Review of Financial Markets for the 3rd Quarter 2021

- The COVID pandemic developed into a new global wave which peaked in August. Restrictions remained drastic in the Asia-Pacific region, which impacted global economic activity. Supply chains continued to function poorly, causing transportation costs to skyrocket and many goods prices to swell. The IMF nevertheless confirmed its optimistic outlook with global economic growth of 6% for 2021 and 4.9% for 2022.
- However, current indicators point to a sharp slowdown in China's economy, which will force the government to act. The announced shift toward qualitative and "fairer" growth and the reduction of the immensely high public debt will probably remain postponed.
- In the U.S., there are also increasing signs of a rapid flattening of economic activity, with the service sector in particular appearing to lose momentum. The inflation situation has eased somewhat, though the COVID-induced inflationary impetus could last longer than expected, as also confirmed by the Federal Reserve (Fed).
- The growth outlook is least gloomy in Europe. This is likely to be related to an improved vaccination situation in many countries and the ongoing opening-up of the economy. In addition, the EU measures to support economic recovery and the transition to a green economy are only slowly taking effect. The European Central Bank signalled that interest rates would not be raised for a long time yet and that capital market interventions would only be cautiously restricted.
- The announcement of "tapering" - decreasing purchases by the US central bank in the market - had no significant impact on the USD bond market, where 10-year government bonds remained at 1.5% on balance in the 3rd quarter. EUR and CHF government bonds showed the same pattern of behaviour, while the cost of the UK government rose above 1% for the first time since 2019. Private and public debt risk premiums remained stable on average.
- Energy prices rose again; Brent crude oil quotations increased by around 5% and are thus a good 50% above the level at the beginning of the year. Insufficient supply due to hesitant production of shale oil as a result of the decarbonization strategy, supply bottlenecks and increased demand drove this development.
- Precious metals suffered significantly in the 3rd quarter, with palladium falling by as much as 31%. The annual balance sheet is negative for all precious metals, with gold still in the best position with a minus of 7%.
- The currency development remained calm. The trade-weighted USD strengthened by just under 2%. The euro lost 2.4% against the USD, 1.4% against the CHF and remained stable against the GBP. The politically sensitive currency relationship between the US and China barely moved, shifting a random 1.5% year-to-date.

- In the equity markets, the rally came to a halt. The profit and sales development were convincing and exceeded expectations for the most part. The market correction that began in September caused both the world index and the index for tech stocks as well as the leading index for European stocks to give up their initial quarterly gains. The emerging markets, except for commodity exporters, suffered and lost 8%. Asian markets were particularly weak, with the index for Chinese stocks on the Hong Kong Stock Exchange losing 17%. By sector, the performance of financials, IT, energy, and healthcare stocks was positive. The commodities/materials sector lost the most, by almost 5%.

Where do we go from here?

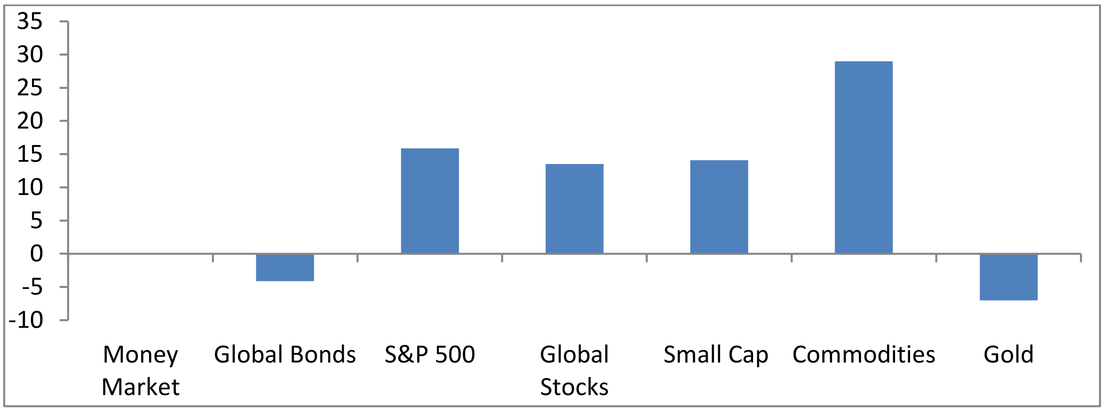
Despite some "growth sobering", the global economic recovery remains intact, supported by monetary and fiscal policy as well as decreasing restrictions as the population is immunized against COVID. However, it cannot be ignored that the clout of the economic stimulus is diminishing. Developments in China could cause irritation, but we assume that the government will not allow a major dip in economic growth in the interest of political and social stability.

The normalization process in growth rates is naturally also reflected in corporate profits. Here, growth rates are likely to decline significantly and, in combination with a historically high valuation, the potential of the equity markets is limited from a fundamental perspective. The consolidation process could continue, but upside potential seems to remain until the end of the year, which also suggests a commitment to the equity markets in view of the lack of alternatives.

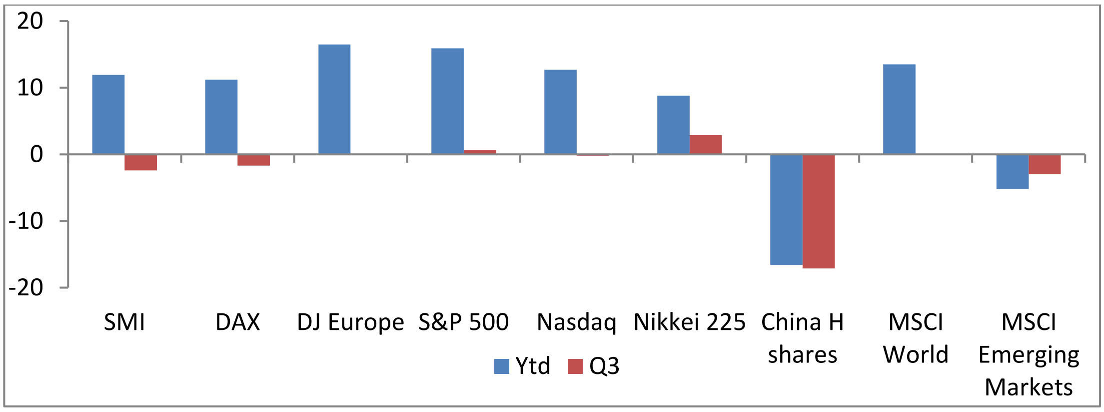
We consider the fear that inflation will not recede, and that growth normalization will develop into a stagnation of economic activity to be ill-founded. However, this scenario of stagflation could temporarily fuel market volatility.

Wangs, 5 July 2021

Gross return as of 30.9.2021 in USD for different asset classes (in %)



Performance as of 30.9.2021 in local currency for selected stock indices (in %)



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