N° 168

3rd quarter 2021

Due to health risks, this edition of 'Perspectives' will not be available in paper format.

Perspectives

Financial markets analysis

- The improvement in the global economic situation is accelerating as services activities gradually recover.
- The key question of whether the current inflationary pressures are transitory or permanent is difficult to answer.
- For the first time since the start of the pandemic, the US Federal Reserve has indicated that it has started talking about moderating its ultra-accommodative monetary policy.

- The issue of inflation is of paramount importance for the financial markets.
- Equity markets seem to be well ahead of economic reality.
- Gold companies continue to display very strong fundamentals.

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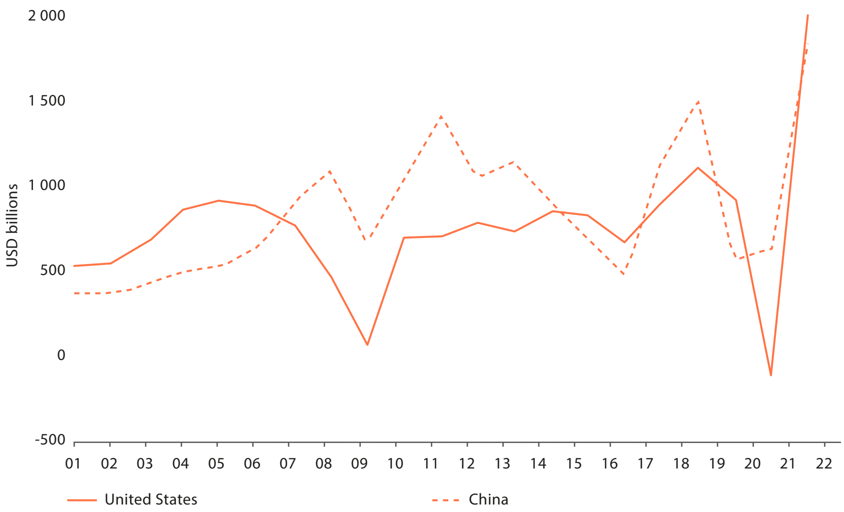
Macroeconomic environment

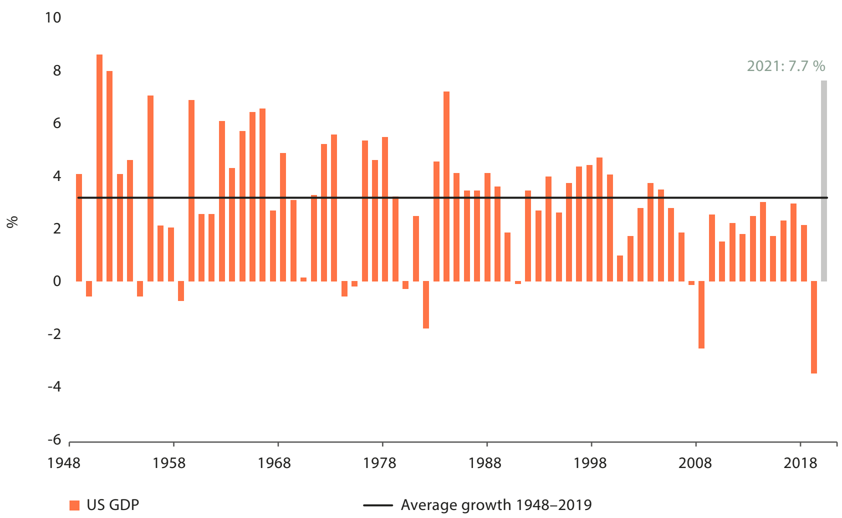
CHANGE IN NOMINAL GDP



Source: Cornerstone Macro

At the start of the third quarter, the outlook for global economic growth continues to be very positive. Massive monetary and fiscal support measures have triggered a boom in the industrial sector, with most manufacturing activity indices at their highest levels in months. In the coming weeks, the strength of the manufacturing sector will be accompanied by an accelerating recovery in services activities due to the success of the Covid-19 vaccination rollout, which is more advanced than expected on both sides of the Atlantic. Predictably, the US and China are the two growth engines of the global economy at present. However, it is not the Chinese challenger that is expected to post the strongest GDP growth in absolute terms this year, but its rival the US, which, thanks to an unprecedented increase in government spending, has regained the role of the largest contributor to global GDP growth. Heading into the fourth quarter, the main economic uncertainty is the risk of a new wave of Covid-19 infections if the vaccines do not prove sufficiently effective against the new coronavirus variants.

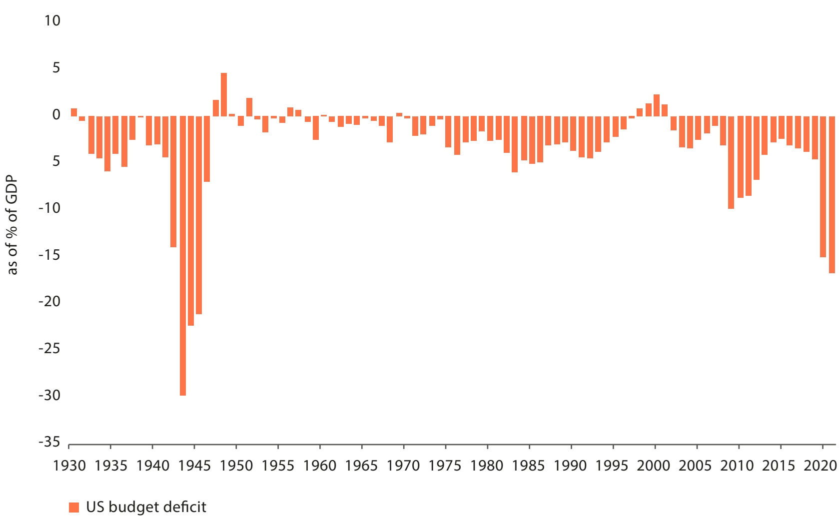
US ANNUAL GDP GROWTH IN REAL TERMS



Source: Oxford Economics/Haver Analytics

Over full-year 2021, the US economy is expected to grow at its fastest pace since the early 1950s. After a decline of 3.5% in 2020, real GDP growth could reach 8% in 2021. The scale of the economic rebound is the result of a simultaneous boom in household consumption, business investment and the property market. As by far the largest component of US GDP with a weighting close to 70%, the strength of domestic consumption is having the strongest impact. The substantial increase in household disposable income, due to extremely generous government support, triggered an acceleration in demand that initially affected areas benefiting from the health crisis and social-distancing measures, such as health, technology, trade in basic goods, cars and all activities related to the development of real estate. Since the gradual opening up of economies, sectors heavily affected by the pandemic such as catering, leisure and travel are also beginning to recover.

