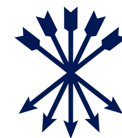

Market Perspective

Digital exuberance: the £1,000,000 banknote revisited

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Rothschild & Co
Wealth Management

Foreword: The £1,000,000 banknote

"Yes it's a million-pounder, as you see; but it never made but one purchase in its life..."
Mark Twain, ***The £1,000,000 banknote***, **1893**

Western output is surging, even after most of the covid-related fall has been made good. Governments are offering further fiscal encouragement to rising consumer confidence. Inflation risk is surely rising, but not as quickly as headline rates and high-profile supply bottlenecks suggest. The big central banks remain unlikely to raise official interest rates any time soon.

Setting aside our misgivings at these overly generous policy settings, this all seems to continue to favour business assets.

A lot of good news must now be priced in, however, and there is some distinctly fanciful thinking at large. In the digital realm, for example, the echoes with late 1999/early 2000 are hard to ignore.

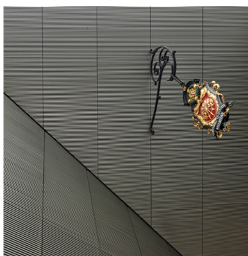
New technology is exciting and enriching. But just as the winners from the internet's profound impact were not those that were most vocally championed, so the impact of digital currencies and 'tokenisation' may not be what today's promoters predict.

Back in 2000, those who 'got it' said the internet had abolished scarcity. Now, we're told the only scarce asset is one provided online. But scarcity is no guarantee of value, or of monetary usefulness, particularly when expensively over-engineered in environmentally damaging ways. Nor does it necessarily offer an inflation hedge.

Digital coins are more divisible than Twain's £1,000,000 banknote. But illiquid as it was, his note was valuable collateral because there were many more pounds outside it than locked up within it. If today's big coins are mostly held by a handful of people, what practical use can they be to everybody else?

Some of the digital exuberance must have leaked into stocks. However, while overall equity valuations are full, they are still not outlandish. With profitability rebounding faster than most expected, stocks' run is based largely on substance, not froth.

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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Values: all data as at 6 May 2021.
Sources of charts and tables: Rothschild & Co or Bloomberg unless otherwise stated.

More substance than froth

Stocks have risen a long way. A setback would hardly be a surprise, but we think their ascent has been less ‘frothy’ than feared.

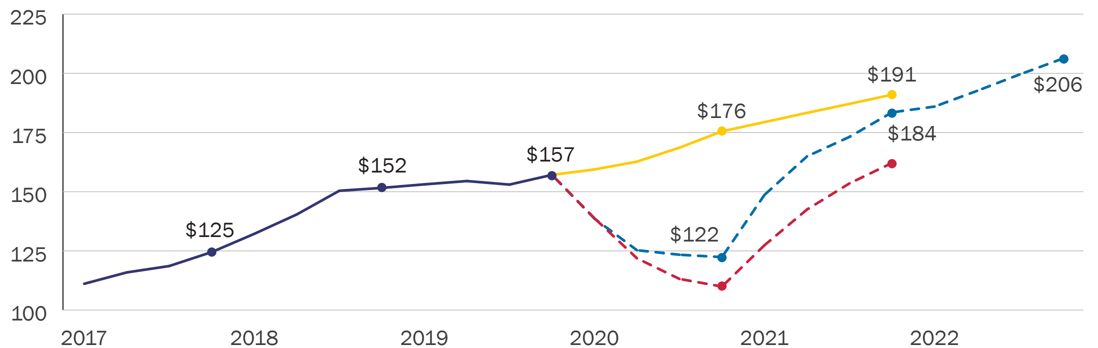
Support from low interest rates will admittedly fade when central banks begin to tighten policy, as they will – eventually. The bond market is slowly waking up to this prospect. However, a bigger contribution to stocks’ rise has likely come from the trend in corporate profitability and cashflow. It has been with us for almost as long as the great bull market in bonds, and may yet outlive it.

The fall in US profits in 2020 turned out smaller than many imagined in the depths of covid suppression, and the rebound is bigger than most expected – as is the accompanying economic revival. The first quarter earnings season is still incomplete, but it will firmly beat expectations. As analysts revise up the starting point, they will gradually lift their sights for the rest of 2021 – and 2022 too.

