XO INVESTMENTS

MONTHLY COMMENT

May 2021

MARKET REVIEW

For once, the markets did not experience a storm in may

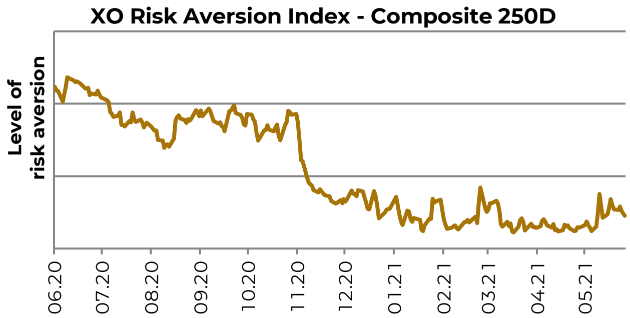
The beginning of May was upset by the inflation statistics. The base effects caused by a barrel price of $0 a year ago are at the origin of this surge which made the markets nervous. Once these fears were digested, the equity markets resumed their forward march and ended the month positively. Switzerland, which had been lagging behind, made up some of this deficit thanks to excellent results from watchmakers. Europe, after a difficult year in 2020, is the best equity market in 2021.

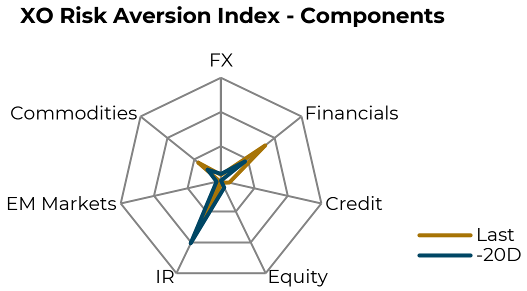
Interest rates have been at the center of discussions for the past three months. Inflationary threats are weighing on long-term rates, even though the easing at the end of the month is allowing the bond markets to breathe a little. With neutral performances, bonds are stabilizing after a complicated start to the year. Real estate was under pressure in May, posting a zero performance since January 1.

Commodities had a good month. Gold rebounded strongly, erasing the losses of the beginning of the year.

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

	Value	May	2021
Equity markets			
Switzerland (SMI)	11 363	3.09%	6.17%
United States (S&P500)	4 204	0.55%	11.93%
Europe (Euro Stoxx 50)	8 870	2.30%	15.27%
Japan (Nikkei)	28 860	0.16%	5.16%
China (Shanghai SE)	3 615	4.89%	4.10%
Brasil (Bovespa)	126 216	6.16%	6.05%
Currencies			
USD/CHF	0.899	-1.57%	1.54%
EUR/CHF	1.099	0.13%	1.67%
GBP/CHF	1.278	1.28%	5.65%
EUR/USD	1.223	1.73%	0.02%
Other asset classes			
Swiss Real Estate		-0.43%	0.95%
Swiss Bonds		-0.25%	-1.61%
Foreign Bonds		0.14%	-2.48%
Commodities		2.52%	25.99%
Oil	66.32	4.31%	36.69%
Gold	1 906.75	7.78%	0.65%
Rates / Indicators			**Δ**
10 years Swiss rate		-0.16%	0.39%
10 years US rate		1.59%	0.68%
US Unemployment		6.10%	-0.60%
US GDP		0.40%	2.80%
US CPI		3.00%	1.40%





DEMOGRAPHIC INFLECTION POINT IN CHINA

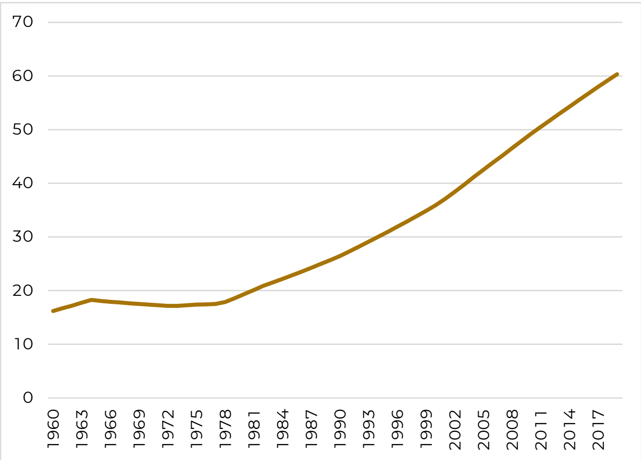
China has just released the results of its latest decennial census. The slowdown in population growth highlights a country that could see its economy affected by a double problem: the decline of the population and its aging.

