Balanced Portfolios

World economics

The spike of inflation extended in the third quarter amid strong economic activity and supply bottlenecks that might hamper businesses throughout the second semester and even during 2022. GDP has surpassed its pre-pandemic level in the US and is approaching it in Europe. As a result, central banks are expected to tighten sooner. In the US, the Fed has flagged its first interest hike should be in 2022 rather than in 2023. In Europe, the BCE has communicated that it would raise its interest rate only after inflation will have establish itself around 2%. Previously, the central bank was aiming at keeping the inflation lower than 2,0%. In September, the markets have been shaken by the threat that Evergrande, a Chinese real estate developer would default on its huge debt of 300 billion USD.

Equity markets

After going higher in July and August, stocks dropped in September. For the quarter, the Swiss market (SPI index) hedged -2,0% lower. The smaller caps were better off as the SPIEX index lost -0,4% only. Despite the heavy ponderations of defensive stocks, the Swiss market underperformed its European and US counterparts. The Stoxx 600 erased only -0,5% of its value and the SP 500 gained +1,5% in the third quarter in francs.

Interest rate and bonds

Despite a very negative September, Bond indexes were roughly stable over the quarter. 10 years sovereign yields remained negative in Switzerland and the Eurozone at -0,16% and -0,20% respectively. They ended the quarter at +1,49% in the USA.

Exchange rates

The value of Swiss franc against a basket of foreign currencies was little changed over the quarter. The euro and the British pound slipped -1,7% and -1,9% respectively but the dollar and the yen gained +0,7% and +0,6% respectively.

Outlook

The post-covid rebound and governmental supportive policies seem to have reached their climax as forward-looking indicators hinged on a continuation of growth, albeit at a slower pace. This change of pace while inflation is spiking warrant further attention.

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