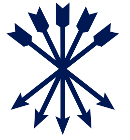

Market Perspective

Pedal to the metal

Issue 127 | June 2021

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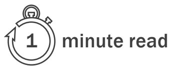


Pedal to the metal

Economies can still grow when we let them.

Global output has likely regained its pre-crisis levels, and is expanding fast – perhaps with enough momentum to start backfilling some of 2020's losses in 2022.

Employment hasn't yet regained its starting point, but as it has lagged, productivity – output per person – has surged, led by the US.

That surge shows the supply side of the global economy to be more elastic than feared. There are some very visible bottlenecks and pinchpoints (in semiconductors, for example – see below), but they – and the April/May consumer price indices – are exaggerating the aggregate shortage of capacity.

Still, resurgent demand is in the driving seat. With today's policy settings, it seems set to remain there.

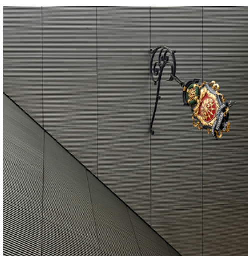
Central banks and finance ministries understandably worry that covid closures have done lasting economic damage, and that this is best treated by continuing to stimulate spending. But their forecasts may still be too pessimistic, and as employment catches up, that productivity surge will slow. Localised bottlenecks and the April/May CPIs are likely a rehearsal for the main inflation event further on up the road.

Monetary policy in particular is still pedal to the metal. Investors should therefore expect central banks to taper securities purchases and raise policy rates faster than they have been saying. They have mostly been buying bonds, and bond prices are also most directly and inversely linked to expected interest rates.

Stocks will be vulnerable too. But forecasts of corporate earnings are probably still too low (the G7's taxation accord, discussed below, notwithstanding). At today's levels of real yields, the shadow over bonds looks strategic. The threat to stocks, when it arrives, may be more tactical.

This month's *Market Perspective* is a largely crypto-free zone.

Kevin Gardiner and **Victor Balfour**
Global Investment Strategists



Cover:
A very public symbol of the heritage and values of the family business is the Rothschild shield positioned on the exterior wall of our New Court office in St Swithin's Lane, London. The five arrows combined with the family motto is the only advertisement for the business within.

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Publication date: June 2021.
Values: all data as at 31 May 2021.
Sources of charts and tables: Rothschild & Co or Bloomberg unless otherwise stated.

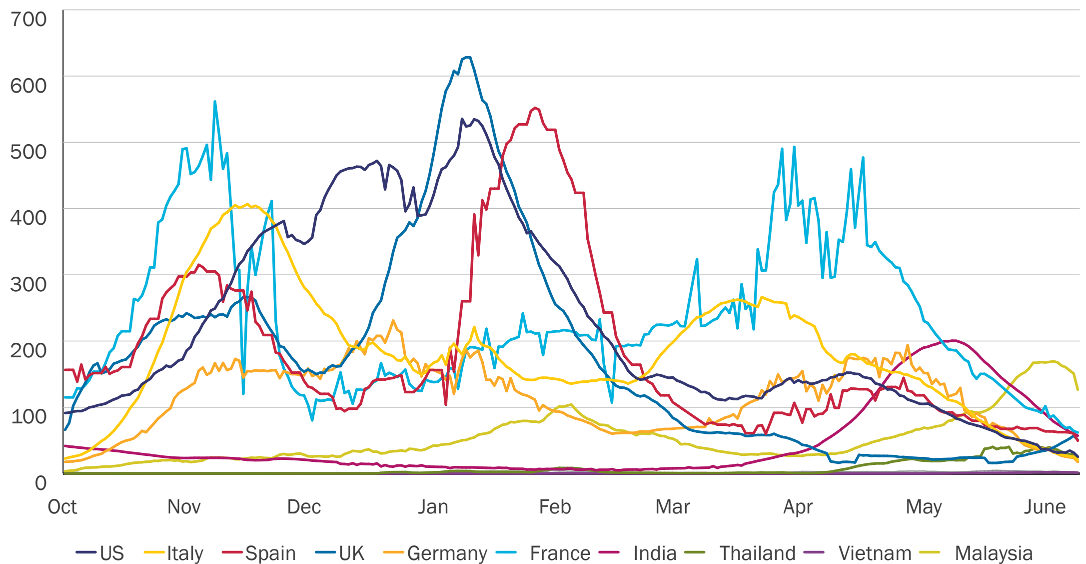
2 minute read

Covid update

Weekly global cases have been declining for the last six weeks, and the number of new cases for the week of 6th June were the lowest since mid-March. There is however a resumed uptick in the UK and in parts of Southeast Asia too, namely Thailand, Malaysia and Vietnam. Thailand, for example, has seen its cumulative cases quadruple since April after outbreaks at prisons and densely populated areas.