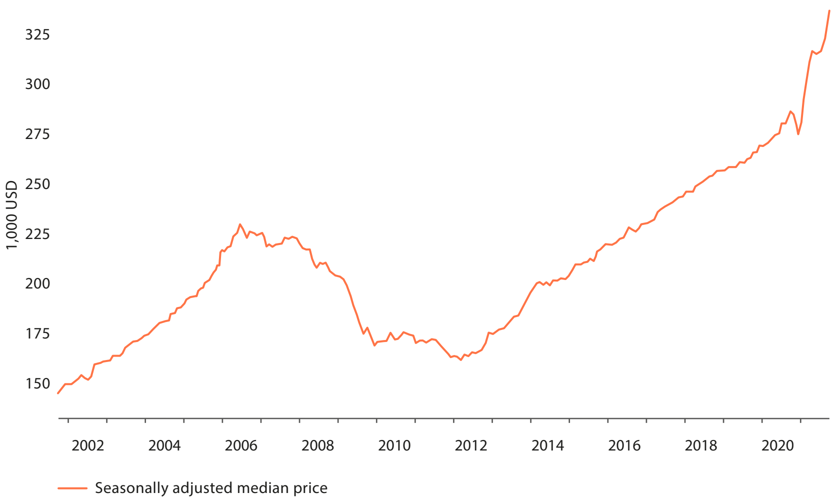
US ANNUAL BUDGET DEFICIT



Source: US Treasury, Bloomberg

On the negative side, this whole economic boom is ultimately due to an unprecedented deterioration in US public finances. In the current fiscal year, which runs to September 2021, the US government's budget deficit stands at around 15% for the second time in a row, a level unprecedented in peacetime and only surpassed during the Second World War. The complete abandonment of any budgetary rigour is the logical consequence of the application of modern monetary theory which allows for central banks to finance public deficits by printing money. Once they have embarked on debt monetisation, policymakers will find it difficult to justify spending cuts that would trigger an immediate slowdown. It would therefore be unrealistic to expect any normalisation of fiscal policy. On the contrary, a scenario in which the US Treasury obtains the privilege of a direct line of credit from the Federal Reserve granting it perpetual loans at zero interest is a measure that can no longer be completely ruled out in the longer term.

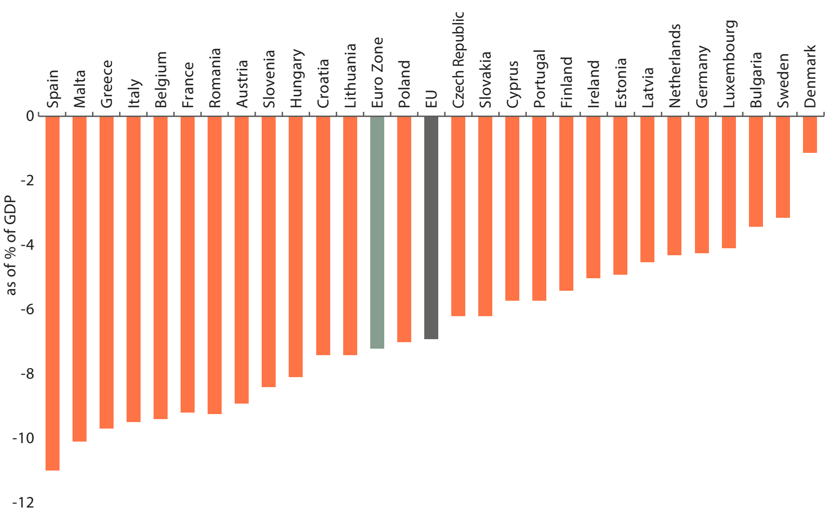
EXISTING HOME PRICES IN THE US



Source: Evercore IS

While the scenario of high growth to the end of the year seems highly probable, the economic outlook beyond 2021 is much less certain. Currently, most economists expect relatively robust growth of at least 4% to continue next year. They think that the reduction in growth resulting from tapering emergency support will be largely offset by job creation, normalisation of the savings rate and wage acceleration. The agreement between Democrats and Republicans on a multi-year investment plan to modernise public infrastructure also appears to be nearly finalised. On the other hand, it is not easy to anticipate the reaction of consumers to a possible reduction in government stimulus plans. Demand for new bank loans so far remains weak despite the ultra-accommodative monetary policy. Consumption of durable goods, which rose sharply during the pandemic, should naturally weaken next year. Also, activity in the housing market could slow down, with recent surveys indicating that households consider this is no longer the ideal time to buy a new home given the sharp rise in prices since the start of the pandemic.

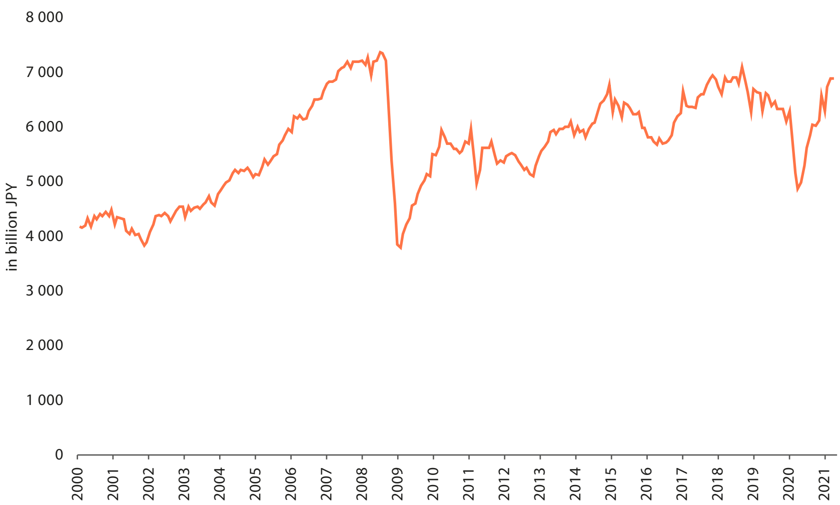
BUDGET DEFICIT OF EU MEMBER STATES IN 2020



Source: Eurostat

In Europe, the economic recovery is much more moderate than in the US. Following the contraction of real GDP in the European Union by 6.5% in 2020, the Commission in Brussels expects activity to grow by slightly more than 4% this year. The difference in growth between the US and European economies is mainly due to the level of public spending. The aggregate budget deficit of the 27 EU member states was 6.9% in 2020, less than half the US deficit. Germany even recorded a deficit of only 4.2%, which puts the less dynamic nature of the economic recovery into perspective. That said, there is no denying that the European economy derives considerable benefit from the US fiscal stimulus measures, given its degree of openness towards foreign countries. For example, German, French, Italian and Spanish exports accounted for 47%, 32%, 32% and 35% of their respective GDP in 2019. In view of the good progress in the vaccination campaigns, the significant disparity between the manufacturing sector, which has been flourishing for months, and services activities, which are hampered by social-distancing measures, is finally starting to narrow.

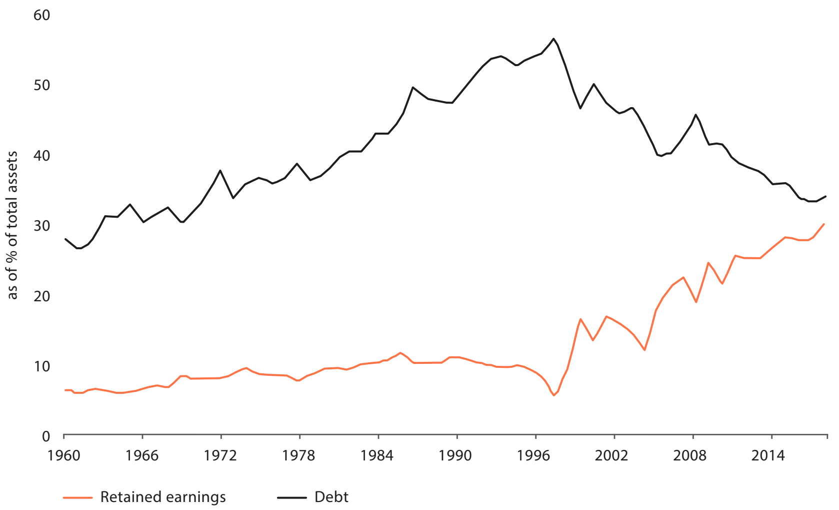
EXPORTS IN JAPAN



Source: Ministry of Finance in Japan, Bloomberg

Japan is among the main beneficiaries of the particularly robust global manufacturing demand. After collapsing in 2020 at the outbreak of the pandemic, exports have recovered sharply and are now above pre-pandemic levels. Strong foreign demand appears to be having a positive impact on corporate investment, which is also beginning to recover. Although most pandemic-related restrictions have been lifted, domestic consumption has only recovered modestly due to slow growth in jobs and wages. Despite an additional budget of 3.5% of GDP adopted by the government at the end of 2020 to strengthen the medical system and speed up the vaccination programme, the vaccination rollout is proving much slower than in the US and Europe. Over full-year 2021, GDP growth is expected to be around 2.5% after a 4.7% decline in 2020.