Population growth slows down

Almost a month late, China released the results of its latest decennial census in May. Nearly 7 million volunteers participated in this work across the country.

This census highlights the continuation of strong trends in this demographic giant. China's population is increasingly urban, with nearly 60% of the population living in cities, almost half of them in cities with more than one million inhabitants.

Urban population (%)



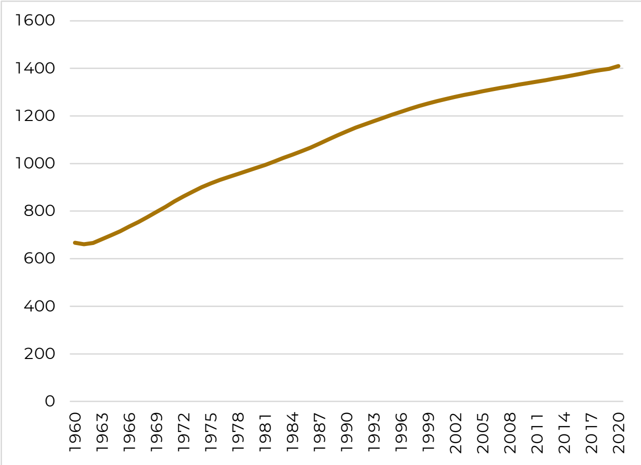
Source : Banque mondiale, XO Investments SA

The level of education continues to grow. Whereas in 1982 only 6% of the population had a secondary education, today 15% of the population has a university degree.

China is therefore continuing its transformation from a country that produces for others to a country that wants to innovate and produce services and goods with high added value.

The results of the study partly alleviate the concerns of Chinese leaders since the population continued to grow at a rate of 0.53% per year over the period. With a population of 1.411 billion, China remains the most populous country in the world.

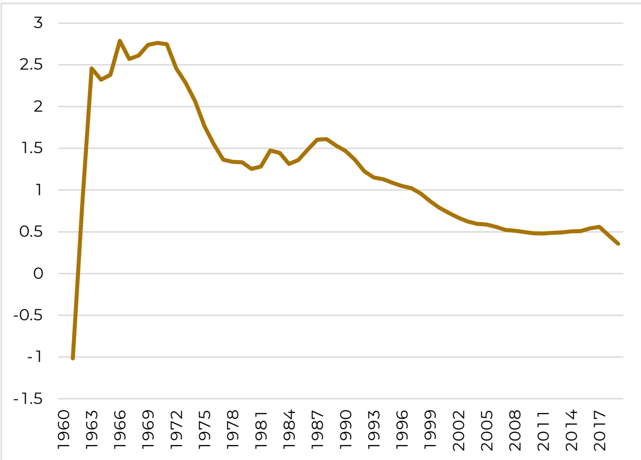
Population (millions)



Source : Bloomberg, XO Investments SA

Nevertheless, population growth has been steadily declining for the past 50 years. This leads to the fear of a population decline as early as 2021 according to the Shanghai Academy of Sciences.

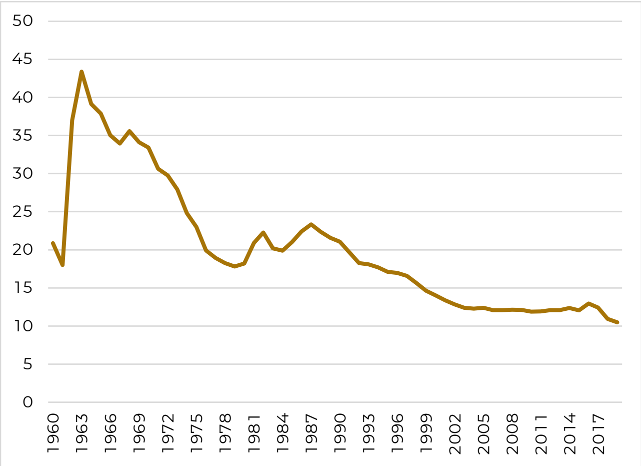
Population growth (%)