Figure 1: Contagion is mostly falling

Weekly change in cases (population adjusted, per thousand)



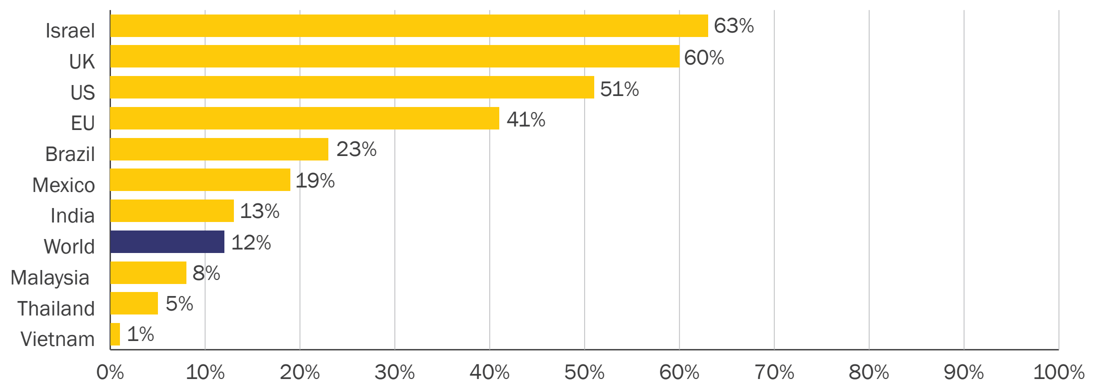
Source: Bloomberg, Rothschild & Co.
Past performance should not be taken as a guide to future performance.

Many of the Southeast Asian countries were among the first regions to be affected by the pandemic, but a prompt response and strict lockdown measures meant that they initially emerged relatively unscathed. Their recent rise in infections has thus started from a relatively low base. As the chart shows, Vietnam and Thailand are reporting 2 and 29 weekly cases (population adjusted, per thousand), while Malaysia is higher at 156 – though even here it appears contagion rates are rolling over. These numbers are still well below the 628 that the UK recorded back in January.

Most of the recently reported cases have been linked to the Delta variant – a more aggressive strain which is reportedly 40% more transmissible than previous variants. Countries that have managed to ramp up their vaccination programmes have seemingly managed to keep this variant at bay. Over 2 billion doses of the vaccine have been distributed worldwide: 14% of those to the US, 11% of those to India and 3% of those to the UK. The noticeable laggards are the Southeast Asian countries that are delivering vaccinations domestically at a slower rate than the global average (see figure 2).

Figure 2: Vaccination rollout

Share of population with at least one vaccine dose (%). Individuals with multiple doses are counted once.



Source: Our World in Data, Rothschild & Co.
Past performance should not be taken as a guide to future performance.

Case numbers continue to improve in Europe, as vaccination programmes have ramped up. Almost half of the EU adult population have received one dose of the vaccine. Meanwhile, the EU is set to make available its own Covid-19 travel certificate to allow for unrestricted travel across the bloc from 1st July. This has been approved by the European Commission and is to be implemented by member states in the coming weeks. This digital passport would allow border authorities to verify the status of the person travelling – whether they have been vaccinated, have immunity through recovering from the virus or proof of a recent negative test.

While vaccine passports may seem like one step closer to living a more unrestricted life, as investors perhaps we shouldn't overlook how many businesses have adapted to more distanced modes of operation. In the worst case of renewed widespread contagion, would risks appear as stark as they did in March 2020?

Charlie Hines — 8 June

Help wanted?

The boomlet is here, and the latest business surveys suggest it may continue on both sides of the Atlantic into the third quarter (contagion permitting).

We are torn between (on the one hand) cheering the resilience of the global economy and policymakers' emergency responses in 2020, and (on the other) warning against the same policy makers' hubris and mission creep now.

Think back to May 2020. Amidst human trauma, the public economics narrative revolved around the threat of imminent collapse, shortages, mass unemployment and fundamental change. As things turned out, the economic collapse was already largely behind us – the sharpest ever G7 downturn was compressed into the six weeks or so from mid-March through April.

Now, global GDP has likely regained its pre-crisis levels, and if rapid growth continues – annualised double-digit rates are plausible in the US, eurozone and UK in the current quarter – it may push above its pre-crisis trend in 2022. If so, the "catch up" economic scenario that we have described here before – but which has not featured in official forecasts – would start to become reality. It could not make good the human/political costs, of course.

The most eye-catching monthly data continue to come from the US. If we had to guess, however, it might be the UK which tops the second-quarter GDP growth table – if only because the measurement peculiarities we have noted here before may now point upwards. (Not that this would matter much to the UK stock market indices, which do not mirror the local economy.)

In the US, the ISM manufacturing survey – one of our desert island stats – has stayed at elevated levels through May at least. The details show customer inventories at their lowest in recent years, order backlogs at their highest, and pricing responses also close to historical highs.

