FK Market Commentary

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Dear customers of Finanz Konzept AG, Dear readers!

We have only just reached the half-way mark of 2021 and yet the epic saga that is global finance has taken so many twists and turns already, the year could easily be considered eventful based on the present state of affairs alone. The S&P 500 has already appreciated another 12% from previous record levels, as have many European indices, such as the OMX Copenhagen Benchmark or the DAX. Real estate markets are broadly frothy and, in some countries (e.g. Sweden, New Zealand and the United States), in overt bubble territory.

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But it has not all been smooth sailing, as the sudden movement in bond markets (particularly Australia), the boom in ‘meme-stocks’, the sudden plummeting of crypto assets and the collapse of Greensill and Archegos Capital Management have impressively demonstrated. The Federal Reserve leadership are clearly acutely aware of the ball lying in their court but remain extremely hesitant to test the waters with anything more but minimal lip service to tightening monetary supply. With distortions and pressures on the global financial system continuing to mount unabatedly, it is a matter of when and not if something has to give way. As always, we remain vigilant but open minded in our thinking on where the next shocks will come from.

We wish you an exciting read!

Yours sincerely,

Lars Oberle

Director - Finanz Konzept AG

In Short

Money and Capital Markets Capital market interest rates in % (10 year bonds)

	31.12.20	30.06.21	6 M	12 M
CHF	-0.551	-0.241	↗	↗
EUR (DE)	-0.575	-0.1930	↗	↗
GBP	0.394	0.730	↗	↗
USD	0.761	1.471	↗	↗
JPY	0.021	0.037	↗	→

- The Federal Reserve increases its margin through more flexible inflation targets
- The ECB uses its entire arsenal to boost the Eurozone economy

We recommend:
- Short-term high-quality American corporate and government bonds (USD)
- Reduce long-term bonds (USD)

Stock Markets Indices

	31.12.20	30.06.21	6 M	12 M
SMI	10 703.51	11 942.72	↗	↗
EUR STOXX 50	3 552 .64	4 064.30	↗	↗
FTSE 100	6 460.52	7 052.62	↗	↗
S&P 500	3 756.07	4 297.72	↗	↗
Nikkei	27 444.17	28 707.04	↗	↗
DAX	13 718.8	15 698.64	↗	↗

- The market is very susceptible to brief and sharp corrections
- Expensive tech and US stocks

We recommend:
- Reduction of overheated Tech shares
- Additional caution with US equity levels; increased readiness to slow purchases or to reduce portfolio share if volatility increases

Forex Markets Currencies

	31.12.20	30.06.21	6 M	12 M
EUR / CHF	1.0827	1.0970	↗	↗
EUR / USD	1.2214	1.1858	↘	↗
EUR / JPY	126.48	131.72	↗	↗
GBP / CHF	1.2017	1.2794	↗	↗
USD / CHF	0.89841	0.9251	↗	↗

- U.S. dollar remains under pressure from FED monetization of stimulus
- High volatility in emerging market currencies
- British Pound strengthens

We recommend:
- Sell the USD into strength
- Buy the dips (EUR, JPY)

Commodities in USD

	31.12.20	30.06.21	6 M	12 M
Brent Oil (USD)	51.22	75.13	↗	↗
Gold (USD)	1 893.66	1 770.34	↘	→
Silber (USD)	24.97	26.14	↗	↘
Platin (USD)	1 075.50	1 077.50	↗	↗

- Crude oil prices have risen very meaningfully
- Copper prices at highest level since 2012

We recommend:
- Switch from palladium to platinum
- Weigh crude oil neutrally
- Hold gold/silver

Crypto-Markets

	31.12.20	30.06.21	6 M	12 M
BTC (USD)	28 841.57	35 040.84	↗	↗
ETH (USD)	751.63	2 274.55	↗	↗
XRP (USD)	0.2118	0.71	↗	↗
BCH (USD)	358.76	526.30	↗	↗
LTC (USD)	129.48	144.14	↗	↗