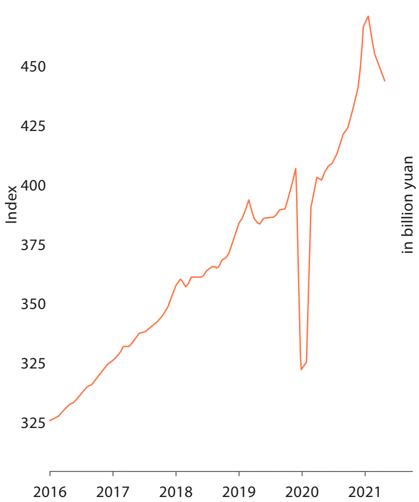
FINANCIAL SITUATION OF JAPANESE SMALL FIRMS



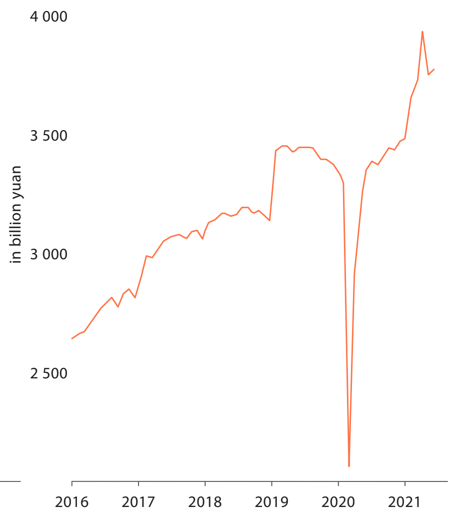
Source: Oxford Economics, Ministry of Finance in Japan

Notwithstanding the structurally weak growth of the Japanese economy, most companies have significantly improved their financial structure in recent years. Having long operated in an uncertain economic environment, they have gradually improved the quality of their balance sheets by strengthening their equity and reducing leverage. Although it may seem paradoxical at first sight, the structurally deflationary environment of the last 30 years seems to have led Japanese companies to be among the most robust today.

INDUSTRIAL PRODUCTION IN CHINA



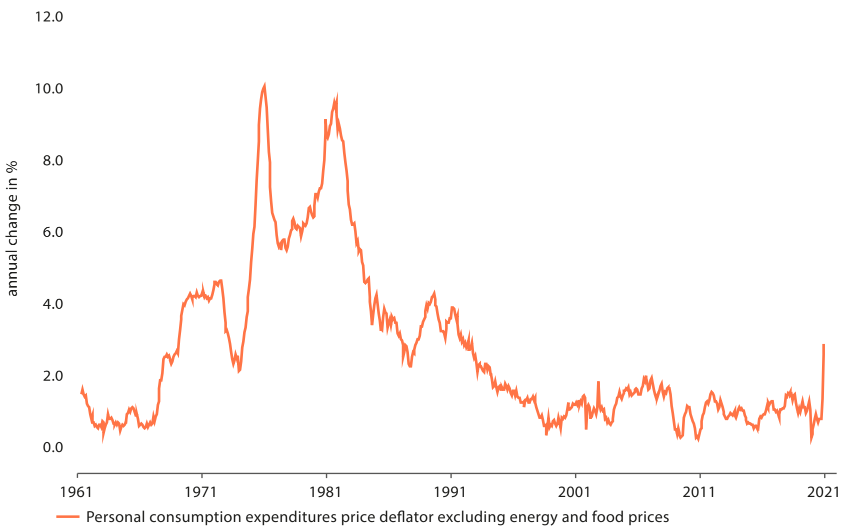
RETAIL SALES IN CHINA



Source: Evercore ISI

Industrial production and consumer spending in China slowed slightly in the second quarter compared to the very high levels of the first three months of the year. Even if the moderation in growth continues in the second half of the year, this should be viewed in relative terms as GDP growth estimates for full-year 2021 remain around 8%. Unlike Western countries, China has avoided excessive recourse to highly expansionary monetary and fiscal policies to avoid jeopardising the country's financial stability. Affected by a debt overhang problem in the local government sector after years of massive public infrastructure investment, the Chinese government is fully aware that it must continue rebalancing the economy away from state investment towards private investment and domestic consumption. Instead of promoting growth at all costs, the Beijing authorities seem to be aiming for a return to the gradually slowing trajectory that the country was on before the pandemic.

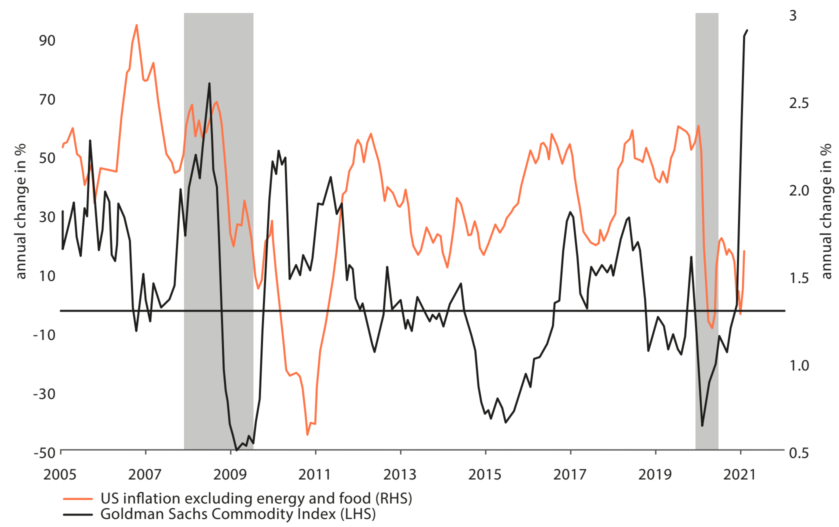
US INFLATION



Source: Bureau of Economic Analysis, Bloomberg

US price indicators have all recovered considerably since the beginning of the second quarter. The progress across the board of commodity prices, producer and consumer price indices, and the Federal Reserve's preferred inflation indicator, the PCE (personal consumption expenditures) deflator excluding energy and food means that inflationary pressures are at their highest for at least two decades. In assessing the ability of companies to pass on cost increases to the end consumer as very favourable, business surveys come to the same conclusion. Admittedly, the low level of prices a year ago following the first lockdown provides a favourable comparison basis for temporarily high inflation rates. But similar phases of weakness, following the financial crisis in 2009 or the eurozone debt crisis in 2011, were followed by much more moderate rebounds, raising questions as to whether the current rise in inflation is permanent or transitory, which will have major implications for future monetary policy.

