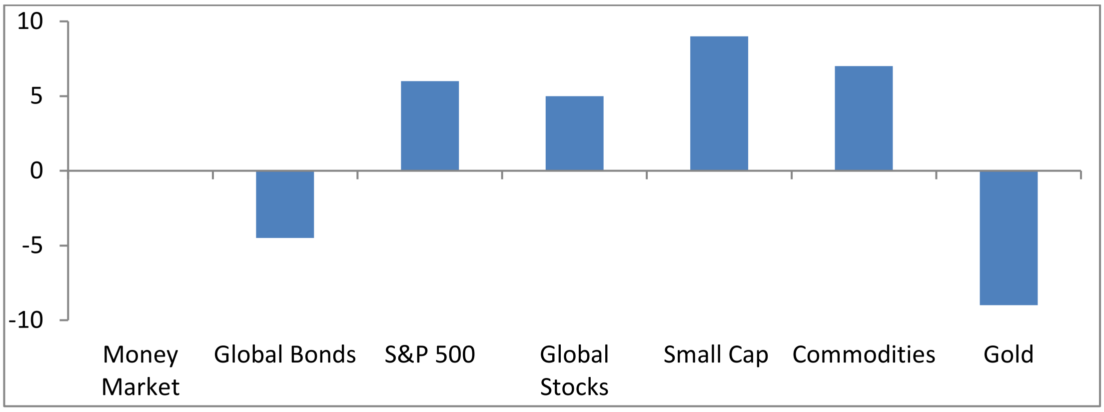
Inflation figures will rise, possibly to 4% in the USA, and unsettle the markets. The central banks will not react to this, as they assume a rise in inflation to be temporary and unsustainable. The strong increase is largely due to a statistical effect, as inflation was unusually low in the same period last year.

Interest rates in bond markets will tend to rise even further, whereby the central banks will not tolerate the rise in interest rates indefinitely in the interest of high government debt costs. In the age of seemingly unlimited intervention possibilities, they also have a respectable set of instruments at their disposal.

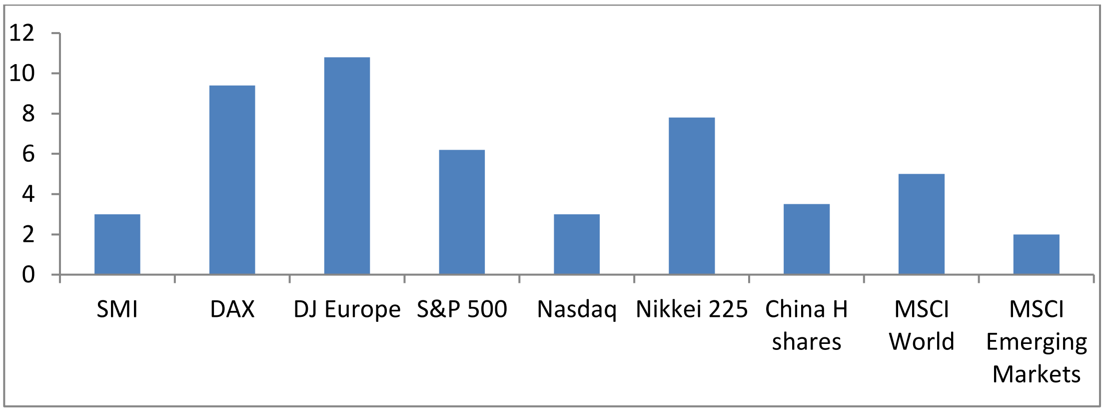
It is unlikely that interest rates will bring the boom on the stock markets to a halt in the foreseeable future. Rather, it can be assumed that the stock and commodity markets will continue to trend upwards in anticipation of a strong economic recovery. The usual interplay of disappointed and exceeded expectations will be responsible for an unsteady price trend.

Wangs, 6. April 2021

Gross return 1st quarter 2021 in USD for different asset classes (in %)



Performance 1st quarter 2021 in local currency for selected stock indices (in %)



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