The most widely used gauge of US corporate earnings, S&P’s compilation of consensus estimates of operating income for its flagship 500 index, is quoted in dollars (calculated from market capitalisation and a sharecount divisor). In 2019, full-year earnings per share on this basis were at $157. In 2020, they eventually fell by roughly one-third, to $122 – but in the middle of the year, estimates were at just $110. For 2021, expectations currently are at $184 – that is, firmly above the pre-covid 2019 level – and estimates for 2022 are at $206.

Corporate earnings rebound

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



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

By way of perspective, at the post-GFC low in the third quarter of 2009, 12-month operating earnings were at just $40. A more cyclically comparable point might be their pre-GFC peak in the second quarter of 2007, when they were at $91. Taking 2022 as a cyclical high, this suggests a peak-to-peak growth rate of 5% per annum.

The S&P500 index itself has grown at a compound rate of 8% from its pre-GFC peak in late 2007 to today (ignoring dividends). Earnings growth can thus account for more than half the index’s ascent, leaving around 3% per annum to be ‘explained’ in terms of lowered long-term interest rates – which it can be (even if risk-adjusted interest rates are used).

As noted, a partial reversal of the trend in interest rates will undercut stock valuations, but for a while at least, rising rates will coincide with ongoing growth in earnings. And when eventually the next recession (and/or sea-change in corporate taxation, perhaps) comes along, the reversal in earnings could again prove temporary.

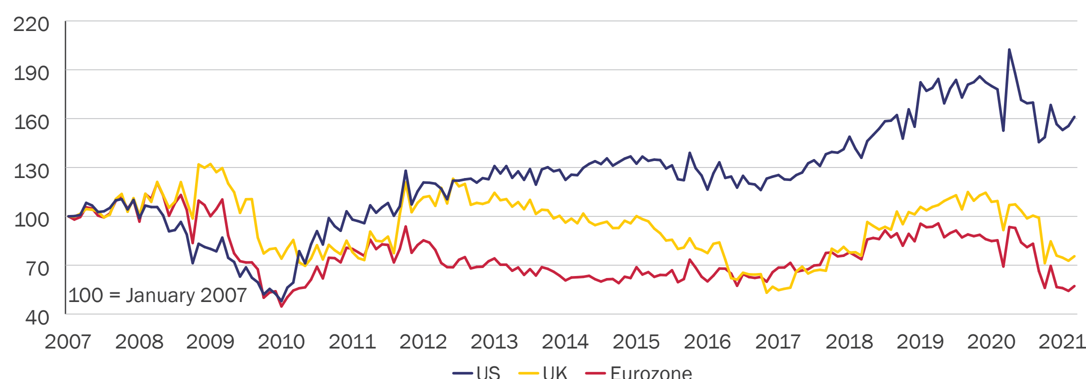
This may sound as if we expect rising stock prices to be the norm. We do, and we should. Interest rates fluctuate, but economies tend to grow. Unless valuations are clearly crazy, we should expect profits – and share prices – to follow GDP higher. There are likely to be further interruptions to this trend, and they may occasionally be lengthy and demoralising. But long-term investors’ focus should be on the more distant, brighter horizon.

There are some caveats. We can’t take analysts’ 2022 estimates for granted. Meanwhile, some of the last decade’s gains in earnings per share reflect reduced sharecounts – though the extent is often exaggerated, and stock buybacks are neither new nor necessarily a bad use of funds.

A more telling point is that the growth in developed world earnings since the GFC has been very lopsided, led by the US with its stronger top-line growth and dynamic technology bloc.

Lopsided earnings growth

Trailing 12-month MSCI earnings: US, UK, eurozone (indices, local currencies)



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

The eurozone and UK have lagged far behind: their earnings have actually fallen since 2007. (However, 2020's declines account for much of the net shortfall, and like those in the US are in the process of being reversed: the earnings shown in the chart are outturns, derived from MSCI indices, to end-March 2021 only). Unsurprisingly, both the eurozone and UK markets have underperformed hugely.

Nonetheless, the point to keep in mind when things turn bumpier at some stage is that the bulk of the last decade's stock price appreciation in the biggest market has been based not on pure fancy, but on audited income statements.

Kevin Gardiner — 30 April

Emerging Asia overtaken?

What's happened?

From a peak in mid-February, the emerging Asian stock market has fallen while the wider global market has risen. What's going on?

Some perspective helps. The bloc remains a net outperformer since end-2019, and the recent reversal largely reflects one of the local authorities' periodic attempts to shepherd stock prices in China (roughly two-thirds of the regional MSCI index). A particularly volatile episode saw the index surge in 2014 and early 2015, before falling by two-fifths to early 2016.