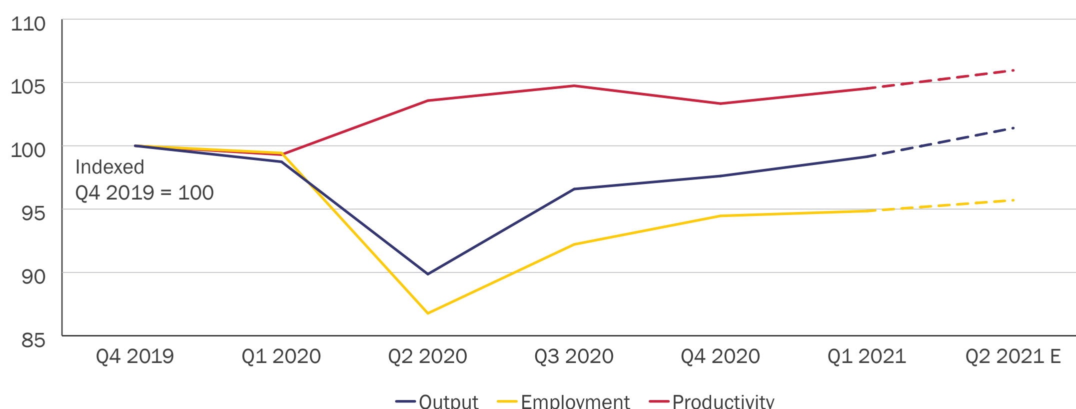
Bottlenecks are unlikely to be confined to the semiconductor/auto area (see essay below), and consumer price inflation has just jumped from 2.6% in March to 5% in May (with the core rate jumping from 1.6% to 3.8%). However, we are not convinced that this heralds the sustained rise in inflation that we have been writing about for many months – in this at least we agree with the Federal Reserve (Fed), which sees the spike largely reflecting "transitory" factors that will fade as more of the economy reopens (one of the reasons why bonds have so far taken the spike in their stride).

Unlike the Fed (and bond prices), though, we do expect inflation pressure to resume later in the year, reflecting ongoing and significant excess demand across the wider economy. Initially, this "demand pull" pressure will boost profit margins, but as overall capacity is used up, it will eventually put pressure on costs too – specifically, labour costs, net of any productivity gains ("unit" wage costs, in the jargon). Wages are the biggest input for most businesses.

Margins have been widening for most of the last year, but consumer prices have been muted (until April/May's spike) by a remarkable but little-noticed surge in productivity (as we noted in March, and in Figure 1 below). Output has rebounded faster than employment. It usually does, but it also usually falls faster. This time we are seeing unusually big net gains. Unit costs will have fallen below pre-crisis levels for many companies.

Figure 1: Surging US productivity

US output has rebounded much faster than employment

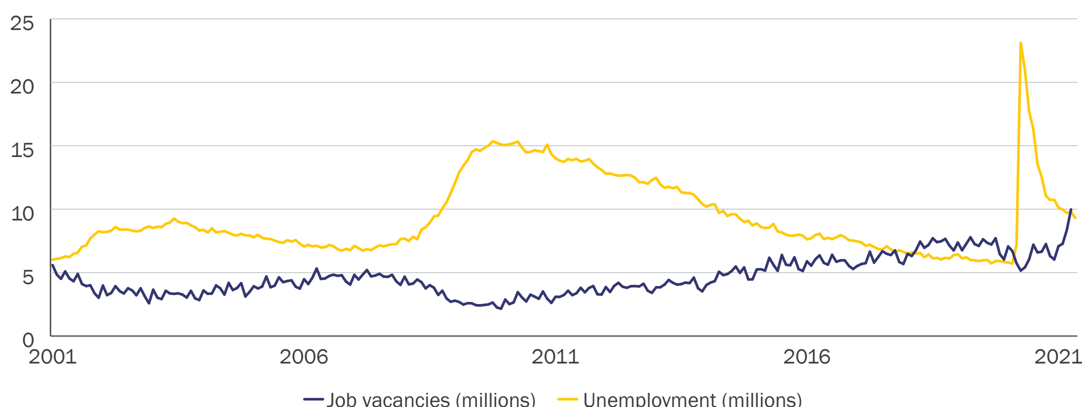


Source: Datastream, Rothschild & Co (estimates for Q2)
Past performance should not be taken as a guide to future performance.

As the recovery matures, productivity growth will slow as jobs catch up. The labour market is certainly tightening, and there are widespread anecdotal reports of labour shortages. US job vacancies hit an all-time high in April. However, an aggregate shortage of labour still seems some way off. Look at Figure 1 again: employment is likely still roughly 4% below its pre-crisis levels.

Figure 2: Surging US job openings

US job vacancies seem to be at record levels



Source: Datastream, Rothschild & Co.
Past performance should not be taken as a guide to future performance.

If there were 4% more people employed in the US just 18 months ago, how could there suddenly be a shortage of labour? One possibility is a sharp mismatch between the labour in demand now, and the labour employed then – a sharp rise in "frictional" unemployment. This is implausible.

Perhaps the unusual levels (by low US standards) of unemployment payments offered during the crisis have deterred many lower paid workers from quickly returning to their old jobs. If so, as those payments are phased out – starting this week – then the labour supply curve will return to more normal levels and many of those vacancies will be filled. This hypothesis is not as politically loaded as it used to be.

Eventually, more binding labour shortages may loom as we again approach "full" employment – and this is when we see more sustained inflation pressures emerging.

The last year's productivity surge is not quite the "free lunch" it seems. It probably couldn't have happened without that government support for unemployed workers. As yet, however, corporate taxes are not going to rise on this account. Nor are those government subsidies likely to somehow trigger a future reversal in productivity.

