MONTHLY COMMENT

July 2021

MARKET REVIEW

Is China implementing a Rooseveltesque policy ?

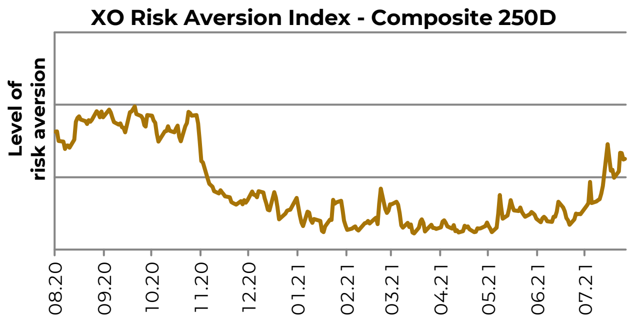
After a relatively calm first half of the year, financial markets are seeing risk levels rise across all indicators. Fears of inflation and interest rates remain at the heart of the issues, but it is China that is attracting attention at the beginning of the summer. In order to limit the weight of the largest companies (Tencent for example), the government is gradually putting in place more restrictive regulations with the aim of limiting their size. This is reminiscent of what was done by the American government with Roosevelt's anti-trust laws at the beginning of the 20th century. This is not without consequences for Asian equities, which are down more than 5%, pushing the indices back into negative territory for the year.

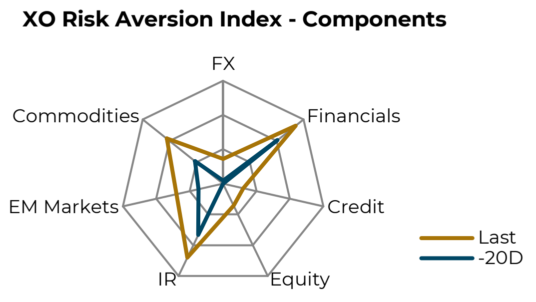
In this context of renewed risk, it is not surprising to see the CHF appreciate against the main currencies. The EUR and USD lost more than 2% over the month.

Interest rates are easing, allowing the bond and property indices to have a good month. However, bonds are still in negative territory since the beginning of the year. Finally, gold rose in a month that benefited safe havens.

Our risk indicators are rising on all indicators.

	Value	July	2021
Equity markets			
Switzerland (SMI)	12 117	1,46%	13,20%
United States (S&P500)	4 395	2,27%	17,02%
Europe (Euro Stoxx 50)	8 995	0,72%	16,89%
Japan (Nikkei)	27 284	-5,24%	-0,59%
China (Shanghai SE)	3 397	-5,40%	-2,18%
Brasil (Bovespa)	121 801	-3,94%	2,34%
Currencies			
USD/CHF	0,906	-2,12%	2,34%
EUR/CHF	1,074	-2,03%	-0,60%
GBP/CHF	1,259	-1,65%	4,09%
EUR/USD	1,187	0,18%	-2,90%
Other asset classes			
Swiss Real Estate		0,94%	7,73%
Swiss Bonds		1,10%	-0,16%
Foreign Bonds		1,14%	-0,96%
Commodities		1,57%	33,47%
Oil	73,95	0,65%	52,41%
Gold	1 814,19	2,36%	-4,23%
Rates / Indicators			**Δ**
10 years Swiss rate		-0,37%	0,18%
10 years US rate		1,22%	0,31%
US Unemployment		5,90%	-0,80%
US GDP		12,20%	14,50%
US CPI		4,50%	2,90%





IS REAL ESTATE THE NEW PHILOSOPHER'S STONE ?

The covid crisis has completely disrupted real estate demand. Extremely strong in the last year, it is reflected on the listed markets by an all-time high in the premium of funds.