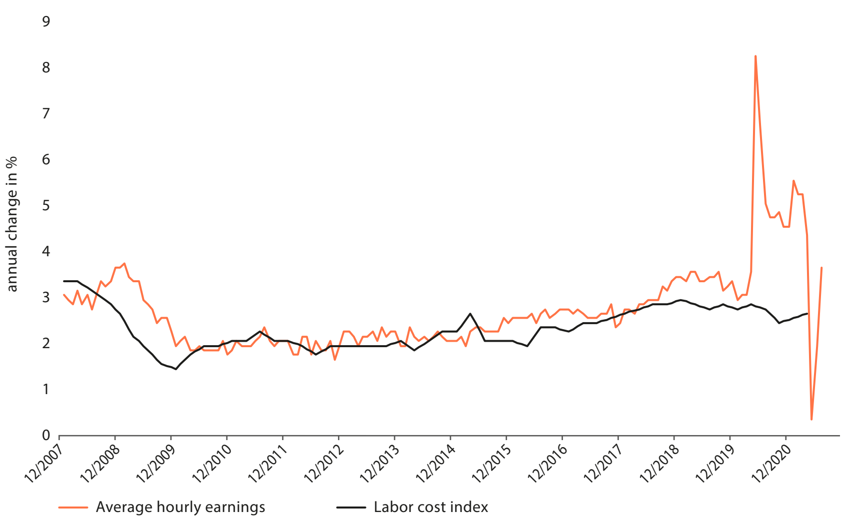
COMMODITY PRICES AND INFLATION



Source: Cornerstone Macro

Even if commodity prices move sustainably higher due to increased demand resulting from the energy transition, the impact on inflation is likely to remain contained. Over the past 15 years, the correlation between commodity prices and core inflation (excluding energy and food) has remained low overall, despite periods of heavily fluctuating oil prices. As the share of services activities in modern economies has continued to grow at the expense of manufacturing, the impact of commodity prices on headline inflation has lessened. Even during the period of high inflation in the 1970s, when the weight of the industrial sector was greater, inflationary slippage came only indirectly from the rise in oil prices by enabling the trade unions (which were much stronger at that time) to negotiate significant wage increases.

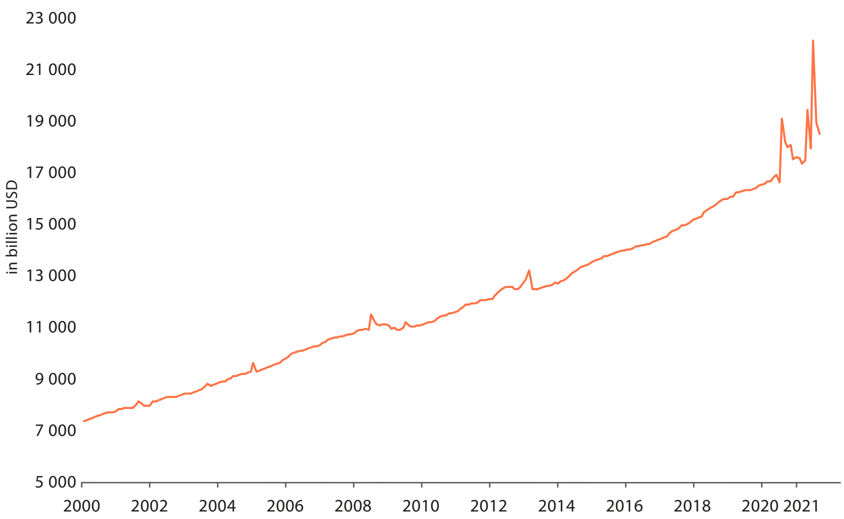
AVERAGE WAGE AND LABOUR COST IN THE US



Source: Bureau of Labor Statistics, Bloomberg

Wage increases could once again become the decisive factor in assessing whether the current inflationary pressures are transitory or permanent. However, for the time being, it is difficult to interpret the US statistics on this subject. During the pandemic, the rise of the leading indicator, average hourly earnings, was not the result of wage increases, but of the loss of mostly low-paid jobs, which led to an automatic increase in the calculation of this average. The labour cost index (including forms of remuneration other than wages such as social benefits), which is not distorted by the crisis and is published on a quarterly basis, had not yet shown any major pressure by the end of the first quarter. The rapid decline in the unemployment rate, the high number of new jobs created and the generous government transfer payments reducing the willingness of job seekers to accept low-paid jobs will encourage labour costs to accelerate in the months to come. Numerous anecdotes of labour shortages and financial incentives offered by companies to attract staff also suggest a move towards higher wages.

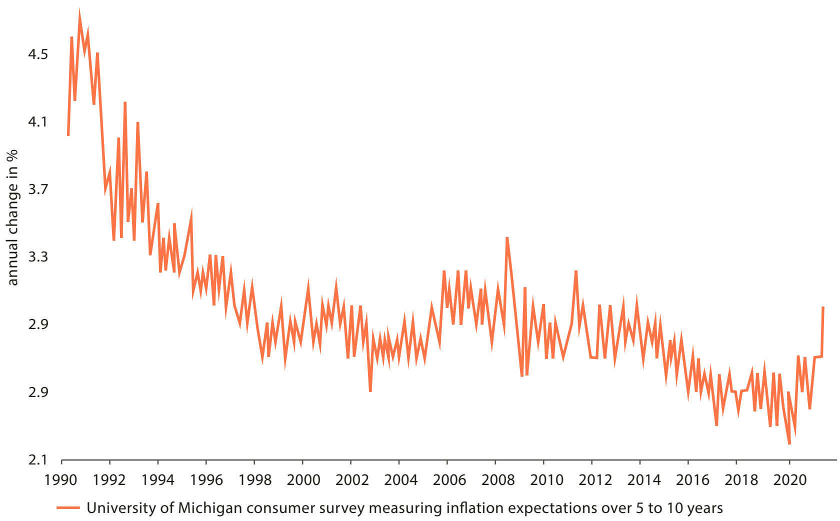
HOUSEHOLD DISPOSABLE INCOME IN THE US



Source: Bureau of Economic Analysis, Bloomberg

Another uncertainty weighing on the evolution of household purchasing power stems from whether the government cheques distributed during the pandemic will be recurring or one-off. These cheques have even boosted household disposable income to a higher level than would have been the case without the health crisis. This means that if wages do not accelerate, the government could contain inflationary pressures simply by not distributing any more cheques, thereby reducing the purchasing power of the population. In practice, it remains to be seen to what extent the Pandora's box of stimulus cheques that has been opened can be shut again by the Democratic Party, which is in power in both the executive and legislative branches, having claimed support for the middle- and working-classes as a cornerstone of their policies during the election campaign. Although the most popular representatives of the socialist wing of the Democratic Party, such as Bernie Sanders and Elizabeth Warren, are not in office in the new administration, Democratic senators and ministers will be under intense pressure to prevent a reduction in government support, even after the pandemic.

US CONSUMER INFLATION EXPECTATIONS

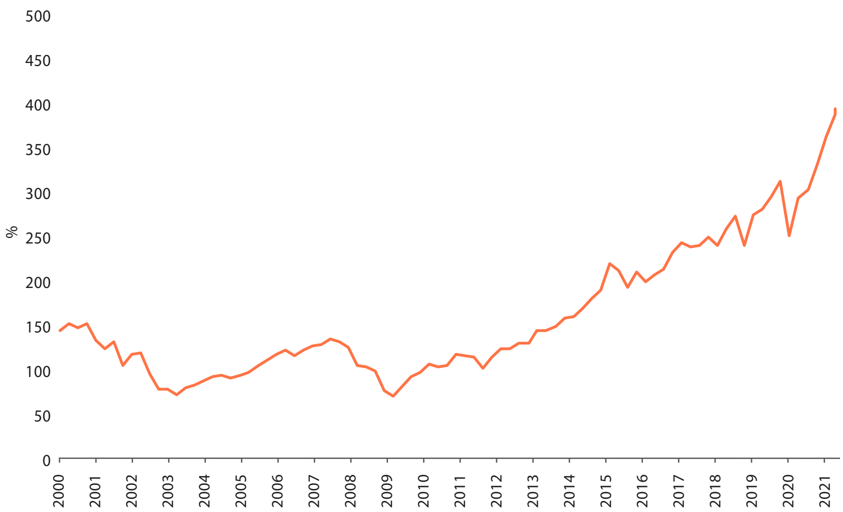


Source: Evercore ISI

The psychological factor should not be underestimated in the inflation theme, and the recent deterioration in inflation expectations observed in US consumer surveys could be the start of a self-reinforcing trend. If the belief in permanent higher inflation takes hold in people's minds, they might change their consumption habits by spending beyond their means for fear of seeing the purchasing power of their financial resources erode. This would put the Federal Reserve in a difficult position, forcing it to abandon its scenario that the current inflationary pressures are transitory. The Federal Reserve meeting in June reflects something of the impasse in which the monetary authorities find themselves. In trying to be vigilant, FOMC Chair Jerome Powell signalled, for the first time since the emergence of the pandemic, his intention to prepare for a moderation of the extreme monetary support measures. This would initially be limited to a reduction in asset purchases by the Central Bank. While any debate on the timing of future interest rate hikes seems somewhat premature, the majority of the Committee members were nevertheless in favour of two rate hikes as early as 2023 instead of 2024, thus bringing forward by one year the expectations of a first monetary tightening.
If the deterioration in inflationary statistics lasts longer than expected, the Federal Reserve will have to walk a tightrope in the hope of preventing inflation expectations from spiralling out of control without resorting to excessive monetary policy tightening that could trigger a major economic slowdown.

