XO INVESTMENTS

MONTHLY COMMENT

April 2021

MARKET REVIEW

Trees do not reach the sky, their prices do.

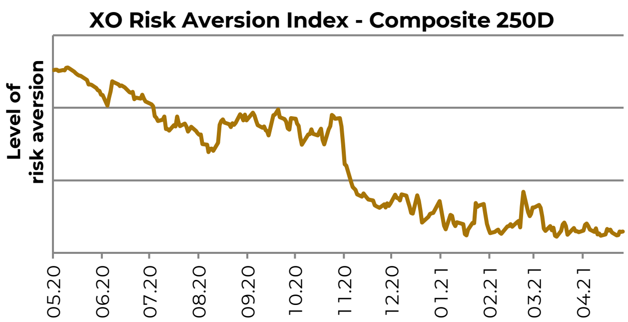
April was marked by an acceleration in the rise in commodity prices. With a rise of more than 20% for the overall index since the beginning of the year, fears of inflation are at the centre of all concerns. It is no longer the tree that climbs to the sky but the price of wood, up 40% over the month and 60% since 1 January. Sugar rose by 20% in April, as did corn. Metals (aluminium, copper, steel) are 25% more expensive, in four months. Oil is up 30%. The paralysis of trade in the spring of 2020 continues to create unpredictable consequences and inflation is part of the new economic order.

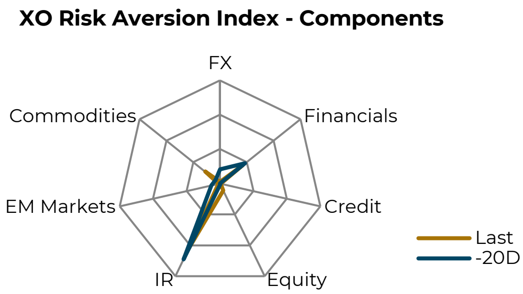
In this context, equities, after a very good start to the month, end positively but with less euphoria. The United States, carried away by the vaccination dynamic and the new government aid plan, presented the best monthly performance. China, Japan and Switzerland, are marking time.

Interest rates are stable, leaving bond indices almost unchanged. Real estate rose for the second month of the year. The CHF, after a difficult first quarter, recovered by appreciating against the USD and GBP.

Our risk indicators remain extremely low, with the exception of interest rates.

	Value	April	2021
Equity markets			
Switzerland (SMI)	11 022	-0.23%	2.98%
United States (S&P500)	4 181	5.24%	11.32%
Europe (Euro Stoxx 50)	8 670	1.82%	12.68%
Japan (Nikkei)	28 813	-1.25%	4.99%
China (Shanghai SE)	3 447	0.14%	-0.75%
Brasil (Bovespa)	118 894	1.94%	-0.10%
Currencies			
USD/CHF	0.913	-3.08%	3.15%
EUR/CHF	1.098	-0.86%	1.54%
GBP/CHF	1.261	-3.04%	4.32%
EUR/USD	1.202	2.30%	-1.68%
Other asset classes			
Swiss Real Estate		0.96%	1.39%
Swiss Bonds		-0.16%	-1.36%
Foreign Bonds		0.17%	-2.62%
Commodities		8.23%	22.90%
Oil	63.58	7.47%	31.04%
Gold	1 769.13	3.34%	-6.61%
Rates / Indicators			**Δ**
10 years Swiss rate		-0.20%	0.35%
10 years US rate		1.63%	0.71%
US Unemployment		6.00%	-0.70%
US GDP		0.40%	2.80%
US CPI		1.60%	0.00%





US RECOVERY AGAINST A BACKGROUND OF DEFICITS

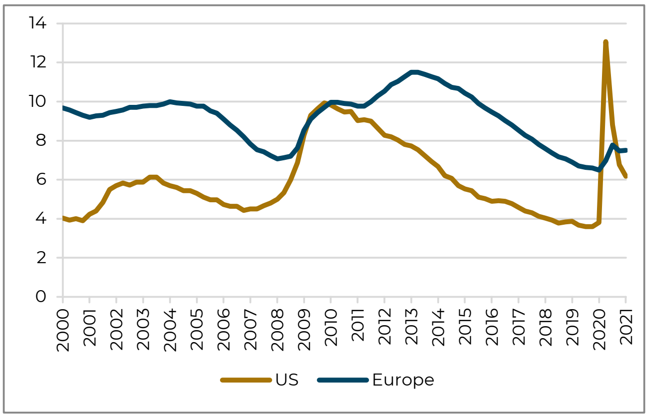
The US is probably the most economically responsive and dynamic country in the world. One year after the sudden stop of the economy, the unemployment rate is gradually coming down and the economic indicators are well oriented. But this is at the cost of twin deficits that will not be without consequences.

