# SWISS SMALL & MID CAP EQUITIES

## 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; in consequence, the Fed said it 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.

## Swiss economics

The Swiss economy contracted -2,9% during 2020, which was better than forecast. In Q4, the recovery was challenged by a new wave of the pandemic. As a result, the GDP in the 3 last months of 2020 was -1,7% lower than during Q4 of 2019. The unemployment rate rose to 3,6% in February 2021 from 2,5% one year earlier.

## Equity markets

During the quarter, investors preferred cyclicals and smaller caps, which lead the Swiss mid and small caps segment to outperform the wider market by a large margin. The whole market (SPI) was up +5,2%; the mid and small caps (SPIEX) was up +8,9%.

## Individual stocks

The freight forwarder Kuehne Nagel (+34,3%) surged after it published good results for 2020 and announced an important acquisition in China. Helvetia (+18,8%) reassured on its perspective after lagging in 2020. Julius Baer (+18,5%) outperformed again.

Vifor (-7,4%) and Lindt & Sprüngli (-4,4%) retreated after the firms explained their sales would still be impacted by the pandemic in 2021.

## Investment actions

Inficon and Schweiter were trimmed after their good performances. Temenos was reinforced.

## 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.

**GMG Institutional Assest Management S.A.**

Rue Ferdinand-Hodler 23
1207 Genève, Suisse

T +41 22 552 5353
www.gmgam.ch

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.

This climate of acceleration is fuelling 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 favour of cyclical stocks.

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 favours equities, especially Swiss quality stocks, while bonds with extremely low yields and real estate remain underweight.