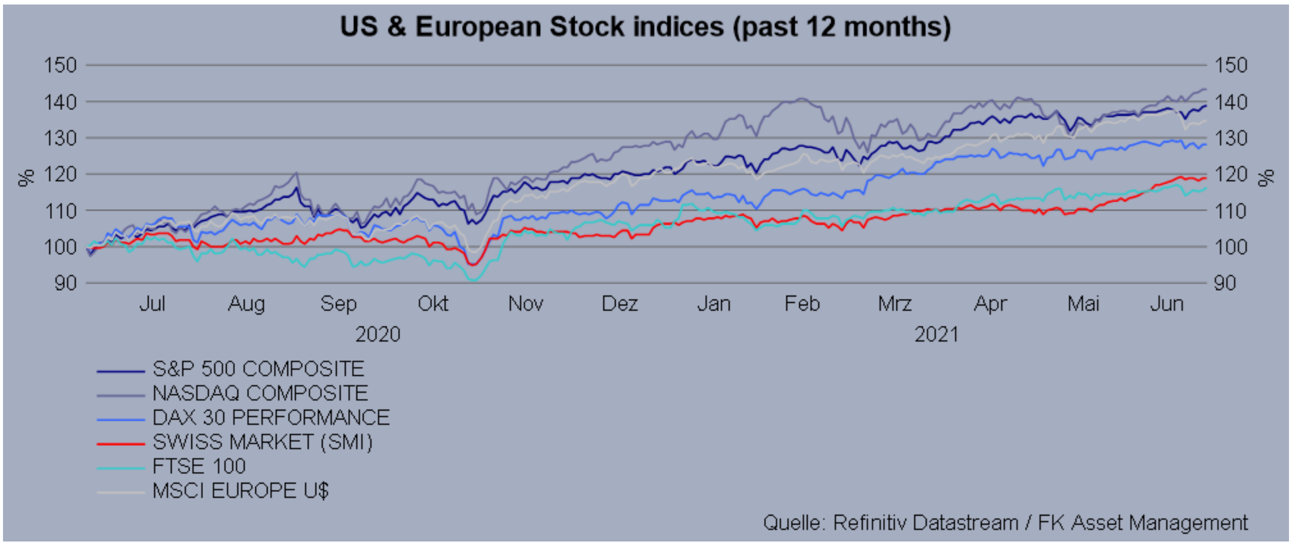
- Global crypto market reaches market capitalization of 1 trillion
- Crypto rally interrupted
- Small follow-up purchases in corrections

We recommend:
- Hold existing positions / realize partial gains in bitcoin
- Purchases of Ethereum in case of strong corrections

Swimming in the deep end of the pool

Markets, it seems, continue to be on a relentless march higher. In January, the S&P 500 began its journey from 3756 and has not looked back, reaching into the 4200s. It is not obvious that this should be so; though the United States, the United Kingdom and other major economies have been able to vaccinate their populations at a rapid pace and begun lifting lockdown measures entirely, many of the formerly less or even unaffected countries now are in the throes of serious difficulties. Australia, Taiwan, South Korea and most EU member states are further battling low levels of motivation to get the vaccines – especially as multiple countries have withdrawn or refused to give emergency permission to the AstraZeneca platform, citing data irregularities with unusually high incidence of blood clots. Perhaps most impressive has been the Indian government's complacency and the ensuing havoc the second wave is wreaking across all levels of society. Beyond the human suffering and staggering economic costs, the political ramifications are significant and will likely factor into decision making whose outcomes will spill across local borders. Domestic pressure in India could cause the leadership to seek scapegoats abroad and further antagonize Pakistan, destabilizing the already tense region, for instance. Caution is certainly advisable, particularly with transactions reliant on low global volatility.