Unemployment down

The crisis of March 2020 and its trauma are gradually receding. The sudden halt in the economy had resulted in a massive rise in unemployment. This was particularly evident in the United States, where state aid is weak, whereas Europe was able to demonstrate a highly developed social system. Companies were able to resort to unprecedented short-time working measures which enabled them to retain a large part of their workforce. In June 2020, unemployment in the United States was still 13%, while in Europe it was only 7%.

Nevertheless, it is clear that the US is a dynamic and responsive country. The crisis is receding, with the unemployment rate in the US now falling steadily to around 6%, while Europe remains at the same level. American flexibility works wonders here.

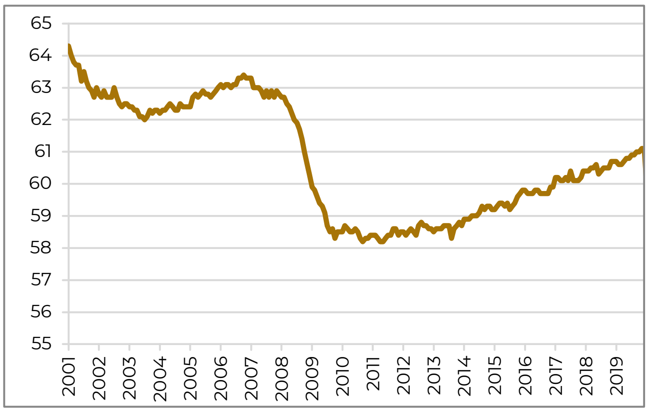
Unemployment rate (%)



Source : Bloomberg, FED, XO Investments SA

Even if everything has not yet returned to pre-crisis levels, confidence is returning. The employment rate is also on a positive trend. It has only increased since 2009, although it has not yet reached 2007 levels.

Employment rate of the population (%)

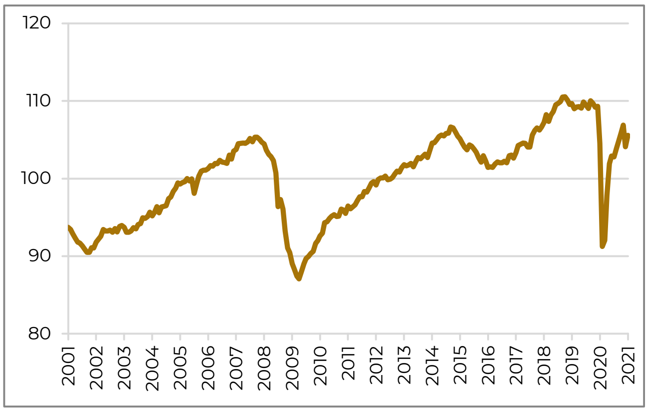


Source : Bloomberg, XO Investments SA

Reassuring economic figures

The recovery of the American economy is obviously materialized by an improvement in the level of industrial production. Here again, pre-crisis levels have not been reached, but the rebound is very significant.

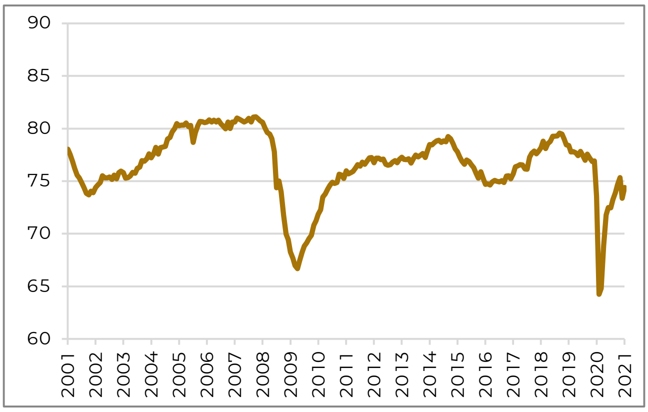
US industrial production



Source : Bloomberg, FED, XO Investments SA

Capacity utilisation gives a similar picture with a strong rebound.