Source : Banque mondiale, XO Investments SA

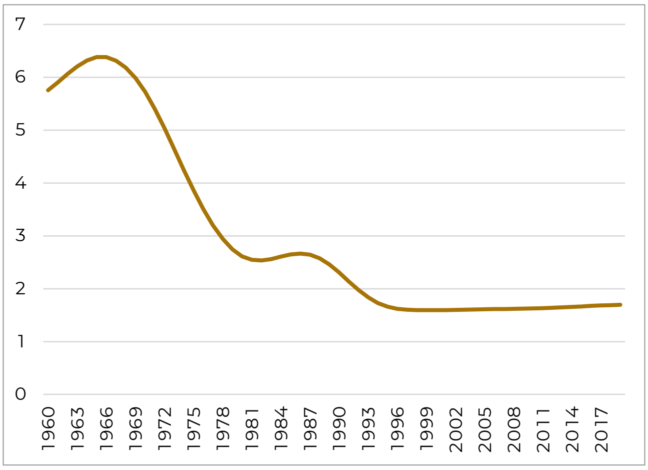
The implementation of the one-child policy in 1979 continues to impact the country's demographic dynamics. Although this policy was made more flexible in 2015 by allowing a second child, the birth rate continues to decline inexorably. It barely exceeds 10 children per 1,000 inhabitants, a figure slightly lower than in Switzerland.

Birth rate (for 1000 residents)



The fertility rate is also falling, reaching 1.3 children per woman of childbearing age in 2020. Some demographers therefore estimate that in 2021 China could have 10 million births for every 10 million deaths, thus tipping into a period of population decline.

Fertility rate



Source : Banque mondiale, XO Investments SA

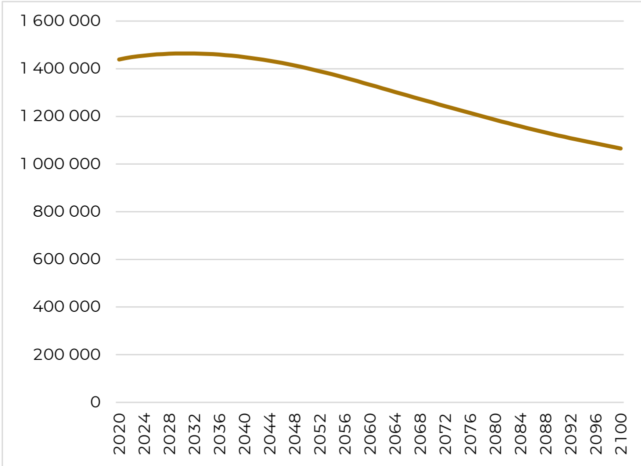
Major structural changes

The UN projections therefore raise fears of a population decline in China in the coming decades.

According to a median projection, China's population could decrease by about 400 million people over a century. More pessimistic forecasts even lead to a decline of around 700 million people over the period.

In a median projection, India would be the most populous country and China would be followed by Nigeria. More problematically, the demographic difference with the United States would be less favorable to the Middle Empire. This could fuel future trade and political tensions.

Population projection (millions)

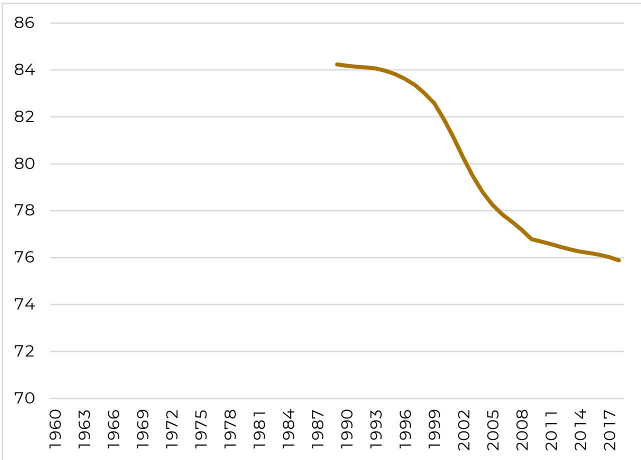


Source : ONU, XO Investments SA

In addition to the population decline, China is also facing a rapid change in its demographic structure.

