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INVESTMENT COMMENT

June 2021

- **More intervention to come**

  Many developed countries are challenged with financing their massive stimulus and recovery packages without raising taxes significantly. The G7 have endorsed President Biden's proposal of a 15% minimum global corporate tax rate. Such interventionist measures are bad news and are precursors for more regulation to come.

  While in the U.S. the administration has debated for years whether to curb the influence of the large tech companies, China is going ahead at a much faster pace. Alibaba has been fined a record $2.8 billion (4% of revenues) for monopolistic behavior while other Chinese tech giants were fined lesser amounts for unfair competition practices.

- **Tug of war in the equity markets**

  Equity markets are caught in a tug of war between recovery / growth optimists and those who worry about rising inflation and higher rates which could render the current market valuations too high.

  While inflation is re-emerging and investor risk appetite keeps rising, we do not think central banks will raise rates or introduce significant tapering before the mid-term elections in the U.S. in late 2022. We would recommend to keep at least a neutral position in equities. Now is not the time to turn too cautious despite perceived stretched valuations. Employment gains are on the rise, pent-up demand is leading to a global recovery and supply chain bottlenecks are gradually being resolved (even though the latest wave of COVID in Asia may be a setback).

- **Gold**

  Falling real rates have pushed gold prices back up around USD 1,900 per ounce during the last few months. This trend was supported by a weaker greenback and some market jitters in early May. Since we rather expect inflation to rise than to fall and rates to not move much from here, we expect real rates to come down which should support gold prices at current levels. The long-term inflation protection qualities of gold will stand firm also this time around.

- **Avoid fixed income**

  The real yield of the 10-year US treasury is as low as in the 1970ies, while inflation has reached a 29-year high. These are signs of financial repression – many developed market bonds are essentially "certificates of confiscation" as investors receive less in the end than what they paid. Currencies of countries in a state of financial repression are dangerous and have the potential to fall significantly in value. The US dollar is an example.

- **Asset Allocation**

  Our tactical equity allocation remains slightly overweight. After reaching new record highs in the U.S. and in Europe, we see more value in Asia and particularly in Japan. There is no change to our view on fixed income – we prefer inflation protected securities, selective emerging market and Asian debt. We continue to hold hedge funds given their agility amidst volatile markets. We will keep our allocation in precious metals – potentially tactically hedging at current levels. We continue to keep a low foreign exchange exposure and are particularly cautious with the US dollar.