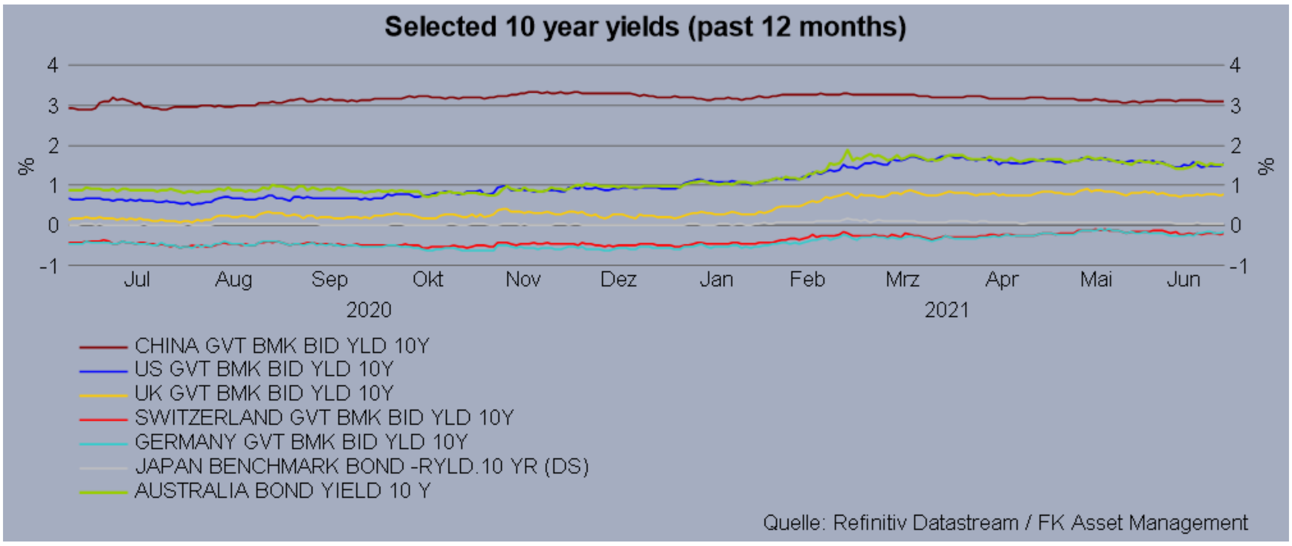
In general, the macroeconomic conditions remain poised for painful surprises and it is up to central bank committees to weigh the costs and benefits of yet more stimulus and deficit financing. US-president Biden's first budget foresees an awe-inspiring increase of 50% of government spending, year on year. With such enormous shifts in spending and investment, much of the United States' future growth in the first half of this century will be determined by the quality of decisions made in allocating these vast resources. Though few dispute that a renewal of US infrastructure was overdue and will prove fruitful, it is less certain whether this will be enough to outweigh the costs and unintended side effects of this new fiscal regime. While in the medium-term key commodities markets will run quite hot in anticipation and accommodation of the new spending programs, this will also cause growing inflationary expectations which in turn could force interest rates higher and punish ebullient asset price levels and overly careless market participants. The global situation remains highly challenging even for veteran asset allocators.



Flighty bond prices across the globe

As 2020 has in numerous ways been a historic year, it should not come as too great a surprise that 2021, too, is shaping up to be a year of aberration and extremes in its own right. Perhaps the financial realm observed most widely in the first half of this year have been debt markets. The yield curve has not only ceased its temporary inversion but in several instances rates have inched up noticeably. Most acutely these have made themselves felt in Australia, where every maturity from 4 to 30 years has added to its respective yield. To illustrate just how large the increases have been on a relative basis, the Australian Government 8 Year which was offering 0.753% six months ago, is trading at 1.388% in June – even with the Reserve Bank of Australia signaling a cash rate of 0.1% until at least 2024. Clearly, market participants have begun pricing in an increase in inflation, though the implied levels are still quite modest.

