BALANCED PORFOLIOS

World economics

Economic data were a testament to the strength of economic recovery. In the USA, job creation accelerated up to 0,9 million in March and the unemployment rate decreased to 6,0% from close to 15% in April 2020. Congress approved a staggering USD 1,9 trillion plan in spending aimed at reigniting the economy. In Q4, the US GDP was still -2,4% year on year. The Eurozone GDP was -1,4% lower. In contrast, China GDP was +6,5% higher year on year.

Bottlenecks in supply chains and bouncing commodity prices fed the fear that inflation was about to accelerate. The Fed commented that such an event would be temporary only; the Fed plans to raise its interest rates in 2024 at the earliest. The European central bank committed to buying even more bonds during the next 3 months in order to prevent disorder in the debt markets.

Equity markets

The Swiss equity market (SPI) rose +5,2% during the quarter. The more defensive SPI underperformed against other indexes. The US market (SP 500) appreciated +6,2% in dollar and 13,0% in francs. The European market (STOXX 600) gained 8,4% in euro and 10,9% in francs.

Interest rate and bonds

Bond yields went up sharply before calming down somewhat after the central banks communicated they would intervene to avoid any upheaval. Over the quarter, the US 10-year Treasury yield went from 0,9% to 1,7%. The Swiss equivalent yield became less negative, moving from -0,5% to -0,3%. The Swiss bonds index lost -1,2%. Foreign bonds indexes appreciated in franc thanks to the exchange rates.

Exchange rates

The better resistance of the world economy to the pandemic has reduced interest in "safe haven" currencies such as the CHF or the Yen. As a result, most currencies appreciated against the Swiss franc, such as the dollar, which rose by 6.6%, the pound sterling by 7.5% and the euro by 2.4%.

Outlook

The International Monetary Fund (IMF) has increased its growth outlook for the world economy to 6% this year from 5.5% thanks to the monetary and fiscal measures implemented by central banks and governments in response to the pandemic.

Indeed, the global economy has been more resilient than expected to the pandemic, new stimulus packages are planned (US infrastructure package that could amount to more than $2 trillion, EU stimulus fund), the vaccination campaign is progressing globally, monetary policies remain accommodating, increasing confidence in the upcoming recovery.

However, this growth will not be uniform. The United States is expected to grow more strongly than Europe due to European reconfiguration and the "delay" in vaccination compared to the US (2.6 million vaccinations per day) but also compared to the UK (35% of the population having received their first dose of vaccine). China, ahead of the rest of the world, is stabilizing its growth rate.

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This climate of acceleration is fueling fears of the start of an inflationary cycle. However, central banks are maintaining a long and very accommodative "view", insisting on the transitory nature of price pressures due to high unemployment.

During the first quarter of 2021, equity indices continued to rise to record levels thanks to the favorable economic outlook and a sector rotation in favor of cyclical stocks. On the bond side, the improved growth outlook and the resumption of inflation weighed on bond yields, particularly in the United States, while in Europe the ECB intervened to avoid a rapid rise in rates. Real estate remained fairly stable and held its own despite the relative pressure on bond yields.

In this environment of economic recovery, rising earnings expectations, expansionary monetary policies and still low interest rates despite the recent tensions, we maintain our portfolio construction approach that favors equities, especially Swiss quality stocks, while bonds with extremely low yields and real estate remain underweight.

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