US capacity utilization (%)

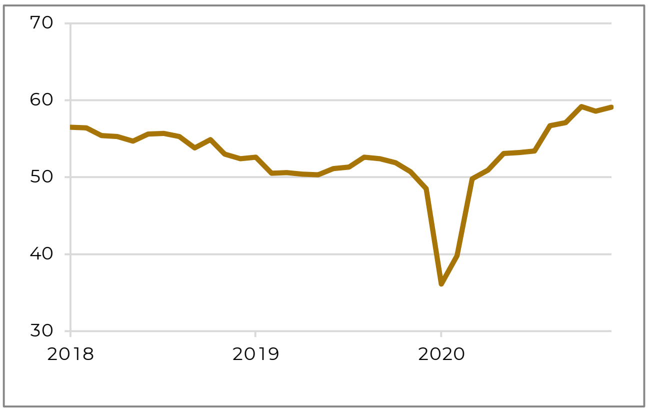


Source : Bloomberg, FED, XO Investments SA

The manufacturing indices (PMI or Dallas Fed Outlook) give us a more forward-looking view of industrial dynamics insofar as they are outlook surveys.

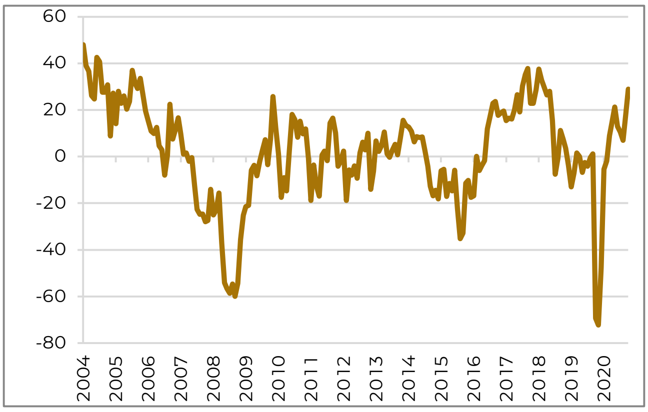
It is interesting to note that these indicators are very positive and suggest a longer economic recovery than a simple catch-up from March 2020.

PMI manufacturing Index



Source : Bloomberg, XO Investments SA

Dallas Fed Manufacturing outlook

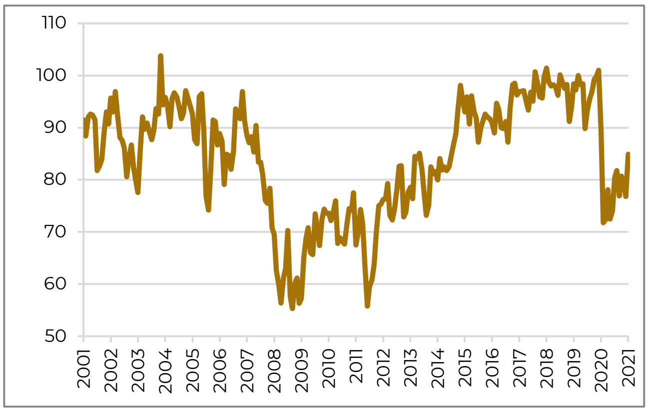


Source : Bloomberg, Federal Reserve Bank of Dallas, XO Investments SA

Consumers are on board

American consumers can gradually return to their normal activities, going to restaurants or shopping. Confidence is being rebuilt step by step, even though this value often lags behind economic indicators as it is a consequence of them.

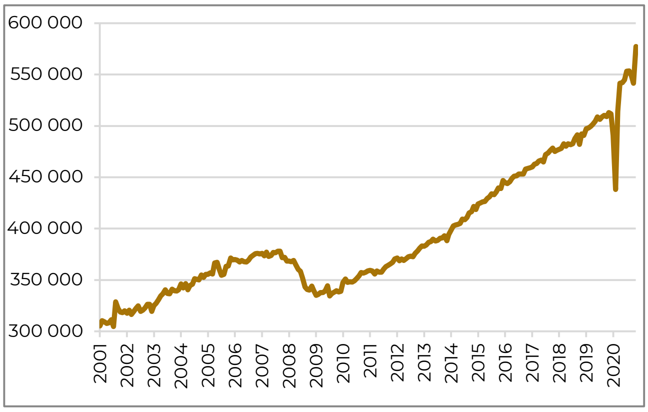
US Michigan Consumer Sentiment



Source : Bloomberg, FED, XO Investments SA

The retail sector is taking full advantage of this recovery with sales exploding in value. The catch-up effect is undoubtedly being boosted by the US government's direct assistance to all households.