Financial markets

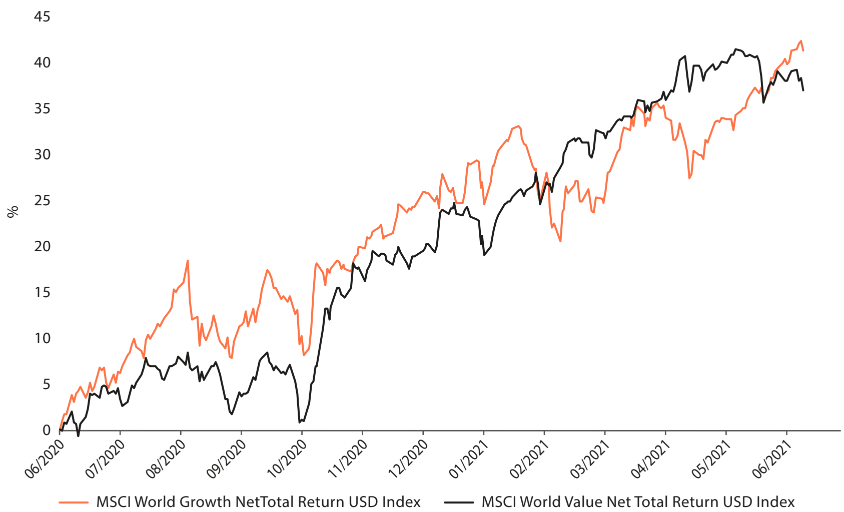
MSCI WORLD GROWTH AND VALUE INDICES (IN USD) OVER 1 YEAR



Source: Macrobond

Buoyed by the arrival of the vaccines and the impact of the easing of restrictions, the vast majority of equity markets enjoyed a very favourable first half. In local currency, the US, European and Japanese markets have risen by over 10% since the start of the year. Over one year, the rise on these markets is even more spectacular, exceeding 40% for the S&P 500 index and 45% for the Nasdaq. With just a few exceptions, the markets are now close to record highs. However, the pace of growth slowed somewhat in the second quarter. The fact that a cyclical market like the Topix even declined slightly could mean that the economic recovery is now fully discounted in share prices.

WORLD EQUITY INDEX IN EUROS SINCE 2000



Source: Macrobond

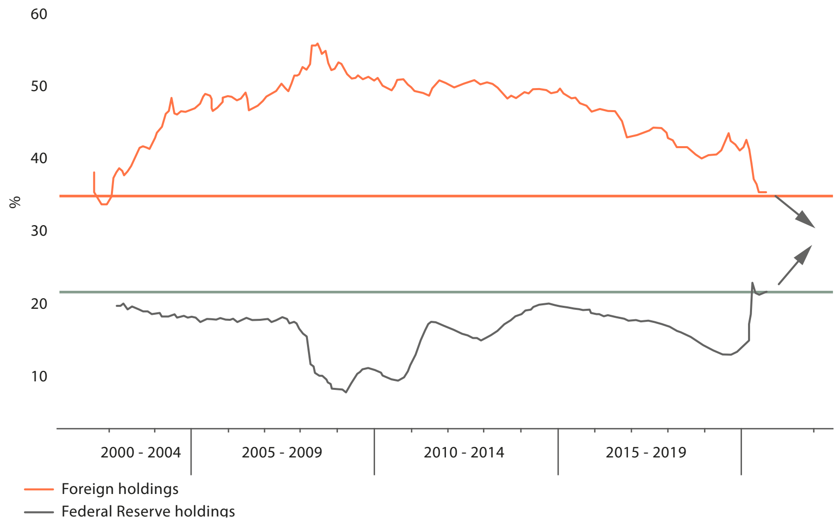
The outperformance of 'value' stocks over 'growth' stocks petered out in the second quarter. Since the second week of May, growth stocks have regained favour with investors. At the root of this turnaround seem to be the slight change in the Federal Reserve's stance in indicating that it may start tightening monetary policy a little earlier than expected, the sharp rise seen in the prices of certain cyclical stocks, and the sentiment that earnings estimates for these stocks are already very high. However, it is possible that the rotation to value stocks will resume if the market becomes convinced that inflation will remain high. Indeed, in the minds of many investors, rising inflation should help value stocks outperform. Note however, that 'value' companies often lack the competitive advantages needed to protect their profit margins in an environment of rising costs. This means they are not generally a good long-term investment.

30-YEAR TREASURY YIELD IN THE US

Source: Macrobond

The big question preoccupying investors today is whether the recent rise in inflation is temporary or not. In this respect, it is surprising to note that, since their rise from August 2020 to March 2021, bond yields have fallen sharply, despite the acceleration in growth and increase in inflation. In the US, the yield on the 30-year Treasury bond dropped back to below 2%, while the inflation rate climbed to 5% in May. This shows that the US bond market seems to share the Federal Reserve's view that the rise in inflation is only temporary. More specifically, the bond market reckons that inflation peaked in May and will decline over the second half of the year. However, it could also be that the bond market has become more sceptical about economic growth. Higher inflation may boost nominal growth, but the structural brakes on real growth remain, chief among them excessive debt.

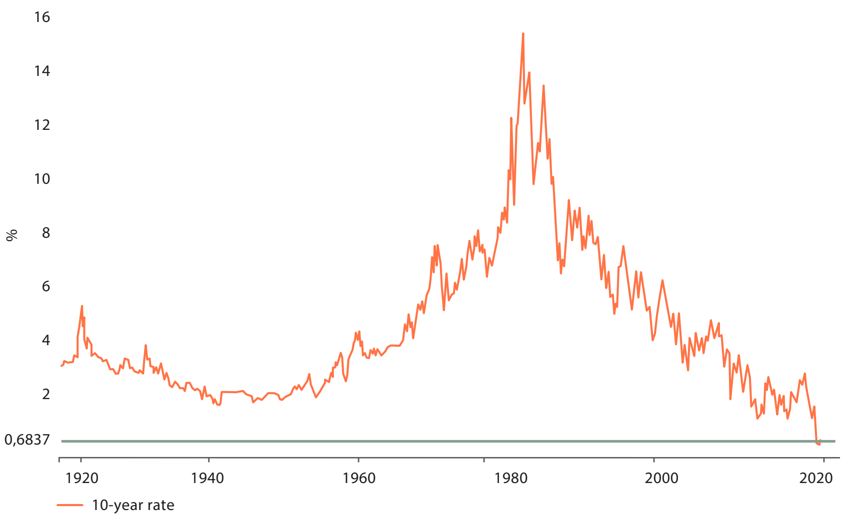
PERCENTAGE OF US GOVERNMENT DEBT HELD BY THE FEDERAL RESERVE AND FOREIGN INVESTORS



Source: Federal Reserve

Another way to interpret the nonchalance with which the bond markets have greeted rising inflation is to conclude that they are no longer functioning correctly. While short-term interest rates are set by central banks, long-term rates are normally set by the markets. When bondholders fear a return of inflation or a desire by the political authorities for a large increase in public spending, they normally sell their bonds, thereby driving up bond yields. However, with the advent of quantitative easing and massive bond purchases by the central banks, it is not clear that this self-correcting mechanism is still working. In the US, the Federal Reserve now holds almost as much in Treasuries as foreign investors.