Chinese officials, having reassured investors in early 2020, perhaps too successfully, were more recently warning against overconfidence, and signalling tighter credit. In this they may also have been too successful. While MSCI China outperformed even the US market in 2020, it has fallen by a fifth from its February peak even as the S&P 500 has been hitting new highs – with the authorities reportedly intervening in support again after some particularly sharp sell-offs in March.

South Korea and Taiwan, which make up most of the rest of the bloc's MSCI weight, have been performing relatively well in 2021 so far, muting China's fall. (India, the other large-ish market in the group, is struggling with covid problems, but has not weakened as much as China. Hong Kong and Singapore are also in the geographical region, but are classified as developed markets.)

We have favoured emerging Asia's stock markets, and China's within them, despite, not because of, the Chinese authorities' recurrent attempts at fine tuning. Even the Chinese Communist Party cannot deliver the smooth upward progression that it perhaps imagines would best echo rising collective prosperity. Its misguided pursuit of a 'slow bull market' may illustrate a residual wariness of markets' animal spirits (not that Western governments have exactly been embracing market volatility of late). Such measures can backfire.

Tactical (short term) outlook

Emerging Asia was the first to be hit by covid suppression, and the first to rebound. China, South Korea and Taiwan are all big exporters to the US, whose own economy has also been relatively quick to revive. Strong exports from the bloc help explain why world trade has been booming.

Meanwhile, stock valuations have fallen back as the bloc has underperformed. It is still relatively expensive compared to its own history, but less so than most of the rest of the global market – particularly if its relative profitability has yet to fully register its recovery.

However, official interventions are not the only short-term headwind. As a commodity importer – usually an advantage – the region loses from stronger metal and energy prices.

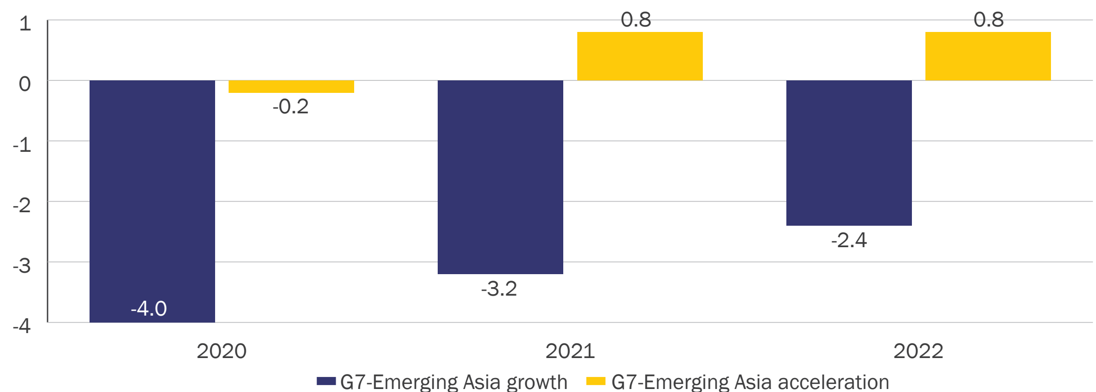
Geopolitical stresses remain too. Biden is more diplomatic than Trump, but trade threats have not disappeared. We've noted here often that China is the most protected big economy, and will have recognised that the west has some legitimate complaints. But President Xi is in no hurry to embark on deeper, structural reforms. Meanwhile, Hong Kong's unease has quieted, but is far from being resolved.

Perhaps most importantly, China will never drop its claim on Taiwan, and tension has been rising again of late. That said, an early or dramatic denouement may not be inevitable or even likely. Stresses in the region are not new. I have a book (*Dragon Strike*) which outlines fictionally a very plausible regional conflict, including an invasion of Taiwanese territory. It was published in 1997.

Perhaps more subtly, investors' tactical focus may start to move beyond the immediate cyclical rebound, and towards the eventual fading of growth rates as local base effects become tougher. Excitement may shift elsewhere.

G7 economies accelerate most

GDP growth and acceleration: G7 economies – emerging Asia (percentage points)



Source: IMF World Economic Outlook, Rothschild & Co.
Past performance should not be taken as a guide to future performance.

The chart shows IMF forecasts for the G7 developed economies, and for emerging Asia: specifically, it shows the differences in the two blocs' rates of growth (dark blue bars), and the differences in the changes in the rates of growth (yellow bars). The G7 bloc has less growth, but in 2021 and 2022 it has more acceleration – a lower top speed, but more torque maybe.