Worth further contemplation is the synchronicity of global markets which at this scale and in a bull market is highly unusual. It also poses the question of true risk levels underlying lending and securitization in the global financial system. Seeing as in recent months several significant shocks have occurred involving most systemically important banks (e.g. the Greensill case, Archegos Capital Management), the medium-term health and resilience of the global financial system should be of real concern. Particularly the lack of transparency in the CLO-area should not be brushed off lightly. One of the key ingredients of systemic financial crises is the excessive build-up of leveraged credit exposure in major nexuses of transaction and lending, and CLOs absolutely fit this description. Should default rates of junk or near-junk enterprises rise significantly – not outside the realm of possibility, considering the prolonged lockdowns and non-zero risks of resurgence domestically or abroad – the systemically important banks might find themselves forced to do less business all at the same time. This would mean that credit supply would constrict rapidly despite nominally low interest rates and would put further pressure on the firms underlying CLOs and reinforce a vicious cycle of default and reduced lending. Even if the Federal Reserve decided to intervene aggressively, it is unclear how much room for action there is between rising inflationary expectations, rapid growth in the debt burden and less than full employment.



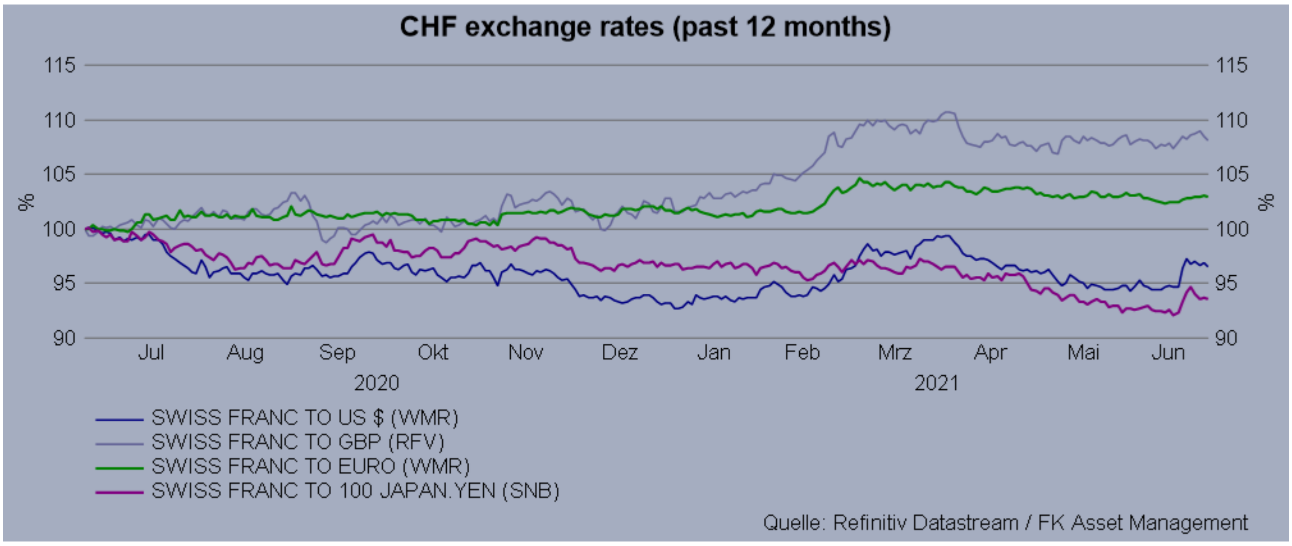
Return of the Pound Sterling, pain in crypto Market

Against most currencies, the Swiss Franc has remained mostly flat, save from some temporary and limited appreciation of the USD and EUR, which by have already reversed by June. The Japanese Yen remains on its slow descent trajectory, falling from 0.0086 in January to around 0.0082 in June. The Pound Sterling rose as high as 1.30 CHF in March and April and presently hovers around 1.27 – possibly reflecting the easing off of Brexit anxieties. The decades old problem of the Swiss Franc's status as a safe currency remains unchanged, with the SNB ready to expand the swap facilities with its international counterparts in order to keep the Franc from appreciating too sharply in times of uncertainty or panic and thus damaging Swiss exporters. Though little more than speculation, it seems fairly likely that with pandemic related conditions remaining uncertain and debt monetization abroad accelerating at far above the Swiss pace, the SNB will have to remain somewhat active in suppressing further undue appreciation of the Franc.