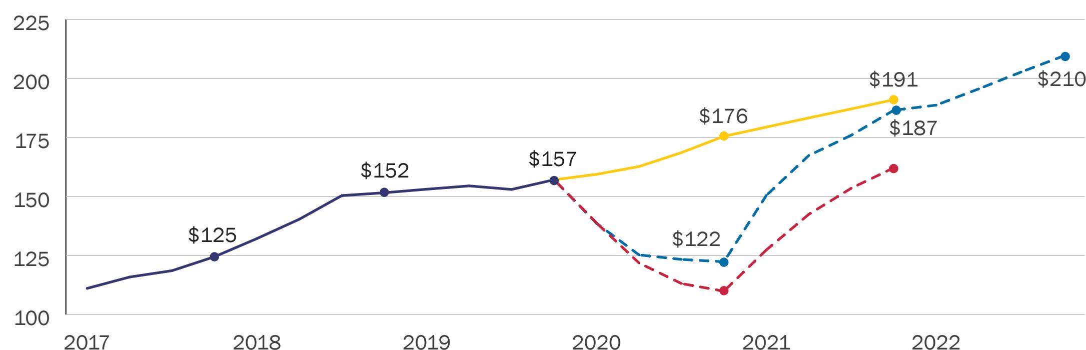
Perhaps the links between output and employment are simply looser than economists realise – digital output may be easier to ramp up – and it has taken a horrible setback to make this apparent. Again we suspect that economists' recent productivity pessimism has been misplaced.

In the meantime, expected corporate earnings continue to drift higher as analysts digest the effects of rapidly-rising revenues and wider margins on profitability. The sweetspot is 2021, but a higher starting level will carry into stronger estimates for 2022 also.

Figure 3 shows consensus estimates for US operating earnings in 2022 now at $210. A month ago they were at $206; in late April, below $200. Analysts are usually over-optimistic – but not around upward inflection points.

Figure 3: US corporate earnings rebound

S&P 500 index: 12-month operating earnings (analyst consensus)



Source: S&P, Rothschild & Co.
Past performance should not be taken as a guide to future performance.

Stocks are of course far from cheap. Forward US multiples at these levels (23x) have in the past been followed by poor returns. However, the earnings on which those earlier multiples were built subsequently collapsed. That seems unlikely now.

A collapse in earnings already happened, in 2020: as noted, expectations currently are still gauging the extent of the rebound. Interest rates and bond yields are also somewhat lower than they were in 2000. For us, a tactical setback in stocks would hardly be surprising after the last year's run, but a more dramatic reversal would.

Kevin Gardiner — 8 June

Taxing multinationals

The G7 have, as expected, reached an accord on corporate taxation, the foundation for a more effective and equitable taxation of multinational businesses. They also agreed to require firms to report more on their environmental footprints.

What are the implications for investors – the owners of the businesses that will be paying more tax?

For any agreement to work convincingly it has to be taken up by the wider global community, not just the G7 countries, and this cannot be taken for granted. Some smaller countries benefit from the status quo.

There are two "pillars" to the "BEPS" (Base Erosion and Profit Shifting) accord. First, the realignment of taxes paid with the location of business done. Second, the implementation of a floor – a minimum corporate tax rate of 15%. Details will be difficult and time-consuming to agree and implement (we doubt the new taxes will make it onto statute books for a year or three). But if we take an OECD estimate as a guide to the possible impact of the accord, the maximum additional tax revenue might be of the order of $80bn globally – roughly 4% of likely 2021 MSCI developed word earnings.

This would be material but not game-changing for investors. It could help tilt equity portfolios tactically away from "growth" and towards more cyclically oriented businesses, but is unlikely to be as important as more mundane matters (such as yield curves and the outlook for pre-tax profits).

Some sort of accord has been mooted for some time, particularly since the change of US administration: it is another example of the US re-engaging with global issues under President Biden. As a result, some increase in taxation is likely "in the price", however approximately. And that estimate of the additional revenue that might be raised is not large when set against the routine variability of corporate earnings, which fell by around a fifth last year and are likely rebounding by around a quarter in 2021. That said, some companies will be hit much harder than others – the low effective tax rate paid by "big tech" has been the catalyst for this inter-governmental action.

Those low tax bills, remember, reflect existing tax policies and tax avoidance, not evasion. The G7 initiative is a long-overdue attempt to tackle poorly designed international taxation policies that have developed piecemeal. These have resulted in significant discrepancies between the location and scale of tax payments and the total amounts of business transacted.

That "race to the bottom", as governments have used lower taxation to attract inward investment, has not been quite as cynical as the headlines suggest. In the case of Ireland, for example, there is a difference between the low mainstream corporate tax rates that first fostered the export-led "Celtic Tiger" in the early 90s (Ireland still has the fastest trend growth in Western Europe), and the more recent reductions in big tech's effective tax rates.

Kevin Gardiner — 7 June

Life after debt (revisited)

"I am not worried about the deficit. It is big enough to take care of itself."
Ronald Reagan

We are again getting lots of questions about the threat posed by debt – this time because of the pandemic-fuelled surge in government borrowing. Here are three good reasons, and one bad one, for thinking it remains manageable.

