

No stress

Overview

Equity indices have soared to new records. In the US, stocks were buoyed last week by Jerome Powell's dovish tone plus the announced bipartisan deal on infrastructure spending together with strong results by banks from their annual stress tests. If the world came to be blighted by a severe global recession affecting commercial real estate, corporate debt and employment levels, their capital buffers would be almost double the minimum required. Dividend payouts and share buybacks can therefore be resumed on 30 June. In Europe, indices rose modestly as investors took a more cautious tack during the week amid the spread of the new 'delta' variant. Sector wise, commodity-related stocks made strong advances. Oil companies were boosted by a rise in the price of crude upwards of 3%.

Dividend payouts and share buybacks can resume on 30 June in the US

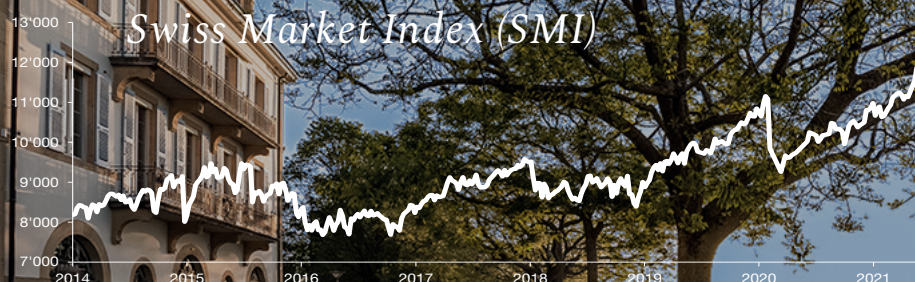
Fed chair Jerome Powell said in his congressional testimony on the state of the US economy that the authorities would bide their time before ending their ultra-loose monetary policy. This gave rise to renewed optimism among investors. Inflation is being fuelled by a handful of business categories affected by the reopening of the economy, while companies struggling to hire should find it easier to find employees in the remainder of this year. Job creation in May, out this Friday, is estimated at 700,000

additions. The average year-to-date number is 535,000. At that rate, it would take until the autumn of 2022 to return to pre-pandemic levels, which argues for keeping interest rates nice and low.

US authorities to bide their time before ending their ultra-loose monetary policy

Investors welcomed Joe Biden's announcement of a bipartisan agreement with a group of ten Republican and Democratic senators for a five-year USD 1 trillion infrastructure plan, including USD 579 billion in new spending. A large part of the expenditure is earmarked for transportation, including upgrades to the road network, bridges and airports, and for developing power infrastructure and broadband, all of which would provide a small boost to GDP growth by supplying extra income to construction and manufacturing companies. Whether this will clear the Senate is not certain, as the Democrats want a separate plan for social infrastructure (health and education). Financing – which is still unclear – is probably the biggest obstacle. There has been talk of reducing the backlog of unpaid taxes by hounding tax evaders, or using some of the funds released for the pandemic. At this juncture, the red lines of each party, such as higher taxes for companies and the middle class, have not been touched upon.

Swiss Market Index (SMI)



The keenly awaited consolidation move has still not occurred. The SMI has spent recent days hovering around all-time highs. But oscillators are pointing to a flagging trend. So this week could be the time for a pullback to the initial support at 11850.



Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.92	1.09	11'999.70	4'120.66	15'607.97	6'622.87	7'136.07	4'280.70	14'360.39	29'066.18	1'379.59
Trend	↑	➡	↑	➡	➡	➡	➡	↑	↑	➡	➡
YTD	3.63%	1.20%	12.11%	15.99%	13.77%	19.30%	10.46%	13.97%	11.42%	5.91%	6.84%

(values from the Friday preceding publication)

Europe on a roll

There's no stopping the Stoxx Europe 600 (total return +16.7%), which has reached highs not seen since 2002. Part of the reason for these gains has been the end to business lockdowns and the economic upturn. In addition, national-government payouts from the NextGeneration EU stimulus bazooka, which could total as much as EUR 750 billion, are due to begin in July. This is bound to give European equities an extra lift in the period ahead of us.

Banks, electric vehicle manufacturers and the industrial sector have been the big winners, whereas many 'covid stocks' have fallen out of fashion. Online casino operator Evolution AB plus Porsche and Banco de Sabadell are among the top performers in this year's Stoxx Europe 600 index. In contrast, gainers from the pandemic such as Just Eat and TeamViewer have seen a reversal in their strong 2020 performances.

These swings embody a shift in behaviour among investors, who have lowered their defences relative to 2020 and developed a certain appetite for risk. Sectors benefiting from the post-pandemic recovery, such as banking, automotive and construction, have led the way. Utilities is the only sector in Europe to have lost ground.

Value stocks, driven by the momentum of European economic activity, are set to continue outperforming. The ECB is not yet ready to raise rates nor tone down its asset purchases and the aid package, which unlike the US stimulus is not pro-cyclical but aims to modernise Europe. All of this represents additional arguments in favour of European equities.



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