Strategic (longer term) outlook

On a longer-term view, however, we think the investment case for emerging Asia remains compelling. Most of the world's population is there, but most of the world's economy, and particularly its capital markets, isn't – yet.

They are likely to be, eventually. With borders open to ideas and capital, and people's aspirations and capabilities similar the world over, the centre of gravity of the world's GDP and market capitalisation will continue to shift eastwards.

Further globalisation may not be essential (though we think it quite likely – up to a point: a lot of business will always have to be done locally). Generally, barring a global shift towards autarky and collectivism, aggregate incomes and wealth will slowly become more aligned with populations (in the process, reducing global inequalities further).

In addition, emerging Asia benefits from relatively diversified economies; stable (if sometimes unattractive to western eyes) governments; and relatively sound finances (a lesson learned from the regional crisis in 1997: government debt is small, foreign currency reserves are high, and current accounts are often in surplus).

There are still some tricky long-term developments to navigate. For example, in addition to somehow resolving trade tensions and Taiwan, we have yet to see how China will manage the removal of capital controls, the inflated balance sheets of its state-owned enterprises, and the further liberalisation of its domestic economy; or how India will reform and develop its agriculture, distribution and banking sectors. But we still see plenty of long-term stock market headroom.

Kevin Gardiner — 30 April

Value stocks – a long-awaited turning point?

2020: the year of the 'growth' stock. With hindsight, it seems obvious – lower interest rates and more online activity proved a boon for those companies with the best (perceived) long-term growth prospects. It was their best relative return in half a century, though they had already performed strongly in previous years.

But has that pendulum finally started to swing the other way?

2021 may finally be the long-awaited turning point for 'value' stocks, ending growth's 13-year winning streak. The quarter just concluded was the best relative return for 'value' stocks in over two decades.

Scepticism is understandable: value names may be cheap for good reason; conventional valuation measures can be misleading; the easy gains may have already been made. Perhaps most importantly, official interest rates soon remain low, giving further support to those long duration stocks.

What's in a definition?

Since Benjamin Graham popularised value investing back in the 1950s – favouring stocks at a discount to their underlying value – it has become a cornerstone of many investment philosophies. And for good reason: value stocks, over the very long-term, have outperformed. Warren Buffett is one of Graham's many disciples.

The traditional approach defines 'value' and 'growth' stocks according to their price-to-book ratios. Through this lens, the spread between value and growth blocs remains near its widest level in two decades. Other valuation metrics tell a similar story.

In absolute terms, this dislocation seems to reflect growth being expensive, rather than value being unusually cheap. That said, energy, a core value holding, underperformed sharply in March last year. Today, it remains the one notable sector below its pre-crisis price level – despite the oil price having more than fully rebounded. It may stay cheap, however: structural as well as cyclical features are doubtless playing a part – notably ESG concerns, and the slow passing of the oil age.

Meanwhile, the technology sector, a growth stalwart, outperformed even defensive sectors during last year's market rout, then outperformed most cyclical stocks on the way up. It is at its most expensive levels since the early noughties (though still some way below the irrational heights reached in 2000).

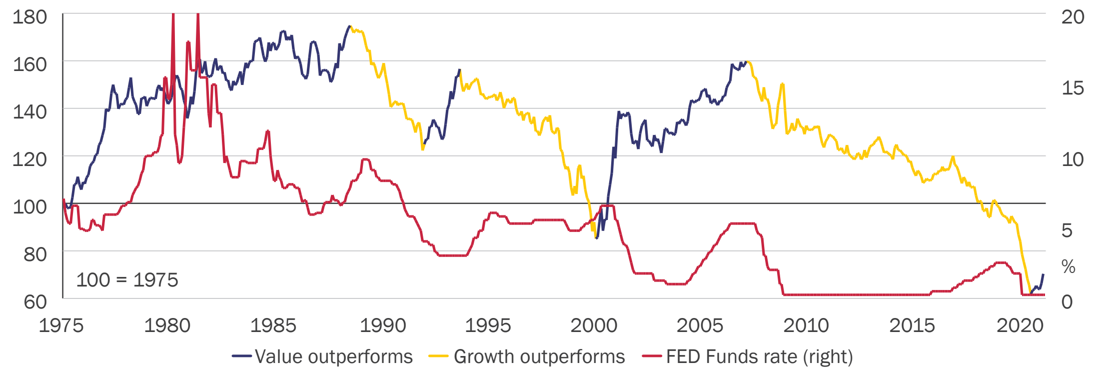
Interest rate debate

Central banks' extra commitment to a "lower for longer" interest rate stance is perhaps the most obvious recent influence in the value vs growth debate.