Three good reasons…

1. **Strong growth:** tax receipts will rebound quickly, support spending will fall, and not all the contingent liabilities in budgetary projections will materialise. Here in the UK, the Office for Budgetary Responsibility's latest forecast is (again) already looking too gloomy (as we said it might), and the same may prove true of official forecasts in the US and continental Europe. When furlough and other labour market support schemes eventually end, workers may be restarted and rehired more quickly than feared.
2. **Interest costs will rise only slowly.** New debt has been funded at very low nominal and real rates, and mostly at fixed coupons: servicing costs have been low and stable. When interest rates rebound, it will mostly affect new borrowings (which as noted are slowing sharply) and refinancings (maturities range in the big markets from just over five years in the US to 15 years in the UK). As a result, the rise in interest costs will be gradual. Meanwhile, we may find bonds unattractive, but no big government has been unable to borrow (indeed, as noted, they have done so on improving terms).
3. **The scary Big Picture is a caricature.** Talk of "Debt and the Devil", "When the Money Runs Out", "Eight Centuries of Financial Folly" and so forth is not helpful. Gross financial liabilities are not a meaningful aggregate; the world cannot go bust (who are its creditors?); tangible collateral is big; we cannot borrow from future generations… financial crises are crises of aggregate liquidity, not solvency, and money cannot "run out" (on that point at least we agree with the crypto HODLers). As we see it, then, debt is not such a big macro issue, but a distributional one. With the IMF newly Keynesian, and Big Names on Campus keeping shtoom, perhaps the establishment has seen the error of its ways. Why are we not reassured?

... and a bad one

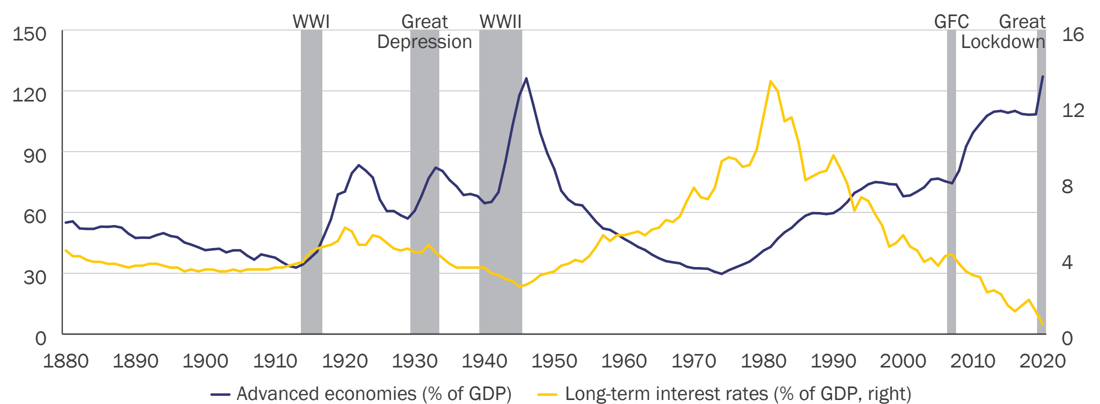
4. **Inflation is not the answer.** We are not reassured because groupthink may be swinging from a misplaced superstition about debt to an equally misguided encouragement of inflation, the idea being that a little more inflation would make the debt burden more manageable by shrinking it in real terms. Doubtless, central banks could print enough money to eventually deliver more inflation (and even lower real interest rates). But that way madness lies. We clearly do not know how to fine-tune inflation. There is no way of being sure that we could create just enough of it to safely erode the debt burden: it could instead get out of control and do serious damage. As we have said, using inflation to tackle the debt burden is like setting fire to your house to deal with a damp problem.

The first three reasons should be convincing enough. We really don't need more inflation to make debt manageable. But the risk of it – whether it arrives deliberately, as a result of bad advice, or incidentally, as a by-product of strong growth – is more worrying than the supposed deflationary threat posed by all that debt.

Kevin Gardiner — 3 June

Figure 1: Government debt/GDP: may fall faster than feared

Advanced economies, debt/GDP (%)



Source: IMF World Economic Outlook, April 2021, Rothschild & Co.
Past performance should not be taken as a guide to future performance.
Long-term interest rates based on IMF basket of 20 advanced countries, weighted by GDP and purchasing-power-parity.

The semiconductor shortage

Chips with everything

Semiconductors – also known as microchips and integrated circuits – are components found, in some form or another, in most products that use electronics, from complex supercomputers to cars, refrigerators and the smart cards in our wallets.

They are in the headlines today because a shortage is interrupting production lines using them as a key input – most notably, in the auto sector. The shortage is not in the designing of chips, or the manufacturing of the complex equipment needed to make them, but in the chips themselves. Companies that manufacture chips in industrial quantities – in fabrication plants ("FABs") that can be massive in scale – are not able to keep pace with demand, particularly at the high-performing, more complex end of the market.

Globally, the three main chipmaking manufacturers with their own fabrication plants are Taiwan Semiconductor Manufacturing Company (TSMC) – a pure foundry business, arguably the most 'bespoke' and technologically advanced, but whose sole purpose is to manufacture chips – and Samsung and Intel – Integrated Device Manufacturers ("IDMs") that design, manufacture and then sell these chips. Other 'fabless' chipmakers such as NVIDIA, Qualcomm and Apple outsource their chip manufacturing to these few companies.

