MARKET OPPORTUNITIES

June 2021

- Abundance of Money?

- Do we have inflation?

In the US money under circulation spiked last year and continues this year, driven by the large number of stimulus checks. During last year the M1 money supply in the US, which measures total amount of money in circulation in the US, spiked from below 5,000 bn pre Covid to 18,697 bn at the end of Q1 this year, meanwhile the velocity of M1 money supply plummeted from around 5.5 pre Covid to 1.1985 at the end of Q1. The massive stimulus and money printing in the US which should be driving the recovery has in fact not done so and in absolute numbers the velocity is still nearly 20% lower than pre Covid. In addition it remains unclear how all the stimulus will be funded and how money supply will be managed following the assumed recovery. Meanwhile in Europe the Euro Area M1 money supply saw a small uptick in Q1 2020 and has otherwise largely continued the trajectory from the past 5 years.

Recently there have been numerous debates over inflation, with stimulus checks being provided to such a large number of people, the base case assumption is that there will be a temporary uptick. If everyone gets USD 3 and want a cup of coffee it is reasonable to expect that there will be an increase in the price of coffee. The focus of discussion is if this is transitory or not. For Equity markets we can see that since the start of 2020 MSCI World Local Currency P/E has moved from 20.67 to 29.76, for the estimates the expansion is more moderate from around 17 to 20.5. These figures are also paired with offsets in the economy like significantly higher shipping costs. There is some inflation and perhaps a cup of coffee has gotten 4% more expensive, but it’s nothing compared to the asset price inflation.

The US unemployment rate spiked to 13% during last June and is now down to around 6% at the end of Q1, which is only a few points higher than pre Covid lows of 3.6%. During the same time however, Labor force participation rate dropped, from 63.3% pre Covid to the current 61.7%. There are multiple reasons for this, but it’s driving a labor shortage in the US, not due to a lack of individuals in a position to work, but rather a lack of incentive or a fear of contracting Covid. The long term implications remain to be seen. Despite this the labor market in the US have been quicker to recover than in Europe.

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Markets – May 2021

Equity indices	May 2021	2021
MSCI ADWI	1.37%	10.09%
MSCI World	1.03%	11.57%
S&P 500	0.55%	11.93%
Euro Stoxx 50	1.63%	13.70%
DAX	1.88%	12.41%
FTSE 100	0.76%	8.70%
Nikkei 225	0.16%	5.16%
OMX 30	1.12%	19.58%
OMXC 25	1.51%	6.94%

Bond indices	May 2021	2021
Global Treasuries	0.95%	-3.42%
Global High Yield	0.94%	1.88%

Currencies	Price	May 2021
EUR/USD	1.2227	1.72%
EUR/SEK	10.1453	-0.27%
USD/SEK	8.2977	-1.97%
USD/DKK	6.0825	-1.69%

Interests	May 2021
US T-bill 3M	0.009
Euribor 3M	-0.544
Libor Fix 3M	0.081
Stibor Fix 3M	-0.027
Cibor Fix 3M	-0.207

Other	May 2021	2021
Gold	7.79%	0.45%
Brent Crude Oil	3.08%	33.82%
HFRX Index	0.38%	3.34%

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• Market outlook

Equities

Following the reduction in equities last month we made the decision during May to further reduce risk by adding a structure which hedges away some volatility risk and should stabilize the portfolio during sharp downturns.

We expect some summer volatility and are ready to deploy cash should we see an attractive entry point following a correction.

Fixed income

We remain cautious on the fixed income markets and view the overall risk/reward of the asset class as rather unattractive. Should we see a steepening of the yield curve we have our shopping list ready to deploy cash tactically to stable long duration positions.

Alternatives

With stretched valuations and low yields we continue to review potential positions in the alternatives space, though we are still very avoidant of hedge funds we are increasingly interested in uncorrelated returns from real assets.

Foreign Exchange

We still think that the US will be the first to reduce QE and raise rates, with EU lagging behind. The near term inflation concerns so far seems to not have shaken the federal reserve we do believe that any prolonged inflation is likely to force the feds hand.

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Holding of the Month
UBS China A Opportunity Fund

The fund invests in China A share companies, focused on business in China and the Chinese consumer. The largest sectors include consumer goods and financial. The fund provides us with exposure to the domestic Chinese market and consumers in the second largest economy in the world.

For May the fund returned +6.00%.

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