Retail industries by value (USD million)



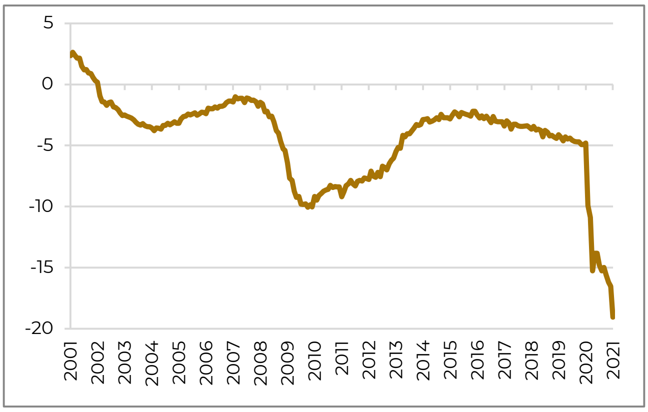
Source : Bloomberg, US Census Bureau, XO Investments SA

Twin deficits and inflation

All these good economic figures and the forthcoming recovery are the result of unprecedented interventionism by the US government and indirectly by the US Federal Reserve.

The first element that manifests itself after these injections, is the federal government's budget deficit. At 20% of GDP, this deficit is at an all-time high. During the 2008 crisis, the budget had reached "only" 10% of excess spending. This 20% represents USD 650 billion in March 2021!

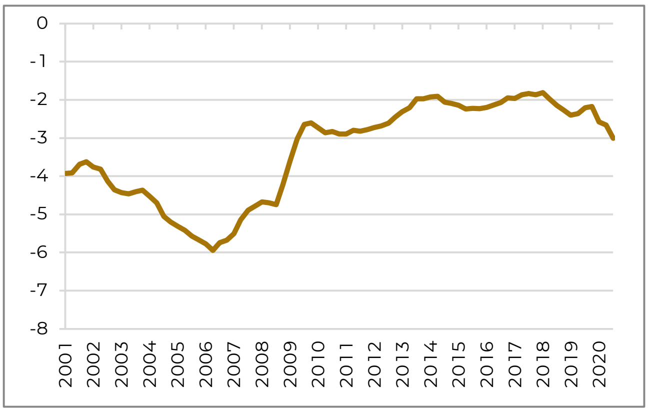
Surplus/deficit as % of federal budget



Source : Bloomberg, US, treasury, XO Investments SA

The public deficit is exacerbated by a current account deficit of around 3%. This has been the case for over 20 years. The current account deficit means that the US imports more goods and services than it exports.

Current account balance US (%)

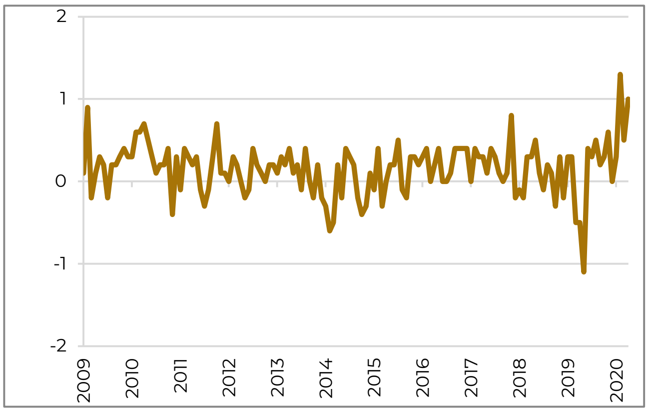


Source : Bloomberg, XO Investments SA

This situation poses a problem for the confidence that external economic actors may have in their trading partners. It is thus the parameters reflecting confidence in an economy, namely interest rates and the currency (USD), that are the first to be affected.

One of the consequences of this situation of good economic performance and twin deficits is characterised by the recent increase in producer prices. They also reflect shortages and supply difficulties in some products. Even if these figures remain contained, fears of inflation have led interest rates to rise massively during the first quarter.

Producer prices US (%)



Source : Bloomberg, FED, XO Investments SA

The United States still ahead of Europe

The 2020 crisis confirms what all crises have shown: the US is able to react more dynamically and quickly to get out of difficult situations. Despite being hit hard in 2020, unemployment is falling and economic indicators are pointing to good times. All the instruments at the disposal of the US government and the FED have been put to work. On the other side of the Atlantic, the slowness of a federal European system and a certain lack of coherence leaves Europe once again behind the United States, to the great displeasure of its citizens.

Although this recovery is being financed by massive deficits, Treasury Secretary Connally's phrase, "The dollar is our currency, but it's your problem" still applies. The US is prepared to pay for this exit through twin deficits, a weaker dollar or higher inflation. They don't care as long as it is the other countries that will pay for it, led by Europe. It remains to be seen whether China will also accept to pay this price...