Equities are arguably the longest duration asset class – they can be seen as perpetual bonds, albeit risky ones, but with a growing dividend coupon. Growth companies' cashflow lies furthest in the future, and they are potentially more sensitive to any normalisation in interest rates.

Value turning a corner?

US value/growth stocks, indices (US value vs growth relative returns)



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

Our reason for thinking that we may be slowly turning a corner reflects the impact of today's vigorous economic growth on expected interest rates, in the context of those elevated growth valuations. Central banks are likely to keep policy rates on hold for some time yet, but bond markets have sniffed an eventual rebound.

Many value stocks are heavily geared into the economic cycle. Their earnings are rebounding briskly. And longer term, if we do see a faster normalisation in rates than the central banks are signalling – a likely outcome in our view – then value may yet receive a further boost. Growth investors no longer have things all their way.

Kevin Gardiner — 9 April

Fireworks ahead

Breaking a habit: a short-term 'forecast'...
We don't usually make economic forecasts.

This doesn't mean we have no views about the future. We couldn't offer investment advice without them. But as long-term investors, those views are very broad.

For example, we usually expect economies to grow more often than not. We also assume that interest rates and security valuations will eventually normalise, though our definition of 'normal' is fluid. These views may seem bland, but when set against confidently detailed visions of apocalypse they can be remarkably useful.

That said, occasionally we are confident (or rash) enough to be a little more specific about the future. This is one of those times (though we're still not offering numbers).

A possibility often discussed here is hardening into probability. Western economic growth seems set to surge well in excess of trend for a while – after most of the ground lost to virus suppression has already been retraced. This will look less like rebound and more like momentum.

We feel able to offer this short-term 'forecast' after a run of remarkable data, and the confirmation of the looming disbursement of another hefty US fiscal package ($2 trillion is equivalent to roughly a tenth of US GDP).

In addition, the big central banks continue to say that they will not "take away the punchbowl" from any economic party any time soon. Instead they expect to keep official interest rates low, and in the case of the ECB are even trying to stop bond yields from rising in anticipation of an eventual hike. They are positively encouraging spending to go on a tear.

For the key US economy, those data recently include some remarkably-upbeat business surveys, and a first quarter in which US GDP would have more than regained its pre-crisis level had it not been for a big run down in inventories – paving the way for a stronger second.

In the eurozone and UK, the year started more resiliently than had been feared after the tightened covid restrictions, and forward-looking survey data suggest a vigorous second quarter here too.

It is a long time since things pointed so clearly to rapid growth in both the US and Europe. And while we have our misgivings about unnecessarily generous policy, and are braced for higher inflation, for now there is enough spare capacity even in the US economy for surging demand to be met largely by output rather than inflation. Either way, further upward revisions to expected corporate earnings seem likely.

…and a medium-term clarification

The IMF recently became the latest official institution to raise its estimates of growth in 2021. It is a safe bet that it will not be the last. It is unlikely even to be the last upward revision from the Fund.

After a fall of 3% in 2020, the Fund now sees real global GDP rising by 6% in 2021, compared to a January forecast of 5.5% (5.2% in October). At some stage, probably in the first half of the year, global GDP will regain and pass its pre-crisis levels, confirming the downturn as horribly sharp but short. To its credit the Fund always projected a relatively quick rebound, but back in June 2020 was expecting a bigger fall (at -4.9%).

The room for further upgrades is hinted at by the modest revisions, and the Fund's prediction that none of the big developed economies will be above pre-crisis projections until 2024.

