LimmatWealth

Investment Strategy – September 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	3.5	-0.7	0.4	15'997	→	↗	-0.32	-0.20	-0.10	-	-	-
Germany	-5.3	3.2	0.4	2.7	15'876	→	↗	-0.37	-0.30	-0.15	-	-	-
Eurozone	-6.8	4.8	0.3	2.0	4'232	→	↗	-	-	-	1.09	1.09	1.12
United Kingdom	-10.1	6.8	0.9	2.1	7'173	→	↗	0.70	0.80	1.00	1.27	1.29	1.31
United States	-3.5	6.2	1.3	4.2	4'535	→	↗	1.32	1.50	1.80	0.92	0.92	0.93
Japan	-5.1	2.5	0.0	0.1	29'660	→	↗	0.05	0.10	0.10	120	120	122

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	1.0	7.3	2.0	1.5	844	→	↑	-	-	-	-	-	-
China	2.3	8.4	2.5	1.3	3'622	→	↑	2.84	3.00	3.00	6.45	6.50	6.40

Review – The positive trend for equities continues

Global equity markets were able to continue their positive trend in August, with defensive stocks and technology stocks as well as partially cyclical sectors performing well. An important driver behind the positive basic trend in equities was the very good reporting season for the second quarter which just ended. Listed companies have once again exceeded the expectations of investors in aggregate and remain optimistic for the current year despite the rampant delta variant. Global interest rates were a key driver behind the sectoral performance pattern. The direction and dynamics of long-term global interest rates are disproportionately determined by US interest rates and the (verbal) actions of the US central bank Federal Reserve (FED). Long-term US interest rates rose in August due to strong labor market data, but without developing any sustained upward momentum. Comments from various FED governors initially indicated that the bond purchase program was beginning to be scaled back («tapering») this year and thus triggered interest fears among investors. However, Jerome Powell, the president of the FED, countered these fears with a dovish speech at the annual Jackson Hole conference. This ambiguous rate scenario provided support for both cyclical and defensive sectors. Cyclicals (especially financial stocks) that flourish in phases of rising interest rates have reacted positively to the rise in interest rates. But defensive stocks (and technology stocks) also showed positive returns in aggregate: Investors were relieved that no robust pattern of interest rate growth had developed and that the low interest rate environment therefore in principle remains. It should also not be forgotten that global real interest rates are still at extremely negative levels, despite the moderate rise in interest rates in August. The negative real interest rate environment is also an important positive driver for the gold price, which has recovered noticeably in recent weeks.

Asian equity markets were negatively affected by China in the past month. The serious regulatory measures taken by the Chinese government, which primarily focus on domestic tech stocks, have put Chinese equity markets under great pressure. We assume that the Chinese authorities will embrace the private corporate sector again in the future. The innovation and productivity of the private economy make an important contribution to the creation of prosperity in the country.

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Equity markets around the world ended August with positive returns. Markets in China (+4.3%), Japan (+3.0%), and the United States (+2.9%) performed best.

The interest rates on ten-year government bonds increased globally over the past month. They increased most in Great Britain (+0.15% to 0.71%), the United States (+0.09% to 1.31%), and Germany (+0.08% to -0.38%), while they remained unchanged in China (2.85%) and Japan (0.03%). Interest rates in Switzerland also increased slightly (+0.05% to -0.32%).

Currency markets moved within a normal range in August. The Swiss Franc weakened against the US Dollar (-1.1% to CHF 0.92) and the Euro (-0.6% to CHF 1.08) and remained unchanged against the British Pound (CHF 1.26). The US Dollar strengthened against the Euro (+0.5% to USD 1.18).

Alternative investments have shown different returns over the past month. The gold price remained unchanged (USD 1,814 per troy ounce), the oil price dropped (WTI, -7.4% to USD 68.50 per barrel), and hedge funds gained (+0.7%) in August.

Outlook – China at a turning point?

The longer-term fundamental outlook is generally friendly, but increasingly shows symptoms of fatigue typical of the mid-cycle and opposing effects. The economy should in principle remain robust in the next few years, but financial markets have already processed this in detail and priced it in sufficiently. Financial stocks in particular are likely to benefit disproportionately from rising interest rates due to their low valuation. The vaccination campaigns are gaining pace on a global level, but will not ensure herd immunity for the near future, especially in many emerging countries. On the other hand, both monetary and fiscal policy in industrialized countries will remain stimulating in the second half of 2021. However, investors are likely to increasingly look to the year 2022 and begin to price in a possible tightening of monetary policy, which can lead to temporary phases of weakness. The main medium-term risk is the current monetary and regulatory tightening in China. However, Chinese macro data have recently clouded over so much that financial market players expect at least an imminent monetary policy change, purely according to the motto: «Bad News = Good News».

We expect equity markets to trend sideways in the further course of the year. We continue to favor Switzerland, the United States, and China over Europe and we continue to focus on good quality companies with strong balance sheets. After the setbacks in summer, China offers an interesting entry or top-up opportunity.

Market participants do not expect any rate changes by the US central bank Fed and the European Central Bank ECB before the end of 2022. 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.

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