Chip making is specialised, and contracts with these suppliers are large. The industry faces high barriers to entry, large amounts of R&D and infrastructure spending – depending on how advanced the chip is, fab plants can cost anywhere from $5bn up to about $15bn to create, and for advanced plants, machinery will be a large part of the cost. Chip making isn't especially quick either: the manufacturing process takes from months up to almost a year for the most advanced chips. The facilities involved are high-tech as well, with production rooms reportedly kept cleaner than hospital operating theatres – any dust within the production line can cause major disruption.

Semiconductors evolve quickly. Chips are getting smaller and the number of transistors each chip can hold continues to increase – the number of transistors per unit area doubles about every two years – making them more energy efficient, faster, and more powerful. There is however a physical limitation to this, and the incremental efficiency gains will eventually start to slow. For reference, 28.3bn transistors can today be packed on a chip with an area of 6.28cm^2, with each measuring 5 billionths of a metre. For comparison, in 1971 when Intel released their first microprocessor, 2,300 transistors were packed onto a chip, with each transistor measuring 10 millionths of a metre.

Why is there a shortage?

Scarcity is restricting auto production in particular. The nature of the shortage is however a little more subtle than it appears. Last year's covid-led shutdowns, and uncertainty around the speed of recovery, led automakers to cancel their chip orders. Meanwhile, other sectors, such as consumer electronics, saw rapid increases in demand, and absorbed the spare capacity. As a result, automakers effectively lost their place in the queue, and given the long lead time for supplying chips, and automakers' lack of inventory, it may be some time before supply issues are resolved – Ford, for example, has warned of a 50% reduction in output in the second quarter of this year. In the meantime, however, those other industries who moved up the queue will be seeing their output grow more in line with booming demand.

Supply issues are not limited to the auto sector, and chips' ubiquity in modern life and the burgeoning "internet of things" means that if an overall shortage of chips were to materialise it would have big implications for global output – or at least, for its growth. Meanwhile, fabrication is stretched, not shrinking, and some customers are faring better than others. Despite the high-profile shortages, overall chip sales are still projected to grow by 11% this year.

Supply shortages are not new in the industry, though previous shortages have predominately been more isolated events for specific types of chip. The supply pinch this time is not just related to one type of chip, but partly a reflection of one big customer's (the auto sector) ordering and inventory misjudgements (that said, if the auto sector had secured all the chips it suddenly needed, then those other customers would presumably have lost out). Location specific issues – the Texan freeze earlier this year, and a fire at a Japanese manufacturing plant – have not helped either.

Semiconductor supply is not the whole story – demand is increasing rapidly in the short term as economies reopen, and more steadily in the longer term as more uses for chips emerge and products require more chips. TSMC is due to spend $100bn on capacity over the next three years, but the industry's high barriers to entry and dominance of a few large fabricators point to more structural issues.

There is a political angle too. Trump's export ban last year relating to the US supply of semiconductors and chipmaking equipment has highlighted the potentially fragile nature of global supply chains. Countries are increasingly looking for greater self-sufficiency, including the US itself: Biden's latest infrastructure package however has earmarked roughly $50bn in spending for domestic production of semiconductors. Likewise, China's latest five-year plan has pledged to make chip production a national priority.

What does this mean for investors? First, at the macro level, it suggests that some of today's bottlenecks and pinchpoints may not disappear overnight. We've noted that the April/May spike in the US CPI is unlikely to be the main inflation event – but to the extent that semiconductor constraints are structural, and other big users start to face constraints, that main event may not be quite so far behind. Second, and more specifically, while the immediate impact of disruption seems to have rebounded against the fabricators – it is hard to be sure, because two of them are in a region that has faced a wider local setback – the healthy structural demand for their products, and their dominant position, seems to suggest some underlying competitive advantage.

Charlie Hines — 28 May

6 minute read

Inflation and commodities

Can commodities hedge inflation risk?

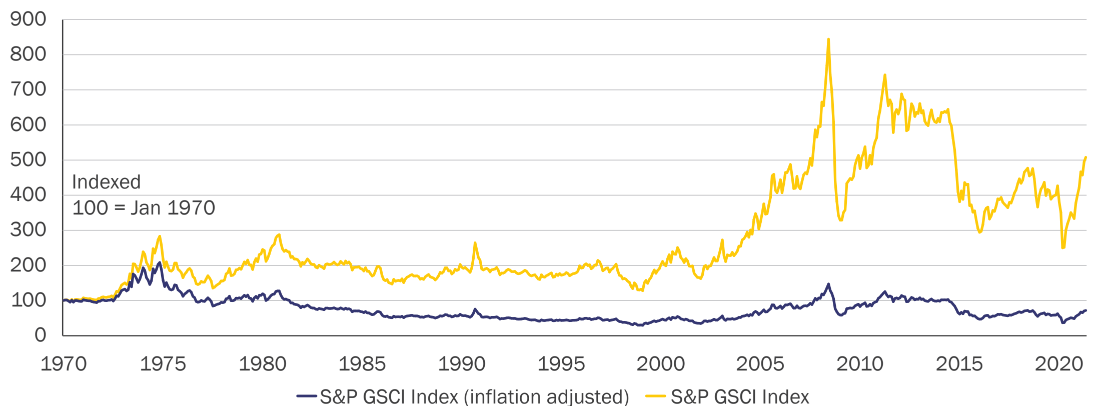
We have written a lot already about the untested and untestable claims being made for crypto currencies. They seem to be very complicated answers in search of a question: their over-engineered "scarcity" (limited coins of each type, but thousands of different types) makes them unusable as money. Their validity will be further threatened by "official" digital currencies, when they arrive.