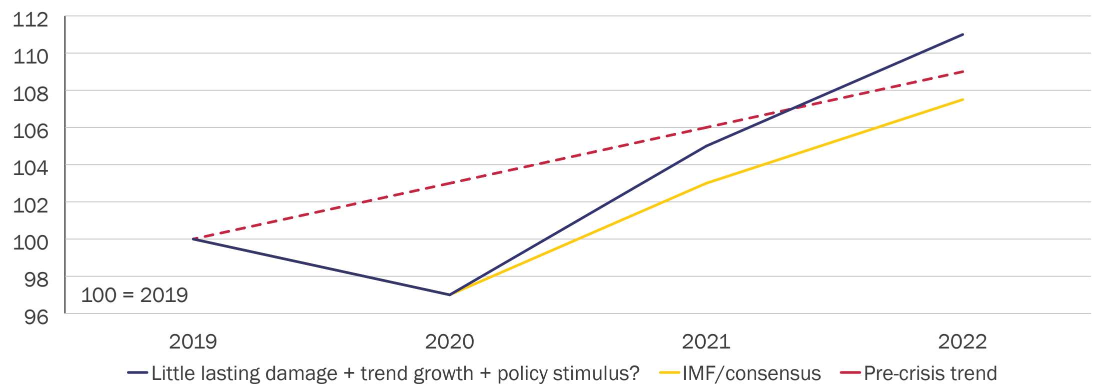
The Fund may be overlooking the realistic possibility that global growth doesn't just catch up to previous levels, or trendlines, but significantly overshoots for a while, implicitly 'making good' some or all of the lost output, the cumulative shortfall between trendline and outturn. We have noted here before how the UK's Office for Budgetary Responsibility may have been similarly unimaginative in their UK assumptions.

On this view, the looming surge in growth may turn out to be part of a more prolonged period of unusually rapid expansion.

Consensual views like the Fund's understandably worry that the downturn did lasting damage – that productive assets and workers' skills may be effectively stranded by business failures and educational shortfalls. But what if the loss of capacity is not large – if businesses reopen and adapt, and employment returns, faster than feared?

A stylised catch-up scenario for global GDP

Trendline, consensus and catch-up projections



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

The chart illustrates a possible catch-up scenario. Trend growth in global productive capacity, illustrated by the dotted line, may not have been affected much. But monetary and (especially) fiscal policy is now much more expansionary than it was – and this could take us beyond the pre-crisis trend, for a while at least. The policy stimulus, which would not otherwise have happened, may effectively start to back-fill the shortfall.

In economist-speak, at this point the 'output gap' is shrinking: GDP is above trend, hence the inflation risk noted above.

Investment conclusion?

Of course, the portfolio impact of all this will still depend on unpredictable circumstance. Guessing correctly that the global economy would shrink traumatically in 2020 might have led you to shun business investments – mistakenly, as it turned out. Equally, the looming surge in growth (and corporate profits) now is no guarantee that stocks will rise throughout.

However, last year turned out well for stocks partly because of the rapid policy response. That support will not be reversed in 2021 at least, and circumstances may remain favourable to stocks for a while longer. We prefer them to other assets, particularly bonds; and more strongly than we did.

Kevin Gardiner — 8 April

Digital money goes mainstream

Private cryptocurrencies – unofficial digital currencies backed by secure cryptographic technology – may be one of the more exciting financial innovations of the past decade. The Distributed Ledger Technology (DLT) and cryptography that underpins Bitcoin, Ethereum and the like, is digital, secure and private. These features do not necessarily make them sensible investments.

But it is not only private currencies – reportedly numbered in the thousands – that are gaining momentum: Central Bank Digital Currencies (CBDC) also have the potential to upend payment systems and accelerate the demise of paper money.

In late 2019, the Bank for International Settlements estimated that almost four-fifths of monetary authorities were considering such virtual currencies, with some at pilot study stage. Among the majors, China's official digital currency, DCEP, is perhaps the most developed, and has already been rolled out across many major cities. The European Central Bank is set to decide on a digital euro in mid-2021 and the Bank of Japan may start to test a digital yen later this year. The Bank of England and UK Treasury have just announced a task force to study the possibilities.

Traditionally, only central banks create money, in the form of notes and coins, and (more importantly) electronic accounts. Physical currency in fact only accounts for just over a third of the US monetary base: the remainder already exists digitally as commercial bank deposits ('reserves') at the central bank. These commercial banks can in turn create wider money by granting loans in excess of these reserves (the 'fractional reserve banking' and 'money multiplier' model). The new money lives electronically in the banking system's accounts.

A CBDC could disrupt this existing model by offering a digital payment instrument to the public at large. Such a digital currency would run in parallel to existing tender.

The infrastructure is the distinguishing feature: though most transactions are already recorded digitally, the current system requires commercial banks to record and reconcile these movements in their ledgers. A CBDC would remove the need for banks as intermediaries.

There are some obvious benefits to a central bank validated virtual currency:

- lower costs associated with managing cash;
- simpler settlement and instantaneous clearing;
- greater financial inclusion for unbanked households;
- greater stability of the payment system as large banks become less important; and
- enhanced monetary policy transmission if deposit rates become policy tools.

There are challenges, however. Will banks lose part of their raison d'etre? Would loans end up being more closely matched to deposits, leading to a narrower money supply and restricted credit creation?