Other 'currency' markets have been far more active in the first half of this year, however. Bitcoin continued its explosive upward path and while one unit cost around 10´000 CHF in September, it went for 26´000 at the end of December 2020 and after nearly reaching 60´000 CHF in April, fell back to 30´000 this June. It is noteworthy how close the correlation in price movements has been between the various tokens – whether they be Ethereum, Bitcoin or the infamous Dogecoin. This poses the question why there is such a profound lack of differentiation between ostensibly quite different use and feasibility cases and how come a parody token has suddenly gained such significant traction versus the previously untouchable incumbents. Certainly, suggestions that the markets for crypto tokens are remotely efficient ought to be viewed with more than a little skepticism.

With the May CPI inflation numbers once again above consensus, doubts about the transience of higher rates of inflation are growing. Even Janet Yellen in her recent public communication tentatively suggested that interest rates might possibly need to rise in response to inflation and other factors but assured that this would be good for the United States of America.

Will consumer goods inflation continue to exceed expectations, even as unemployment checks return to their less generous levels and labor market mismatches become more apparent? Time will tell; yet it clearly has grown into a more acutely felt possibility among allocators and market pundits.

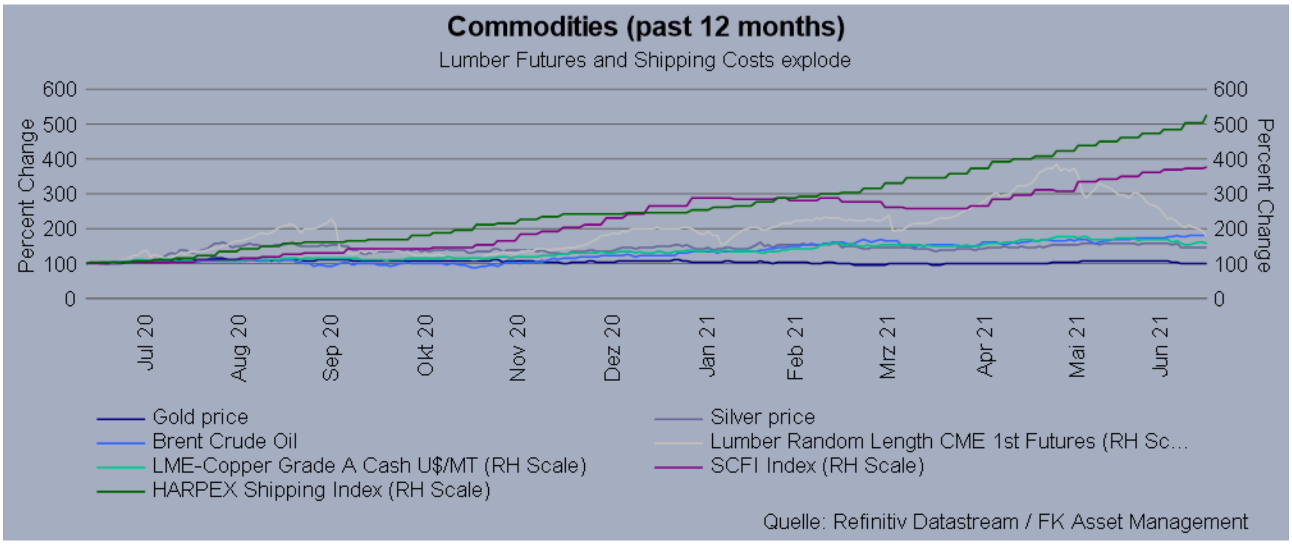


Leaping lumber & shipping costs tell of supply chain woes

While commodities markets are not exactly known for tranquility, these past six months have been unusually action-packed. Lumber futures for instance, began the year at 700 USD, then shot upward to a peak of 1670 USD wreaking panic among homebuilders with low inventories and crashed back down to 900 USD in the span of just two months. While mostly less extreme, many other commodities have mimicked this pattern and ended up at significantly higher price levels than at the beginning of the year, including copper, oats and US coffee. Brent oil has differed only insofar as it has continued to grow pricier with any meaningful correction yet to manifest. The price rises across the board have caused many to proclaim the return of inflation – though interestingly, gold futures are among the select commodities that have in fact declined from the beginning of the year.