But another asset being offered as an inflation hedge has a bit more intuitive appeal. Commodities – including gold – have been around for much longer than fiat money or securities, and have retained a degree of counter-inflation credibility with no central bank or fancy technology to defend them.

That said, their link to inflation is not tight or reliable. If commodities hedged inflation exactly, their real (that is, inflation-adjusted) prices would be constant. A quick glance at the index plotted in Figure 1 shows that real commodity prices are actually volatile – in both directions. Over the longer term, there has been a tendency for real prices to decline (that is, for commodity prices to lag inflation – of which, more below). And that tendency seems to have been most pronounced in periods of moderate, as opposed to high, inflation: that is, in exactly the sort of inflation regime we currently expect. Real commodity prices were broadly flat over the highly inflationary 1970s, but declined in the disinflationary 1980s and 1990s.

Figure 1: Commodities have done well when inflation is high

Commodity price indices: nominal ($) and inflation-adjusted



Source: Bloomberg, Rothschild & Co.
Past performance should not be taken as a guide to future performance.

In portfolio construction, a small holding in gold has always been quite popular, and an allocation to a wider range of natural resources was famously part of David Swenson's Yale endowment model from the 1980s. However, having been particularly popular when the "commodities supercycle" (the noughties spike in the chart) was in vogue, they slipped out of the spotlight. In the last year their prices have perked up markedly, just as inflation expectations have been rising, and investment interest is reviving.

However, few investment and portfolio managers want to be (or can be) responsible for storing physical commodities (other than gold). It would be complicated and costly, particularly if doing so on behalf of many individual investors. As a result, almost all investments in "commodities" are implemented as investments in commodity *futures*.

The investment case may be based on commodities' intuitive, tangible appeal, but the investment reality is another derivative product.

This might not matter if futures prices tracked the shortages and gluts of the spot (that is, cash) commodity markets, but they don't. Futures prices can be both lower and higher than spot prices, and the slope of the curve can change unpredictably.

Amongst other things this makes the so-called "roll yield", derived from futures prices that are lower than spot prices, unreliable. Commodities have no yield as such (admittedly, not many of today's bonds do either), and no duration (arguably a defining characteristic of an investment asset) as a result. And whereas historically it was possible to derive some income from the T-bills posted as collateral for futures positions, that source of return – which is nothing to do with the commodities being invested in – has disappeared with interest rates.

This "arm's length" engagement adds an extra layer of unpredictability to likely returns, as participants have to assess not just current demand and supply but also the way in which future expectations of those are likely to change. It also weakens the investment narrative, an important component of investing for many investors: advisers may be unable to explain why, for example, their recommended oil fund has fallen even as newspapers report surging spot prices.

In my experience, this is a big drawback: it can be hard enough trying to make sense of stock and bond prices without having to explain the arbitrary twists and turns of commodity futures curves.

There are two more fundamental problems that commodity investors face. First, commodities' scarcity is usually overstated. Changing technology, and substitutes, mean that supply is more elastic than commodity bulls suggest (US oil output, for example, did not after all peak in the 1970s). Meanwhile, as the world becomes wealthier, the importance of tangible products declines: when basic material needs have been satisfied, we shift our attention to brands, services and digital products. So: supply may be bigger, and demand smaller, than assumed. The long-term trajectory for real commodity prices may tilt downwards (as hinted in Figure 1).

Secondly, and more topically, the environmental and social costs associated with mining and drilling, and with the loss of scarce natural resources, are large, perhaps prohibitively so for many investors.

Conclusion?

The inflation we expect may be too small, and implementation problems too big, to justify adding commodities directly to portfolios. That said, specialist funds can use commodity futures as part of a wider "trend following" risk diversification strategy, particularly at a time when conventional diversifiers – such as bonds – look expensive.

The only way to be reasonably confident of locking in a positive return in excess of moderate inflation is to purchase an inflation-linked government bond with a positive yield, and hold it to maturity, but there are few of those around currently.

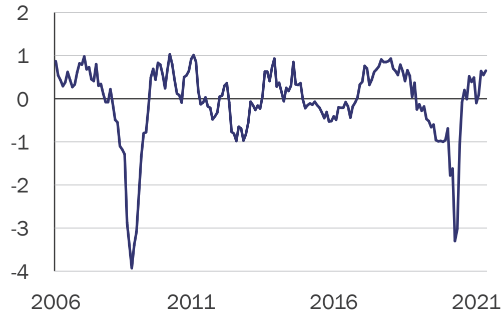
On a long-term view we think a diversified position in stocks can beat the inflation in prospect. This might include positions in natural resource companies (provided of course that they satisfy our ESG policy). We would not describe equity holdings as an inflation "hedge", or as locking in a real return, however. Stocks – like commodities – are much more volatile than consumer prices.