There will be some notable differences between 'unofficial' digital currencies and 'official' central bank versions. CBDCs that utilise a decentralised ledger would rely on a so-called private network, whereas most cryptocurrencies, such as Bitcoin, rely on a public or 'permissionless' distributed ledger.

Private ledgers are typically verified by a specified group, such as a collection of banks or members of the same network. Crucially, these digital currencies are not ‘mined’: they don’t rely on the ‘Proof of Work’ model that rewards public miners for validating a transaction, removing the wasteful energy consumption typically associated with Bitcoin and other public networks.

An obvious question is whether the appeal of the new unofficial currencies would be undermined by an ‘official’ digital currency. It will depend on how people view that appeal to begin with.

Traditionally, we think of ‘money’ as having three functions: a means of payment; a unit of account; and a store of value.

People buying Bitcoin, for example, expecting it to be a useful form of tender or unit of account may be disappointed. Its wild volatility and clunky transactional times will limit its adoption.

Most buyers probably see it not as a store of value, but in expectation of its value rising even further.

But others see private money as less likely to be created profligately (the thousands of private currencies already in existence notwithstanding). In a potentially inflationary world, they prefer to trust Bitcoin over official money as a store of value (despite it having no inflationary track record).

For such Bitcoin holders, CBDCs – as another ‘official’ money, capable of being created when governments and central banks see fit – can never replace what they see as private digital currencies’ most important characteristics: their scarcity, and independence of the authorities.

China’s DCEP, for example, is supposed to help connect the largely unbanked rural poor (nearly a fifth of the population). However, Beijing’s authoritarianism, and its desire to check Tencent and Alibaba’s digital dominance, can’t be overlooked. It has been suggested that DCEP amounts to a new form of potential surveillance.

The jury is still out on CBDCs. Their design and impact will surely vary from country to country. But the jury is also still out on whether today’s unofficial, private moneys – such as Bitcoin – eventually morph into credible stores of value. It would be ironic, but not surprising, perhaps, if most private cryptocurrencies were to be outlived by new forms of official money that arguably wouldn’t exist had it not been for Bitcoin’s trailblazing.

Victor Balfour — 23 April

Non-fungible tokens

“A digital-only artwork has sold at Christie’s auction house for an eye-watering $69m (£50m) – but the winning bidder will not receive a sculpture, painting or even a print. Instead, they get a unique digital token known as an NFT.”
BBC 2021

Bitcoin is a digital currency; non-fungible tokens (NFT) are effectively digital collectibles.

Fungibility is where two goods are interchangeable. Money is fungible, both in analogue and digital forms: you can swap one unit for another and get exactly the same sort of thing. Non-fungible tokens are unique.

Recent hype around NFTs stems from their use in the art world. An NFT provides the buyer with a certification of ownership, backed by a unique token on the Ethereum blockchain ledger. While each token is unique, the art itself is replicable. Like anything digital, exact copies of the same piece can be made and distributed, but the one to which the NFT is attached is the ‘original’. As a result, an NFT’s value is derived from the object to which it certifies ownership.

To date, the most that someone has paid for a token is $69m: a piece of digital art auctioned at Christie’s. This is the third most expensive auction sale ever of a work by a living artist – but what the buyer really received was not the artwork itself, nor any copyright or reproduction rights for that matter, but simply a certification of the art’s authenticity.

NFT's are not limited to the art space. Jack Dorsey's first tweet written in 2006 was sold as an NFT for $2.9m in March, and recorded music has also been linked to NFTs: as they become more popular, it seems as if increasingly varied forms of digital media are being paired with them. More than $2bn NFTs were sold in the first quarter of this year – a large increase on the $93m NFTs sold between October and December last year, though data are inevitably patchy, and there are no regulators. This number is large in absolute terms, but remains tiny in comparison to cryptocurrencies, and inconsequential in the wider investment universe.