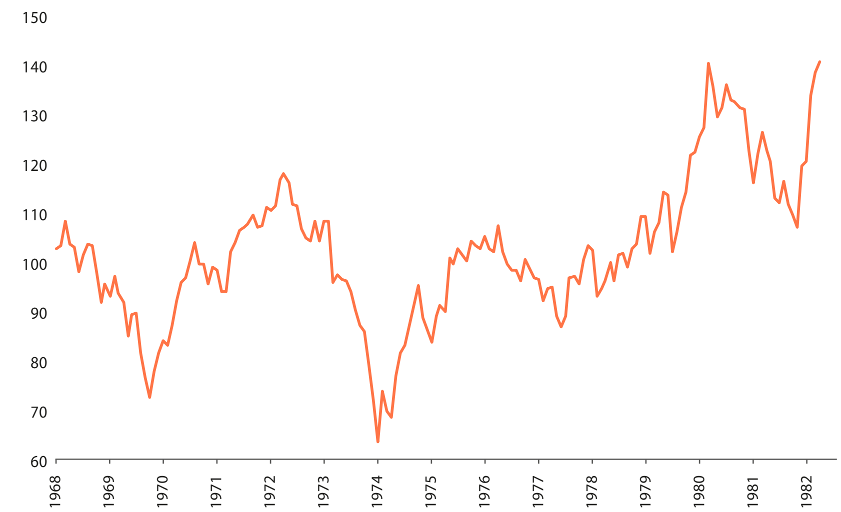
LONG-TERM INTEREST RATES IN THE US



Source: Trading Economics

A similar situation of financial repression marked the 1940s. To finance the war effort, the Federal Reserve made a commitment to the US Treasury in 1942 to buy enough bonds to keep short-term yields at 0.375% and the 10-year yield at 2.5%. This commitment remained in place until 1951 despite inflation averaging nearly 6% over the period and even approaching 20% in the immediate post-war years. Real interest rates were therefore distinctly negative and the debt-to-GDP ratio was able to fall to more acceptable levels. At the time, however, the dollar was convertible into gold, which helped maintain confidence in the US currency. Today, if the Federal Reserve wanted to set long-term interest rates at an artificially low level, it would have to buy so much debt that its balance sheet would explode. This would definitely confirm the US monetary authorities' desire to solve the excessive debt problem through inflation, by manipulating nominal and real interest rates, and would risk destroying confidence in the dollar and damaging its status as the global reserve currency.

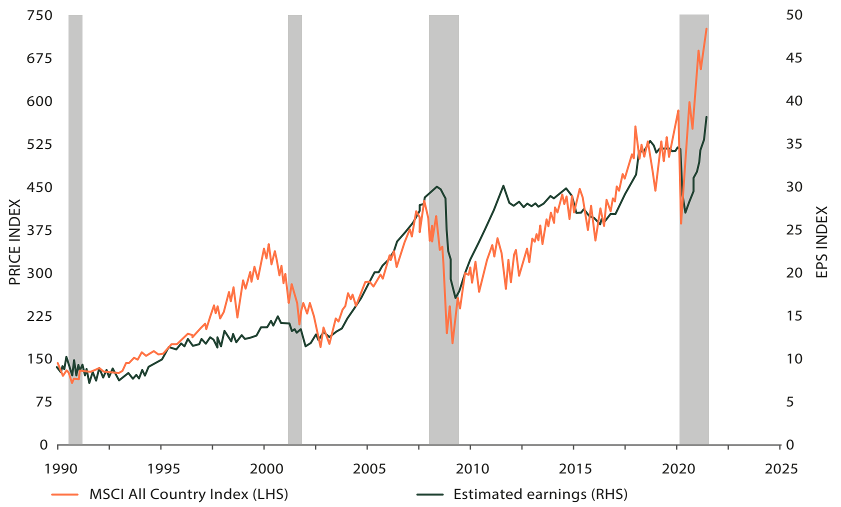
S&P 500 BETWEEN 1968 AND 1982



Source: Macrobond

The issue of inflation is obviously of paramount importance for equity markets. In normal times, rising inflation has not generally been favourable to them for the simple reason that, during inflationary periods, the central banks tend to tighten their monetary policy (leading to higher short-term interest rates) and investors demand higher yields to lend their money (leading to higher long-term interest rates). The resulting rise in interest rates weighs on equity valuation multiples. In the current environment, there is no certainty that a permanent rise in inflation will lead to a rise in interest rates. The central banks have already indicated that they will wait before substantially tightening their monetary policy. While it is true that they only have direct control over short-term interest rates, they could also try to limit any rise in long rates. The fact is that in a context of widespread over-leveraging and very high public debts, any increase in the cost of debt servicing would soon have a detrimental effect on economic activity and public finances. Before analysing the consequences of permanently higher inflation on the financial markets, we should therefore distinguish between two scenarios: one in which inflation is accompanied by significant monetary tightening and a rise in real interest rates, and one in which this is not the case and real interest rates fall even further. The first scenario is clearly negative (at least in the short term) for financial markets. In the second scenario, real assets (such as equities and gold) would thrive.

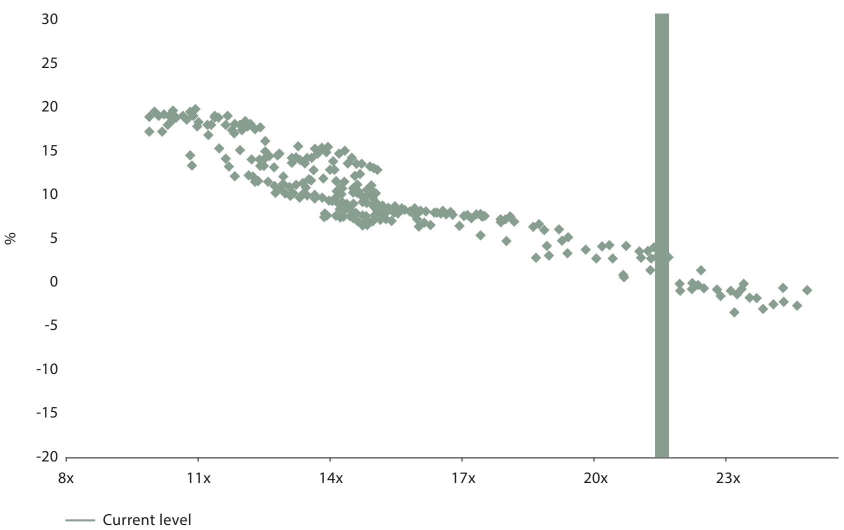
GLOBAL EQUITY INDEX AND FORECAST EARNINGS PER SHARE



Source: IBES/DataStream, MSCI, NBER

Company earnings estimates for 2021 and 2022 have been significantly revised upwards in recent months, particularly in the US. Despite these upward revisions, estimated earnings per share for the S&P 500 for the fourth quarter of this year remain lower than initially expected before the pandemic began. Meanwhile, the S&P 500 is some 30% above its pre-pandemic level. The equity markets seem to be well ahead of economic reality. At the same time, the environment in recent months has been particularly favourable to them: an economic acceleration without a tightening of monetary policies. The two most important factors that drive equity markets– company earnings and interest rates – have thus remained favourable. US labour market figures for June have further reinforced this ideal scenario by not providing the Federal Reserve with grounds to bring forward a possible monetary tightening but by not undermining the scenario of robust growth either.