Kevin Gardiner — 21 May

Economy and markets: background

Growth: major economies

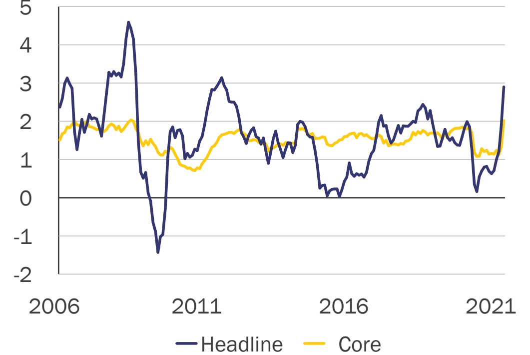
Business optimism: standard deviations from trend



Source: Bloomberg, Rothschild & Co
Composite of the forward-looking components of manufacturing surveys from China, Germany, Japan, UK and US loosely weighted by GDP

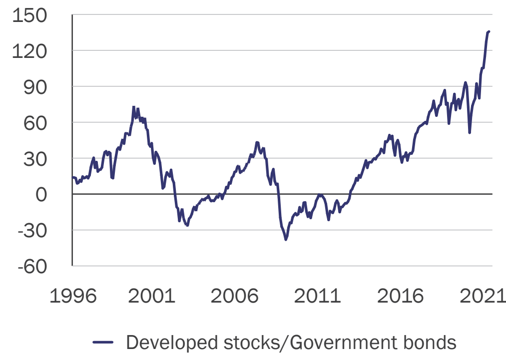
G7 inflation

%, year-on-year



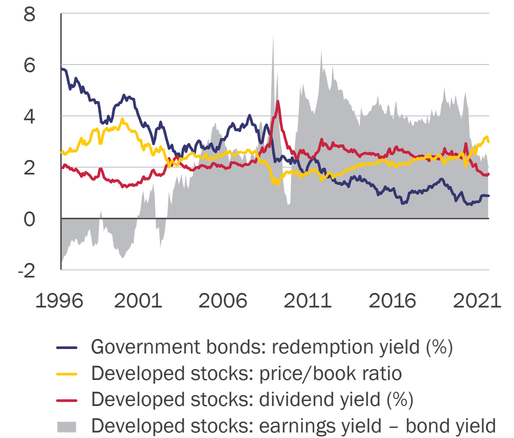
Source: OECD, Bloomberg, Rothschild & Co

Stocks/bonds – relative return index (%)



Source: MSCI, Bank of America Merrill Lynch, Bloomberg, Rothschild & Co

Stocks/bonds – relative valuations



Source: MSCI, Bank of America Merrill Lynch, Bloomberg, Rothschild & Co

Selected bonds

Current yields, recent local currency returns

	Yield (%)	1yr (%)	3yr (%)
10-yr US Treasury	1.6	-5.1	17.7
10-yr UK Gilt	0.8	-4.2	7.1
10-yr German bund	-0.2	-1.7	4.5
10-yr Swiss Govt. bond	-0.2	-1.9	0.7
10-yr Japanese Govt. bond	0.1	-0.2	0.6
Global credit: investment grade (USD)	1.1	0.1	14.1
Global credit: high yield (USD)	4.3	15.1	20.5
Emerging (USD)	3.8	8.2	19.8

Source: Bloomberg, Rothschild & Co

Selected stock markets

Dividend yields, recent local currency returns (MSCI indices)

	Yield (%)	1yr (%)	3yr (%)
World: all countries	1.7	37.7	46.5
Developed	1.7	36.9	47.9
Emerging	1.9	43.9	35.9
US	1.3	41.2	64.2
Eurozone	2.1	35.2	23.1
UK	3.5	18.7	0.5
Switzerland	2.7	17.6	42.8
Japan	2.0	27.1	21.4

Source: Bloomberg, Rothschild & Co

Selected exchange rates

Trade-weighted indices, nominal (2000 = 100)

	Level	1yr (%)	3yr (%)
US Dollar (USD)	104.7	-8.3	-0.4
Euro (EUR)	131.0	2.6	5.9
Yen (JPY)	88.3	-9.2	-1.8
Pound Sterling (GBP)	82.0	7.2	5.7
Swiss Franc (CHF)	165.8	-0.9	8.1
Chinese Yuan (CNY)	138.0	6.4	1.1

Source: Bloomberg, Rothschild & Co

Commodities and volatility

	Level	1yr (%)	3yr (%)
CRB spot index (1994 = 100)	200	70.4	-1.1
Brent crude oil ($/b)	67.3	166.1	-10.5
Gold ($/oz.)	1,769	4.9	34.5
Industrial metals (1991 = 100)	331	63.1	20.7
Implied stock volatility: VIX (%)	18.6	-45.5	16.8
Implied bond volatility: MOVE (bps)	58.1	8.5	15.4

Source: Thomson Reuters, Bloomberg, Rothschild & Co

Data correct as of 31 May 2021.

Past performance should not be taken as a guide to future performance.

Notes

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