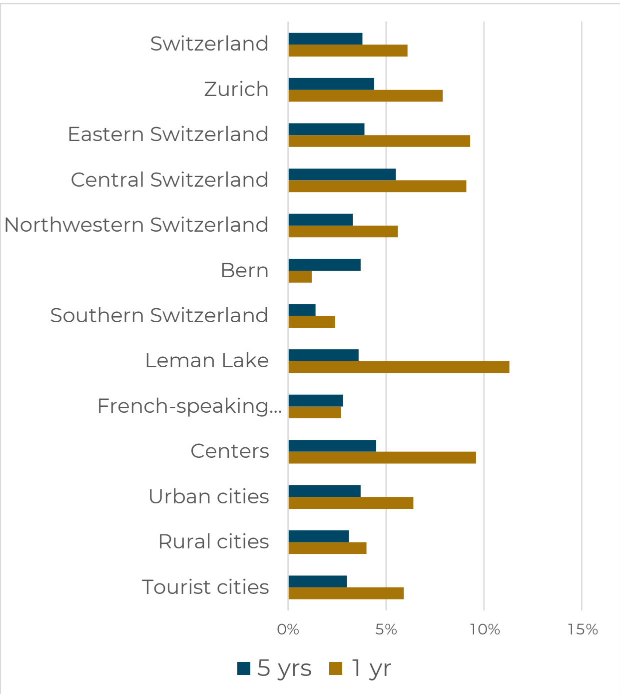
Accelerating demand

The Covid crisis has largely changed people's property objectives. Houses with a garden or second homes are now the priority for some households. And this inevitably translates into higher prices in a game of supply and demand.

This is what the latest study by Raiffeisen Bank reveals. Real estate prices in Switzerland are continuing to rise, but at a faster pace. On average, prices for single-family houses have risen by 6.1% over the past year, while the five-year growth rate was 3.8%.

This phenomenon is more pronounced for single-family houses in the Lake Geneva region (+11.3% over one year) and in urban centres (+9.6%). Only the Bernese region saw growth slow down over the last year.

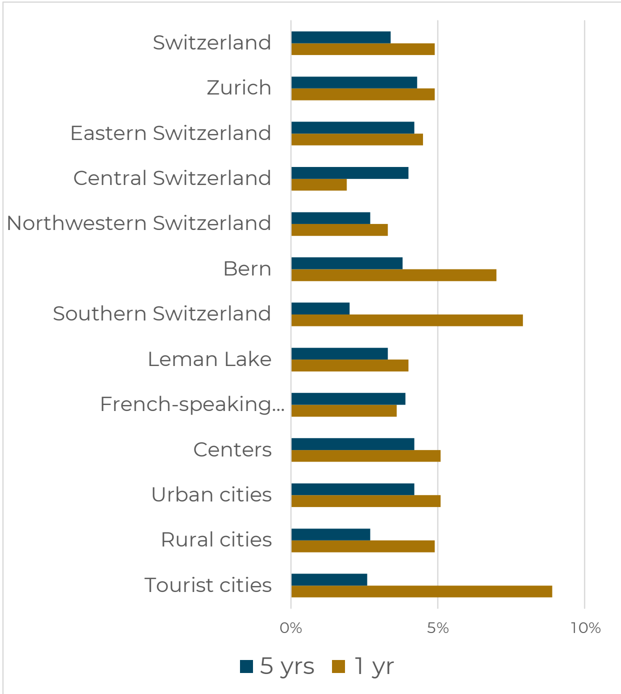
Price development of single-family houses



Source : Raiffeisen, XO Investments SA

For owner-occupied properties, the strongest growth is attributable to the tourist communities (+8.9%) and to southern Switzerland (+7.9%), a sign that secondary residences are in high demand. Central Switzerland is the only area where growth has slowed down in the last period. On average for the country as a whole, annual growth was 4.9%, compared with 3.4% over five years.

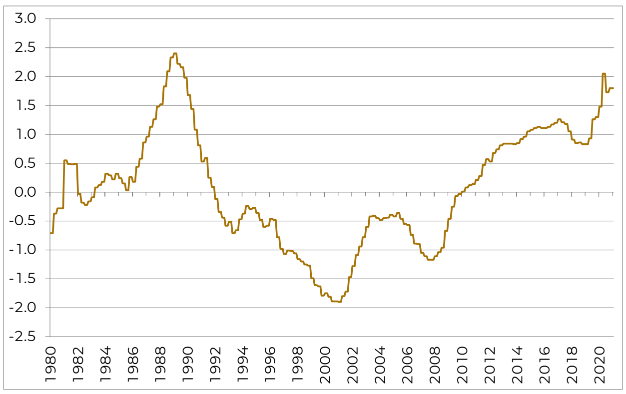
Evolution of EPP prices



Source : Raiffeisen, XO Investments SA

This significant rise in prices does not yet put the property bubble indices in the red, but it does point to high property valuations, as prices have risen more than the average wage over the last 20 years.