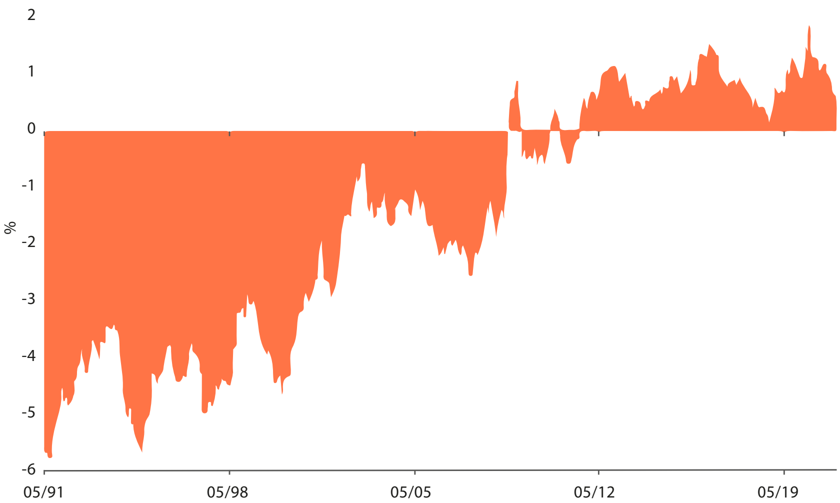
RELATIONSHIP BETWEEN VALUATION LEVEL AND SUBSEQUENT RETURN OVER 10 YEARS



Source: IBES, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management

Many markets are trading at historically high levels, with the US leading the way. High valuation multiples continue to be justified in view of very low interest rates, but it is also true that with near-zero interest rates, any multiples could be justified. The fact that the markets rapidly lost nearly 5% in just three days after the Federal Reserve announced that it might start monetary tightening a little earlier (in 2023, rather than 2024) is certainly a sign of investor nervousness. That said, the high multiples are a potential risk to be aware of but are not, on their own, a reason to think that the markets are on the verge of a major correction. Historically, there is no link between the level of multiples and the return on equities over the short term (12 to 18 months). Furthermore, a situation in which equity markets are overvalued can be resolved over time (with prices stagnating over a long period while earnings increase) rather than through a fall in share prices. Hence, the only conclusion that can be drawn from the current high multiples is that the indices' long-term returns will be disappointing.

GAP BETWEEN THE DIVIDEND YIELD ON EQUITIES (MSCI WORLD) AND THE YIELD ON GLOBAL BONDS



Source: Datastream, J.P.Morgan Asset Management

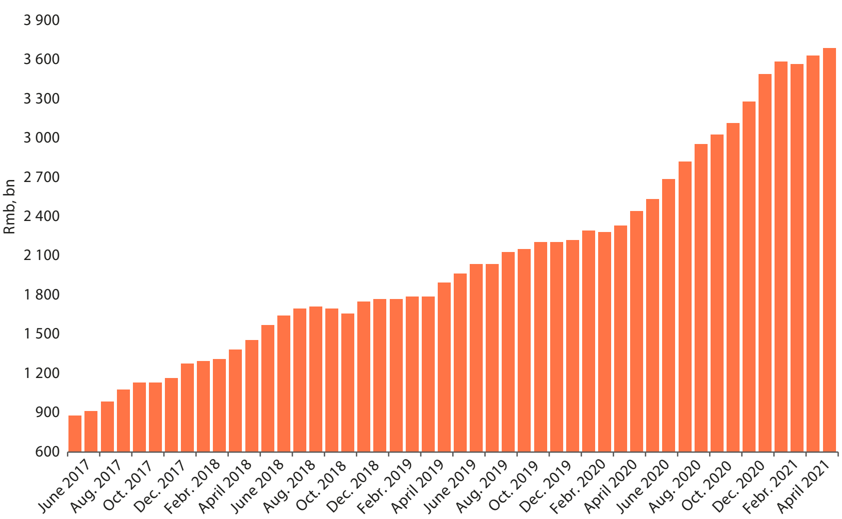
In an environment of historically low interest rates, companies paying attractive dividends should continue to attract investors looking for recurring income. The gap between equity and bond yields has widened significantly in recent years as bond yields have fallen. Strategies based on seeking out the highest possible dividend yield often focus on very economically-sensitive sectors such as energy, financials, consumer cyclicals and materials. But rather than looking for companies offering the highest dividend yields, investors would do better to focus on a more defensive strategy based on sustainability and growth potential of the dividend. This approach will favour sectors such as consumer staples and healthcare that are less sensitive to developments in economic activity. This more defensive strategy risks underperforming in phases of economic acceleration, but offers better protection in the event of a deterioration in the economic environment. It also offers some protection against inflation, as companies in these sectors generally have real competitive advantages that allow them to pass on higher costs to their customers.

MSCI FAR EAST EX JAPAN INDEX IN EUROS

Source: Macrobond

After rising sharply in the first two months of the year, Asian markets excluding Japan have since dropped back, such that their performance in 2021 is now below that of the global index. The relatively poor performance of these markets is partly explained by the fact that a larger proportion of the indices in this region is composed of value companies which (temporarily?) stopped outperforming after the first quarter. However, the main reason, seems to be that the global economic recovery is now being driven by industrialised countries. The Asian countries have introduced much smaller stimulus measures and, in the case of China, have opted for some form of tightening. As a result, upward revisions to earnings estimates have been much more pronounced in industrialised countries, particularly in the US. Earnings estimates are even being downwardly revised in China, which explains the relatively poor performance of this market. Although this monetary and fiscal orthodoxy is not helping the region's equity markets in the current environment, it should make them more resilient in the event of a market correction.

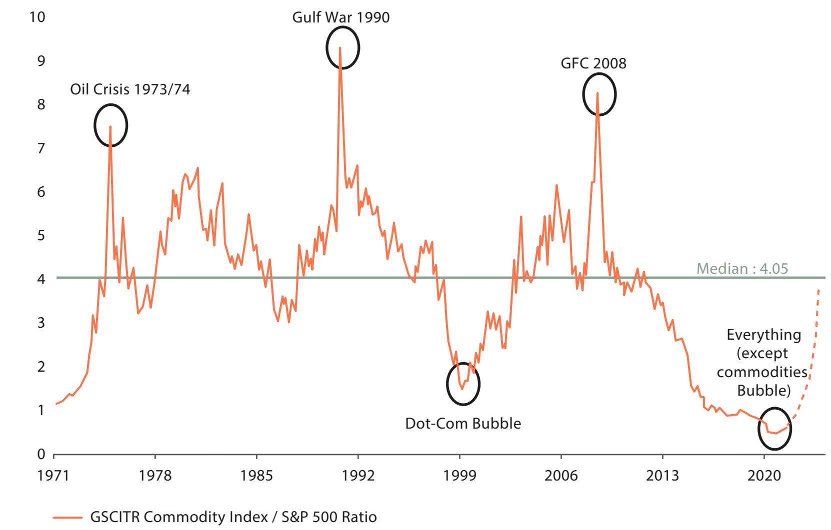
CHINESE DEBT HELD BY FOREIGN INVESTORS



Source: China Bond Connect, CEIC Data

The Federal Reserve's slight shift in tone towards monetary tightening – which might begin sooner than expected – has helped the dollar appreciate. The factors weighing on the dollar also apply to most of its competitors, not least the euro. So if investors are really looking for alternatives to the dollar, they should turn their attention to Asia, particularly China. The monetary policy of the Bank of China seems to be much more in line with the interests of savers than that pursued by the central banks of the G7 countries. Fiscal and monetary orthodoxy is important and the Chinese authorities are in tightening mode, which is reflected in a decline in the growth of the money supply and credit. This explains the significant capital flows into the Chinese bond market, despite the tensions between China and the US.

