



LimmatWealth

Investment Strategy – June 2021

Data & Forecasts

Developed Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs CHF)		
	GDP 20	GDP 21	CPI 20	CPI 21	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Switzerland	-3.3	3.3	-0.7	0.3	14'803	↗	↗	-0.13	-0.20	-0.10	-	-	-
Germany	-5.3	3.4	0.4	2.4	15'575	↗	↗	-0.18	-0.20	-0.10	-	-	-
Eurozone	-6.8	4.2	0.3	1.7	4'082	↗	↗	-	-	-	1.10	1.11	1.12
United Kingdom	-10.1	6.2	0.9	1.6	7'059	↗	↗	0.82	0.90	1.00	1.28	1.29	1.29
United States	-3.5	6.6	1.3	3.1	4'208	↗	↗	1.60	1.80	1.90	0.90	0.92	0.93
Japan	-5.1	2.6	0.0	0.1	29'058	↗	↗	0.08	0.10	0.10	122	118	117

Emerging Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs USD)		
	GDP 20	GDP 21	CPI 20	CPI 21	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Asia ex Japan	12.4	12.4	0.8	0.8	897	↗	↑	-	-	-	-	-	-
China	2.3	8.5	2.5	1.5	3'584	↗	↑	3.09	3.20	3.10	6.39	6.45	6.40

Review – Equity markets continue to soar

Equity markets worldwide finished May with positive returns. The markets in China (+4.9%), Switzerland (+3.5%), and Germany (+1.9%) appreciated the most.

Yields on ten-year government bonds barely moved last month. While interest rates slightly rose in Switzerland (+0.04% to -0.16%) and Germany (+0.02% to -0.19%), they decreased slightly in China (-0.08% to 3.07%) and the United Kingdom (-0.05% to 0.80%).

Volatility in currency markets remained within reason last month. The Swiss Franc strengthened against the US Dollar (+1.6% to CHF 0.90), weakened against the British Pound (-1.3% to CHF 1.28) and remained unchanged against the Euro (CHF 1.10). The US Dollar weakened further against the Euro (-1.7% to USD 1.22).

Alternative investments performed positively as well last month. Gold (+7.8% to USD 1,907 per ounce), oil (WTI, +4.3% to USD 66.32 per barrel), as well as hedge funds (+0.4%) appreciated.

Outlook – Higher corporate taxes as roadblock for Joe Biden's infrastructure program

In the face of fierce opposition, US President Joe Biden had to downsize the trillion-dollar infrastructure program he proposed, known as the "American Jobs Plan". Instead of the previously targeted USD 2.3 trillion, he is now proposing a package with a volume of USD 1.7 trillion to the Republicans. The Republicans originally offered USD 568 billion and then increased it to USD 928 billion. However, the two sides are still far apart.

The infrastructure program represents one of the central pillars of Biden's strategy to sustainably boost the US economy after the Corona crisis and to make the country fit for the future. Among other things, it provides for investments in roads and bridges, but also in future technologies and climate protection. It is

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supposed to be financed through higher corporate taxes. The Republicans reject the project as too expensive and comprehensive. They just want to include physical infrastructure in the project and refuse to reverse tax cuts under then-President Donald Trump in 2017. The corporation tax was reduced from 35% to 21%. Biden now wants to raise it back to 28%. If the White House is ready to pass a bill that does not change the tax cuts, Republicans are ready to work together, said Mitch McConnell, Republican minority leader in the Senate.

US President Joe Biden has signaled a willingness to compromise on the planned increase in corporate tax. In order to be able to pay for his infrastructure program, however, it must be ensured that the tax cut from 2017 "will be reduced to between 25 and 28 percent", said Biden in Louisiana last week. According to experts, 25% will probably be the value that should come out in the end.

Ever since Joe Biden presented the "American Jobs Plan", the infrastructure investment theme has received increased attention. As mentioned above, the outcome of the negotiations and thus the scope of this infrastructure program is not yet clear, but even without Biden's plan, the expansion of infrastructure is a megatrend. Political support for infrastructure spending can be seen around the world, especially to promote decarbonization. More and more countries are signing net zero emissions targets and therefore more and more investments are required in energy storage and transmission networks that can deal with the volatility of renewable energies. More must also be invested in building new infrastructures such as charging stations for electric vehicles. Last but not least, more data centers, fiber optic networks and telecommunications masts are needed. In addition to all of these things, there is the need for renewal of existing physical infrastructure such as roads, bridges or cables/lines.

The vaccination progress in Europe and the United States is leading to lower case numbers and a slow opening of the economies. Consumption is picking up and we continue to expect that the economy will pick up and thus corporate profits as well. Equity markets are likely to trend upwards in the further course of the year, although temporary setbacks are possible. We continue to favour Switzerland, the United States and China over Europe and continue to focus on good quality companies with strong balance sheets.

Market participants do not expect any rate changes by the US central bank Fed and the European Central Bank ECB over the next 12 months. There are also no rate changes expected by the Swiss central bank SNB.

Trade disputes and geopolitical developments can lead to strong movements in currency markets. The Swiss franc serves as a safe haven in such cases.

Hedge funds continue to benefit from a normalization of correlations, volatilities, and dispersion. Hedge funds typically thrive when the dispersion is high and correlations are low because then they can take full advantage of their trading techniques and skillset.