

Letter from the President and the Fund Managers

July 2021

One of the most striking images from the start of the year and one that won't be forgotten for a long time was the assault on the Capitol in Washington by supporters of Donald Trump. Joe Biden, by contrast, was able to trigger new momentum as he took office. Added to this came a USD 1.9 trillion fiscal package to stimulate the US economy – a positive surprise for market observers overall.

But all this good news – vigorous support measures put in place by the government, improved US economic data and significant progress in vaccinating the population – has also had its downside in the form of a faster-than-expected rise in US government bond yields. The deteriorating economic conditions observed in Europe following the rise in COVID cases also fuelled market uncertainty in February and March.

Against this backdrop, neither the US Federal Reserve nor the European Central Bank (ECB) were inclined to change their extremely generous monetary policies.

The calm approach adopted by the US and European central banks was most likely a key factor in triggering a 5.7% rise in equities in the first quarter and a 6.6% increase in the second quarter, as measured by the MSCI World Index.

Bonds experienced significant losses during the first quarter, even though the drop in prices was offset by an increase in yields. In the second quarter, the path for bond investors proved to be fraught with setbacks as inflation was on the rise,

The USD recovered against most major and minor currencies in the first quarter of 2021. The success achieved with the vaccination programme in combatting the spread of the epidemic enabled the US authorities to ease restrictions. The resulting improvement in the US economy by international comparison caused US rates to rise to a higher level than those of most other economies, thus pushing up the USD.

In the second quarter, as the global economy gained pace, the so-called cyclical currencies went up. Emerging market currencies and the euro (+0.9%) rose against the USD.

The huge budget package adopted in the US and the robust economic data of the first six months have given a strong boost to raw materials, which had long been ignored. This marks the outcome of growing consumer demand coupled with bottlenecks on the supply side.

Gold, by contrast, has lost much of its appeal. This is due to the rise in real yields in the US. A development of this kind makes investments in securities that generate interest more attractive than investments in the yellow metal.