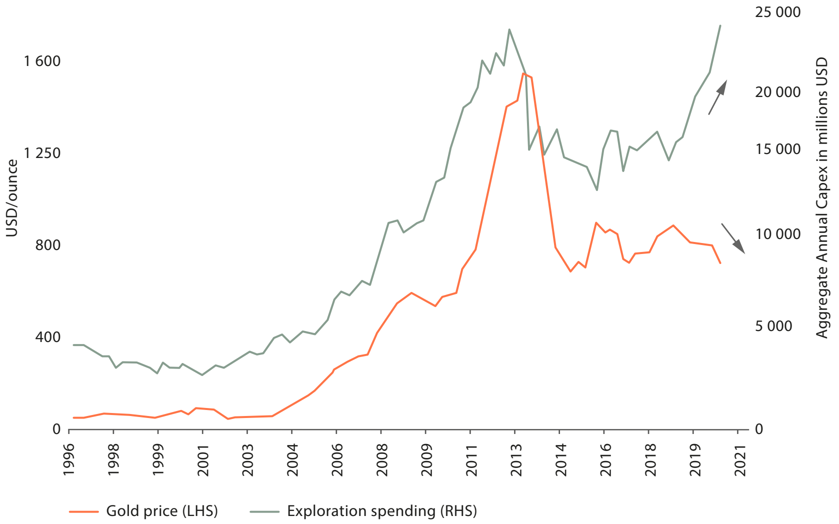
STOCKS TO COMMODITIES RATIO



Source: Lynkeus Capital LLC, Dr. Torsten Dennin, Reuters Eikon, Incrementum AG

A number of commodities currently appear to be in a structural bull market, similar to what happened in the early 2000s when industrialisation in China led to a sharp rise in demand. Stimulus and infrastructure plans as well as the transition to a greener economy should support demand, while supply will be negatively impacted by the lack of investment due to ESG considerations. Oil is a good example. More than 80% of the world's energy consumption is currently still based on fossil fuels, despite the emphasis on renewable energy. However, investment in fossil fuels has fallen as a result of a political imperative to promote renewable energy. The oil price will therefore be supported both by demand and supply side factors.

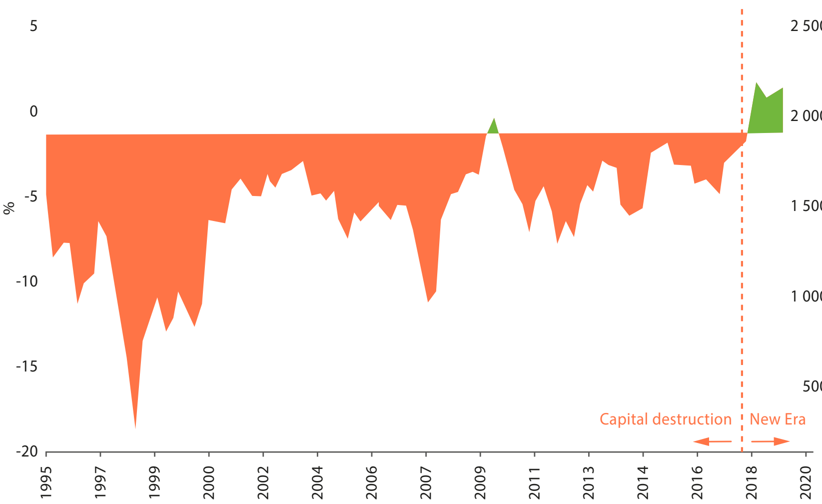
GOLD PRICE AND EXPLORATION SPENDING OF THE 50 LARGEST PRODUCERS IN NORTH AMERICA



Source: Crescat Capital

After a first quarter that saw it fall sharply, gold had an eventful second quarter. The gold price rebounded strongly in April and May, before losing some 8% after the Federal Reserve's shift in tone. The decline in nominal and real (inflation-adjusted) bond yields in the second half of June subsequently helped it stage a bit of a recovery. The outlook for gold remains favourable in an environment characterised by historically high debt levels, rising inflationary pressures, high valuation multiples for traditional financial assets, expansionary monetary and fiscal policies, and negative interest rates in real terms. Weak exploration investment in recent years will also put pressure on supply. There have been no major discoveries for several years. It should also be noted that gold has a low correlation with equities when inflation rises.

RATIO OF FREE CASH FLOW TO ENTERPRISE VALUE OF GOLD PRODUCERS



Source: Crescat Capital

Gold companies continue to display very strong fundamentals. In the past, when gold prices have risen, gold-mining companies have tended to invest in low-productivity assets and dilute their balance sheets in the process. But this is not the case today. For the first time in history, net equity issuance in the sector has turned negative, meaning that share purchases are outpacing new issuance. Leverage continues to decline and estimates of free cash flow are being revised upwards. In spite of all this, the valuation of gold-mining companies and the market capitalisation of the sector as a whole remain very low. It should also be noted that gold-mining companies protected investors' capital in both the inflationary period of the 1970s and the deflationary period of the 1930s.

Summary

In summary, there is a possibility that the massive government-led response to the pandemic marks the end of an era in terms of inflation. The pandemic appears to have been the catalyst for an increasing convergence between monetary and fiscal policies and the adoption of interventionist policies to achieve specific goals, especially regarding climate change and social inequality. Because central banks need to keep interest rates at a level that enables the deficits to be financed, it will be difficult for them to tighten their monetary policy to combat inflation. However, their intention to delay interest rate hikes could be tested by the markets if inflation does not fall in the second half of the year.

The issue of asset allocation becomes more urgent in an environment in which inflation settles at a permanently higher level. In such an environment, investment grade bonds are bound to lose out. Either yields will rise and their prices will fall, or yields won't rise and their purchasing power will be eroded by inflation. At the same time, the correlation between equities and bonds would risk becoming positive again, so that bonds would no longer be able to play their stabilising role in the portfolio when equities face challenging times.

Until proven otherwise, our working hypothesis is that the high level of debt and the need to finance increasingly large deficits make a permanent steep rise in interest rates impossible in principle. Despite the recovery of the global economy and the rise in inflation, the total amount of debt offering a negative yield (in nominal terms, before taking inflation into account) remains very high, which shows that the bond markets are no longer functioning normally. This means that interest rates are likely to remain very low especially in real (inflation-adjusted) terms. In such an environment, real assets such as equities are preferable, provided one is selective and avoids sectors and companies whose profit margins will suffer from inflation. Temporary interest rate pressures are obviously possible, as was the case at the end of 2020/beginning of 2021. It could be argued that the best way for the central banks to ensure a permanently low interest rate environment would be to show that they are taking the current inflationary pressures very seriously. Such tensions could lead to corrections of greater or lesser severity on the equity markets, at a time when valuation multiples and investor optimism are riding high. Another risk for equities is the possibility that the global economic situation will deteriorate again, with negative consequences for company earnings.

The gold price could be affected by interest rate tensions or if the Federal Reserve uses the occasion of the Jackson Hole central bankers' symposium at the end of August to announce its intention to scale back its bond purchases on the markets. However, if the yellow metal declines it would provide a buying opportunity in an environment where the value of paper currencies will continue to decline.

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No.**168** – 3rd quarter 2021

Perspectives

Economic data and market information contained in this issue are the latest available up to 08/07/2021

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