Indeed, the decline in births and the aging of the population are lowering the labor force participation rate.

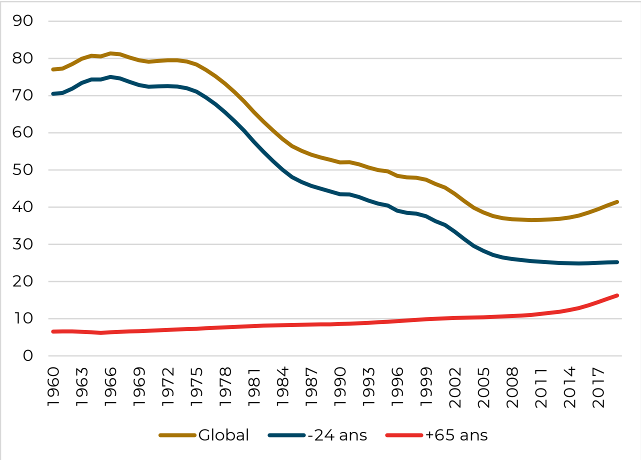
Labor force participation rate (%)



Source : Banque mondiale, XO Investments SA

Although higher than in Western countries, this participation rate is down 8% over 30 years. The dependency rate, the percentage of the population not working, whether they are too young or retired, has been increasing for over 10 years. It has reached 41% of the population, but with a change in structure since the proportion of elderly dependents will soon exceed the proportion of young dependents.

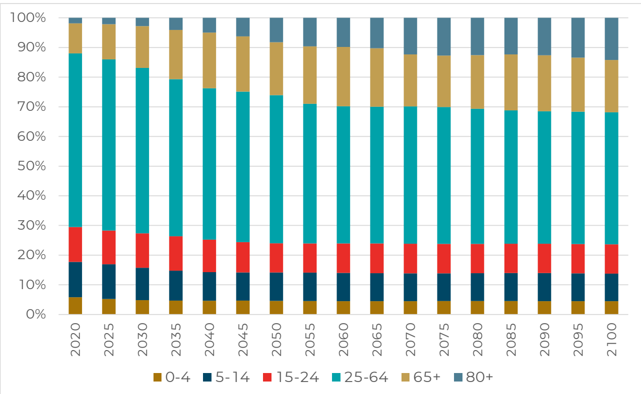
Dependency rate (%)



Source : Banque mondiale, XO Investments SA

Projections of the changing age structure are clear: China's population will not only decline in the coming decades, it will also age. With the proportion of people over 65 years of age at 12% in 2020, i.e. double that of 2000, this figure could reach 24% in 2040 and 30% in 2060.

Projection of the age structure



Source : ONU, XO Investments SA

Today's young adults from the one-child generation, although educated, enjoy higher wages and better living conditions than their elders. It seems very likely that they will have to support their parents and grandparents in the long run.

Challenges the size of the country

China, after having been the world's factory, has been repositioning its economy towards domestic demand for the past 20 years. It is not surprising to see technology companies like Tencent or Alibaba emerging in a country that is still young. But the country's problematic demographics could in turn affect the Chinese economy. China could find itself in as uncomfortable a situation as its neighbors Japan or South Korea.

A declining population is a major challenge for the giant, and a potential drag on growth. The cost of housing, education, the one-child policy and the rise in living standards are all reasons for the falling birth rate.

China must quickly find solutions to this problem. The country could facilitate access to foreign labour, but the Covid crisis and mistrust of the West are not currently in favour of this change in government policy. The limit on the number of children per woman could be lifted completely by removing the two-child threshold. The government may finally have to legislate on the retirement age, currently set at 55 for women and 60 for men. In March 2021, parliament adopted a proposal to gradually raise the retirement age by five years.

If nothing is done to stem the decline in the population and its aging, the Chinese domestic market will shrink and consequently affect the country's economic competitiveness. China is facing a challenge that can make it wobble like a colossus with feet of clay.