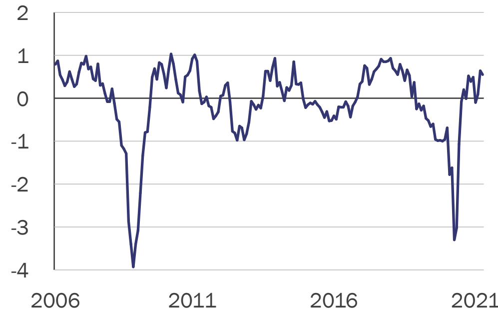
Despite the 'digital bandwagon' flavour, NFTs aren't necessarily 'bad'. Aside from being indestructible and easily verifiable, they give digital media creators a platform – a way of digitally 'signing' their work, perhaps – which might open a market which might otherwise not have existed. But since NFTs themselves are only as valuable as the items they are attached to, they are not 'assets' in their own right. Digital collectibles are no more (or less) attractive than other collectibles, which do not really belong in conventional investment portfolios to begin with (because of their lack of liquidity and 'duration'). And it is even more difficult to value collectibles, digital or otherwise, than mainstream assets like bonds, stocks and real estate.

Charlie Hines — 28 April

Economy and markets: background

Growth: major economies

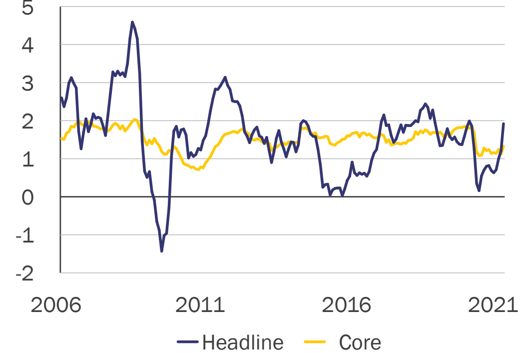
Business optimism: standard deviations from trend



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

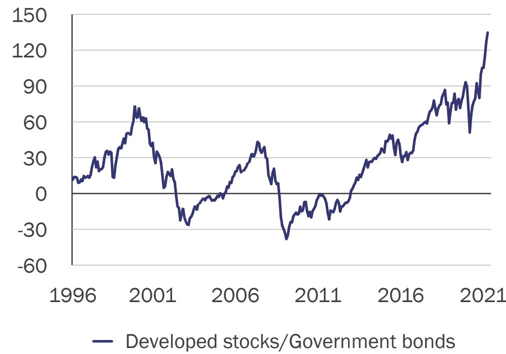
G7 inflation

%, year-on-year



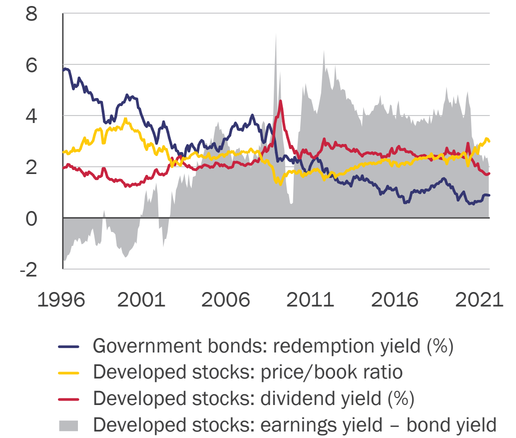
Source: OECD, Bloomberg, Rothschild & Co

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	-5.5	18.3
10-yr UK Gilt	0.8	-4.1	8.3
10-yr German bund	-0.2	-2.7	6.6
10-yr Swiss Govt. bond	-0.2	-2.0	2.4
10-yr Japanese Govt. bond	0.1	-0.8	0.7
Global credit: investment grade (USD)	1.1	0.1	14.3
Global credit: high yield (USD)	4.4	20.0	18.7
Emerging (USD)	3.9	12.2	17.9

Source: Bloomberg, Rothschild & Co

Selected stock markets

Dividend yields, recent local currency returns (MSCI indices)

	Yield (%)	1yr (%)	3yr (%)
World: all countries	1.7	42.0	46.2
Developed	1.7	41.9	48.3
Emerging	1.9	42.9	31.1
US	1.3	47.8	67.3
Eurozone	2.0	38.2	18.3
UK	3.7	20.8	1.8
Switzerland	2.8	16.2	32.5
Japan	1.9	33.5	17.4

Source: Bloomberg, Rothschild & Co

Selected exchange rates

Trade-weighted indices, nominal (2000 = 100)

	Level	1yr (%)	3yr (%)
US Dollar (USD)	106	-8.2	3.1
Euro (EUR)	131	4.0	4.3
Yen (JPY)	90	-8.8	2.0
Pound Sterling (GBP)	81	2.4	3.2
Swiss Franc (CHF)	165	-1.4	11.1
Chinese Yuan (CNY)	137	3.9	0.3

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 6 May 2021.

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

Notes

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In an environment where short-term thinking often dominates, our long-term perspective sets us apart. We believe preservation first is the right approach to managing wealth.

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