UBS Swiss Real Estate Bubble Index



Source : UBS, XO Investments SA

The listed property market is growing

Property prices also continue to rise for listed property indices. The Covid crisis had led to fears of a slowdown in demand, which manifested itself in a drop of almost 15% in the indices in March 2020.

Swiss real estate fund index (SWIIT)

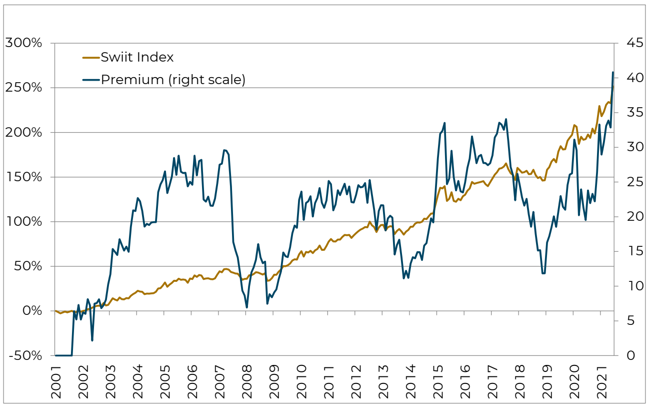
Source : UBS, XO Investments SA

The fall has now been fully recovered, but the corollary of this dynamic is the significant increase in the premium.

The premium on real estate funds represents the premium over the value of the underlying properties. It is a form of liquidity premium.

The premium, which had fallen to 20% in March 2020, has now risen to over 40% for the entire Swiss real estate market, a figure never before achieved.

Swiss real estate funds and agio

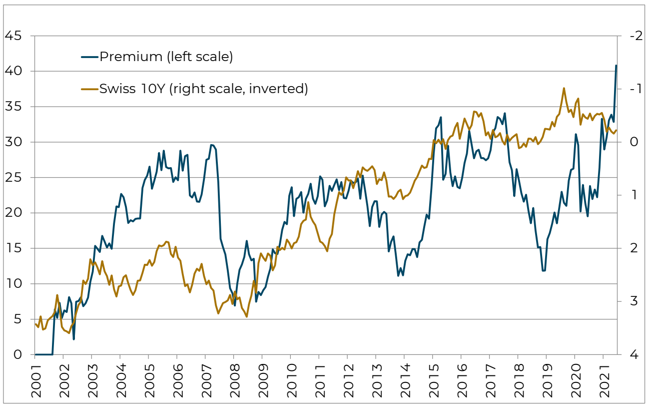


Source : Bloomberg, XO Investments SA

Across the spectrum of real estate funds, the premium varies from 0% for unlisted funds to 80% for the most popular.

Historically, and mechanically, the premium is a function of interest rates. As interest rates fall, the premium increases as investors trade off a Swiss government bond against the real estate yield of the funds.

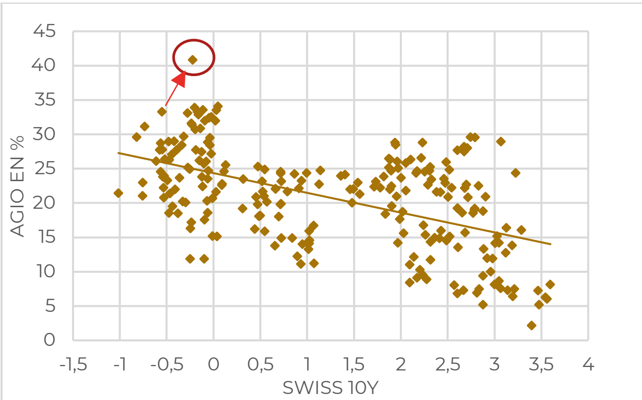
Premium and interest rates



Source : Bloomberg XO Investments SA

However, the current movement in interest rates, i.e., an increase since the beginning of the year, is not reflected in a fall in the premium. The current value of the premium (in the red circle in the following graph) is moving away from the long-term equilibrium relationship.

Premium and interest rates



Source : Bloomberg, XO Investments SA

To return to the long-term equilibrium situation, there are two ways: either the premium will fall, or interest rates will fall. This is what has always happened in previous years. Last possibility: the Covid crisis may have completely changed the way investors perceive bonds (and therefore rates) and real estate, and a new reality may be taking hold... But in this case, the stone would become a philosopher's stone...

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