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Market Insights
No. 232- August 9, 2021

Essentials

In July, Germany's industrial output declined by 1.3%, which was below expectations, but manufacturing orders came in much higher than forecast, expanding by a strong 4.1%. This leads us to believe that the slump in industrial output – triggered by bottlenecks in certain industries, such as semiconductors – will be short-lived.

Gold corrected sharply after US jobs figures were released. It's now back in the bearish channel that formed last summer. The market is clearly expecting a rate hike and a deceleration in inflation.

The US jobs market had some positive surprises in store for investors. Almost one million jobs were created in July – another sign that the economic recovery is well on track. Unemployment dropped sharply, from 5.9% to 5.4%, which should reassure the Fed in its decision to normalise monetary policy starting in the autumn.

	USD / CHF	EUR / CHF	GBP / CHF	EQUITIES SWITZERLAND	EQUITIES EUROPE	EQUITIES USA	EQUITIES JAPAN	EQUITIES EMERGING	GOLD	OIL	ALTERNATIVE FUNDS
*Trend	↗	→	↗	↗	↑	↗	↑	↑	↓	↓	→
% YTD	3.3%	-0.5%	4.9%	13.8%	17.5%	18.1%	6.9%	0.1%	-7.1%	36.5%	3.4%

↓ : < -1% ↘ : -1 to -0.25% → : -0.25 to + 0.25% ↗ : + 0.25 to 1% ↑ : > 1%

*Weekly trend

China – a rainy summer for the tech sector

Ed Yau
Investment analyst and manager

Beijing chose the relatively calm summer months to shake up the internet sector. Investors have been left wondering why this series of regulations has been brought in and what impact it will have on their investments in China.

Regulatory pressure on internet companies is nothing new – it started back in November 2020, when Ant Group was forced to suspend its IPO. And recently, on 23 July, the government announced new regulations for China's education sector, targeting online tutoring firms in particular, and they were much stricter than expected. This was followed by crackdowns on video gaming and home delivery platforms.

These sectors may seem to have been targeted at random, but the choice of sectors actually shines some light on what Beijing is trying to achieve – it appears to be looking to strike a better balance between growth and sustainability by promoting social equality, data security and self-sufficiency.

Let's take the online tutoring industry as an example. China's education system puts parents under an enormous amount of pressure. And the new curbs, which are surprisingly strict, are part of a raft of reforms brought in after the 2020 census, which showed that birth rates had dropped more than the government had expected. Another example is food delivery services, which grew rapidly during the pandemic. Here, the government is looking to safeguard delivery workers' rights, as we've seen in the UK with Deliveroo and Uber.

The most recent five-year plan doesn't contain any new regulations for key industries like semiconductors and renewable energy, which is another indication of what the government is trying to achieve. It is unlikely to crack down on these sectors, and this preferential treatment is reflected in the difference in performance between onshore and offshore markets.

Over the past decade, China has focused on growing, rather than regulating, its tech sector. And with these latest measures, it is simply catching up with its peers. There have since been clear signs that the regulatory pressure will level off somewhat – an article in which the government criticised the gaming industry was subsequently toned down, and a meeting was held with bankers on 29 July to reassure the markets.

Although investors will have to get used to Beijing's more clear-cut approach to achieving its social agenda, there is very little risk that the measures imposed on education companies will become more widespread. China's long-term goal is still to become the world's tech leader. More oversight doesn't mean that China is ready to give up this growth driver and risk undermining the country's innovative spirit. One way that investors can adapt is to offset investments in ADRs with A shares, which tend to be better aligned with President Xi's ideas and intentions.

Alternative funds – major dispersion

Léonard Dorsaz
Investment analyst and manager

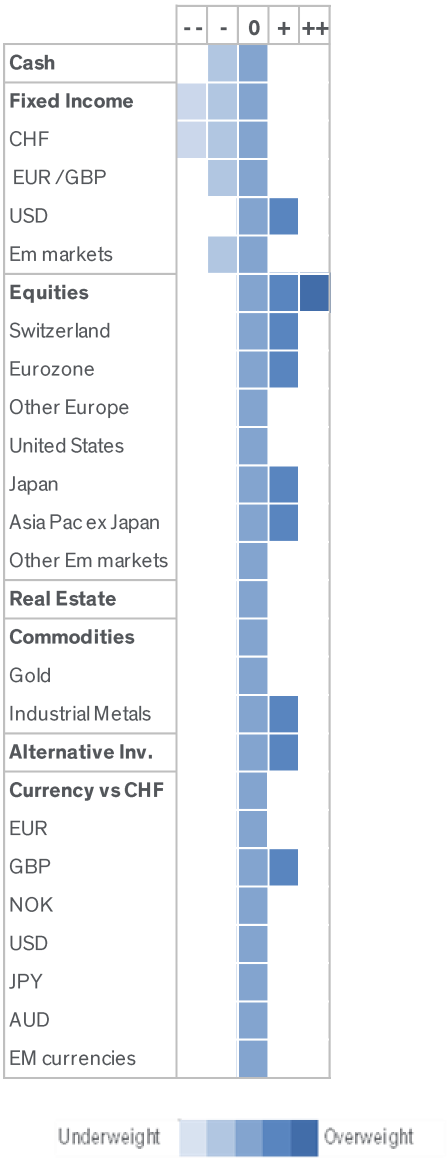
As the markets continue to reach new record highs, both dispersion between regions and volatility among investment styles are very high. The Nasdaq, for instance, ended July up by close to 3%, while the Russell 2000 was down by more than 3%. Emerging markets were flat in the first half, but global equities rose by more than 10%.

Long/short equity strategies continue to do well in this climate, as they can tap into stock-market rises. But volatility has increased recently, mainly because of rotations on the underlying markets.

At the same time, we've started taking profits on credit funds. With interest rates and spreads close to rock bottom, opportunities can only be found in certain niche markets. We're being cautious because of liquidity risk and will move back into this segment when valuations are more attractive.

Lastly, arbitrage strategies are still lagging behind. The large volume of convertible bond issuance and the bursting of the SPAC bubble were behind this trend in the second quarter. More recently, fears of tighter M&A regulations in the States and distortion on the investment-grade bond market have prevented things from returning to normal. As these strategies dovetail with directional strategies, we nevertheless continue to recommend some exposure to them, with a preference for more flexible managers.

Synoptic view



Recent Recommendations

Essilorluxottica	Buy	August 3, 2021
Amazon	Buy	July 20, 2021
Logitech	Buy	July 28, 2021
Randstad	Sell	July 27, 2021
Alstom	Buy	July 27, 2021
SGS SA-REG	Hold	July 20, 2021

Our “expertise” events

Piguet Galland organises regular events for its clients. Please do not hesitate to register on our website: https://www.piguetgalland.ch/fr/agenda/

Do not hesitate to contact your adviser or write to us at the following e-mail address : advisory@piguetgalland.ch