Review of Financial Markets for the 2nd Quarter 2021

- The COVID pandemic has become somewhat less of a threat as the number of cases declined globally and the burden on healthcare systems eased accordingly. As a result, the restrictions on economic life were visibly eased again. In April, the IMF forecast global economic growth of 6 percent for 2021, with monthly leading economic indicators supporting this confidence. Strong recovery effects are expected above all from service sectors such as entertainment, leisure, tourism/travel, which suffered disproportionately more severely from the Corona measures.
- World trade has recovered from the recession at a record pace, mainly due to the economic revival in the Asian region. Over the course of this development, it became apparent that logistics capacities could not be ramped up quickly enough, resulting in severe delivery delays and price increases.
- Inflation rates rose worldwide, most conspicuously in the USA, where annual inflation reached 5% in May. The jump in inflation is largely due to COVID effects and will therefore not keep inflation at this elevated level in the long term. This is at least the view of the central banks and the markets have agreed with this interpretation.
- The yield on 10-year U.S. government bonds weakened somewhat in the third quarter, while a sideways trend prevailed in other currencies. Due to economic confidence, risk premiums in the bond market continued to decline. At least part of the losses of the first quarter could be recouped with this development.
- The bull market in commodities continued, with the oil market leading the way with further price gains. Brent/WTI prices increased by 44%/52% since the beginning of the year, reflecting effective and expected demand growth with continued production discipline. Non-ferrous metals remained in demand, while gold and silver could not yet fully recover the losses from the first quarter.
- On the currency front, the net changes among the major currencies were minimal. The USD lost 0.5% against the euro and 1.5% against the Swiss franc and Renminbi. The relation to the British pound remained unchanged.
- Stock markets continued their upward trend in anticipation of a strong upturn in the global economy, with various indices reaching all-time highs. In the process, IT stocks returned to favor, while defensive utility stocks lost slightly. The performance of emerging markets was mixed, with Asian markets in particular consolidating. The USA and Europe are on par with year-to-date gains of around 14%, while the balance for the Asian region is more moderate at 3%.

Where do we go from here?

In principle, the global economic upswing remains intact, supported by monetary and fiscal policy and declining restrictions during the ongoing immunization of the population. Growth momentum will be strong in Europe, somewhat weaker in the USA and tending to be somewhat subdued in Asia. China could potentially initiate a monetary policy easing in order not to overshadow the 100th anniversary of the Chinese Communist Party with cyclical problems.

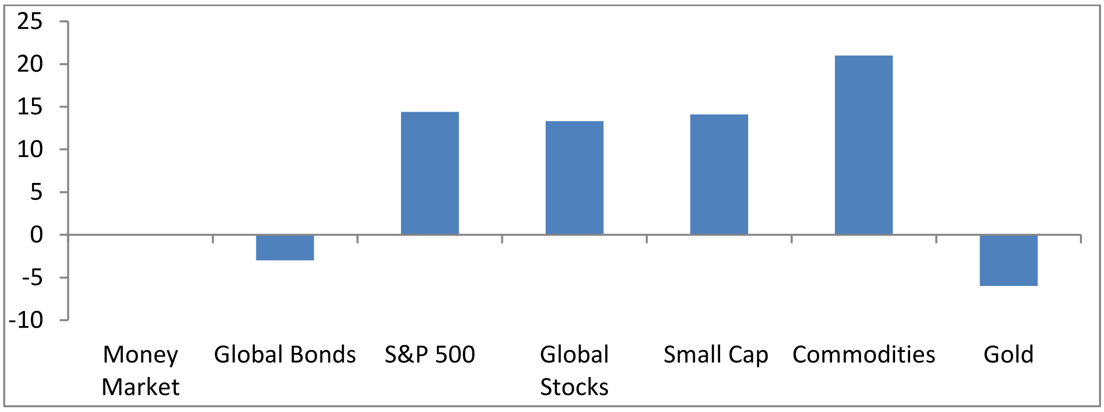
After the strong recovery from the "Corona low", the stock markets are undoubtedly in an expensive price range. For the time being, low interest rates and a positive earnings trajectory should continue to support the upward trend. High liquidity among many investors and a lack of alternatives remain the drivers of strong market momentum for the time being. Cyclicals, technology, and healthcare stocks are likely to be among the favorites.

This development scenario could be significantly disrupted if inflation in the U.S.A. does not start the expected retreat. In that case, the monetary policy roadmap of a gradual tightening would become obsolete and measures to fight inflation would be brought forward. This scenario would lead to significant price corrections in the equity, commodity, bond, and currency markets.

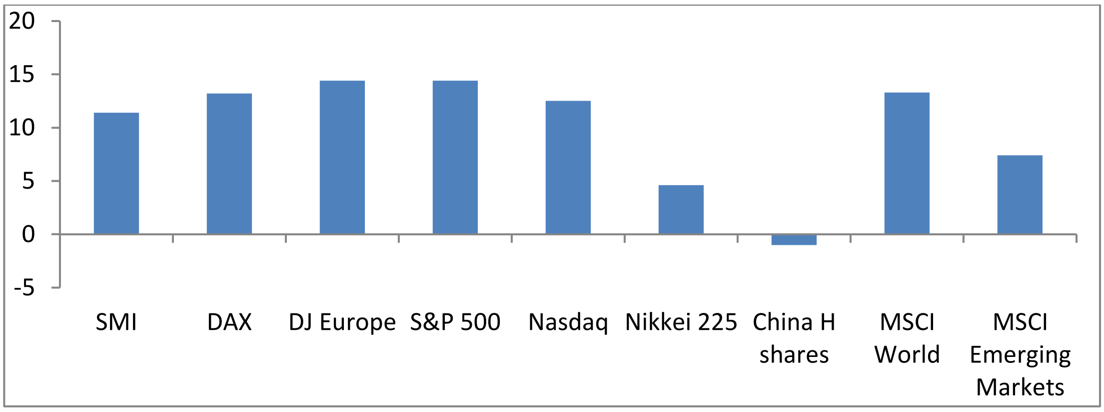
Due to the special features of this economic cycle and an employment situation that suggests little wage pressure, we consider the inflation risk to be rather low and see no need for corrections in the investment policy of client portfolios.

Wangs, 5 July 2021

Gross return as of 30.6.2021 in USD for different asset classes (in %)



Performance as of 30.6.2021 in local currency for selected stock indices (in %)



Wyss & Partner
Asset Management and
Investment Counseling AG

Bahnhofstrasse 17
7323 Wangs, Switzerland
P +41 81 720 06 88
F +41 81 720 06 89
info@wysspartner.ch
www.wysspartner.ch