An even bigger story than this price action is the disruption of supply chains which has dramatically intensified on a global scale. There are shortages of several critical elements of shipping routes, such as containers and harbor capacity. Every one of the six Shanghai containerized freight indices is at levels not seen for more than a decade, if ever, and the most extreme route, Shanghai-South America went from roughly the 500s to nearly 9000 USD per 20-foot equivalent unit. This truly extreme situation was not helped by the nearly full week that the Ever Given, a massive containership owned by the Taiwanese Evergreen Marine Corporation, blocked the entirety of the Suez Canal in Egypt. The Suez, being a vital trade artery without which Asian shippers would have to circumnavigate Africa in order to reach Europe, is but one of several vulnerabilities of the global trade network that have been laid bare by the pandemic and the resulting swings in supply & demand. Even within the US, lack of investment in key transport infrastructure, such as barge lanes on the major rivers, has more than just reared its head and is adding further to the difficulties.

Keen observers have noted that a significant driver of the recent inflation figures have been used cars, whose prices have grown by double-digit percentages in the last months. Interestingly, this shortage was itself caused in part by the global shortfall in semiconductors and the misjudgment by car manufacturers on how soon demand for cars would recover from the pandemic, leading them to cede their allotted volumes of needed microchips which has left their factories with nearly complete but nevertheless unfinished cars (in a modern car, breaking, steering, air conditioning and much else is regulated by computers).



News

This April Finanz Konzept AG said goodbye to its old offices at Schulhausstrasse and moved to its present location at Fraumünsterstrasse 27, 8001, Zürich – just off Paradeplatz, the beating heart of Swiss finance. Though leaving an office of many years behind is always bittersweet, we are pleased with our new location and now even more easily accessible to our clients, whom we are thrilled to be able to serve even more effectively with the change of scenery and ongoing growth of our firm. We look forward to many successful years here, as well as to enjoying the view of the gothic arches of the lovely historic Fraumünster church. Thus far, we have not yet managed to grow bored of its charms even one bit.

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2. Identifying your risk profile

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4. Implementation of your investment goals

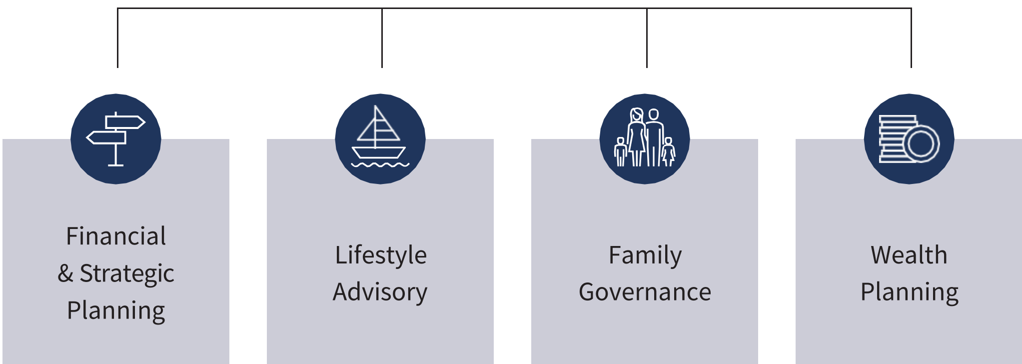
5. Active monitoring and management of assets

FK Execution Only Mandate

- Funds
- Social Investing
- Robo-Advisory
- Krypto-Investing

FK Family Office Services

FK Financial Consulting



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