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INVESTMENT MANAGEMENT

Stock exchanges signal economic boom

Investment Report – 31st March 2021

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If you take the stock market development as a yardstick, the Covid 19 pandemic is largely over from an economic point of view. The markets are anticipating a strong recovery in the current year and a positive economic development in the coming year. For investors, this has chiefly meant price gains for shares since the beginning of the year, but weaker prices for bonds and gold.

The New Year began as the old one ended, with optimistic investors and rising prices on the stock exchanges. Expressed in US dollars, this gave the MSCI World share index a boost of almost 5% in the first quarter. The stock exchanges in Amsterdam (the famous Tulips from Amsterdam send their greetings), Milan, Stockholm, Vienna, as well as in Johannesburg, Singapore and Taipei were particularly strong. In all these countries, the leading indices in local currency blossomed into double digits. The fact that the Euro and the Dollar simultaneously rose against the Franc has further embellished the blossoming for those calculating in Francs.

Average Growth and Inflation Expectations of the Economists polled in the "Bloomberg Composite Forecast":

	Real GDP Growth		Inflation	
	2021	2022	2021	2022
China	8.5%	5.5%	1.6%	2.3%
Germany	3.4%	4.0%	2.0%	1.4%
EU	4.3%	4.3%	1.5%	1.4%
United Kingdom	4.7%	5.7%	1.6%	1.9%
Japan	2.8%	2.1%	0.0%	0.5%
Switzerland	3.4%	2.9%	0.3%	0.4%
USA	5.7%	4.0%	2.4%	2.2%

The main driver of this development is, of course, the expectation that there will be a dynamic recovery after last year's economic slump. With the progress in vaccination in the industrialised countries, which is now starting to be seen in the straggling countries as well, the expectations of a buoyant economy may indeed be justified. The growth estimates, which were already rather optimistic, have recently been revised even further upwards. The OECD, for example, has almost doubled its forecast for global economic growth in the current year from 3.2 to 6.2%.

2021 a Boom Year?

Alongside China, the United States in particular is currently making a name for itself as a driving force. The US Federal Reserve is now predicting a domestic expansion rate of 6.5%, higher than the economists surveyed by Bloomberg are predicting on average (see table "Average Growth and Inflation Expectations of Economists polled in the Bloomberg Composite Forecast"). This would be the strongest growth rate since 1983.

In Switzerland, the KOF (Economic Research Centre of the ETH) forecast for 2021 is 3.3%. The Eurozone is also doing extremely well, thanks to a manufacturing industry that is expanding faster than ever before. The huge financial support programmes in the various countries are evidently having the desired effect.

Change in **Equity Markets since the beginning of the year:**

		Dec. 2020	Mar. 2021	Change
Asia ex Japan	MSCI AC Asia ex Japan	636.9	654.1	2.7%
Europe	DJ STOXX 600	879.6	951.7	8.2%
Japan	MSCI Japan	2'237.3	2'432.1	8.7%
Switzerland	SPI	13'327.9	14'015.0	5.2%
USA	MSCI USA	10'520.8	11'085.8	5.4%
World	MSCI AC World	8'008.5	8'402.6	4.9%
Hedge Funds	HFRX Global HF	1'380.5	1'398.3	1.3%

Development of index in local currency. Exceptions Asia ex Japan and World in USD. MSCI-Indices are net total return.

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However, concerns about having "too much of a good thing" are already emerging, for example, in America. In March, President Biden signed off on a $1.9 trillion Covid bailout package, effectively making "helicopter money", which until recently had been portrayed as a pipe dream, a reality. Now it will soon be raining money from the skies for (almost) all Americans.

On top of that, there is now an additional 2 trillion infrastructure package on the table. It is not only die-hard Republicans that fear this is now a bit too much of a good thing. Renowned Democrats, such as former Treasury Secretary Lawrence "Larry" Summers, also harbour their doubts. The concern is that such a package will not only correct the economic cycle after the crisis, but also overheat it at a later point in time when such measures are no longer necessary.

Rising interest rates and inflation fears

Therefore, it is no coincidence that interest rates have risen globally. In the USA, for example, the yield on 10-year government bonds has climbed to 1.74%, which has attracted attention around the world. Concerns about inflation have arisen in parallel to the rise in interest rates. However, it seems unlikely that inflation will soon launch into a gallop, as it is primarily a matter of baseline impact for the time being, based on the recovery of oil prices from a very depressed level, for example.

The **equity funds employed by us** achieved the following returns since the beginning of the year, partly exceeding their benchmarks:

Aberdeen Asia Pacific (USD)	0.7 %
Barings ASEAN Frontiers Equities (USD)	4.9 %
GAM Japan Stock Fund (CHF hedged)	6.7 %
GAM Japan Stock Fund (€ hedged)	6.9 %
Strategy Certificate SIM–Swiss Stock Portfolio Basket	8.3 %
iShares Core SPI ETF (CHF)	5.1 %
iShares Stoxx Europe 600 ETF (€)	8.0 %
Performa European Equities (€)	8.3 %
Performa US Equities (USD)	6.6 %
BB Adamant Medtech & Services Fund (CHF)	8.4 %
BB Adamant Medtech & Services Fund (€)	6.0 %
BB Adamant Medtech & Services Fund (USD)	1.8 %
State Street SPDR MSCI World Energy ETF (USD)	21.7 %

Performance in fund currency. Source: Bloomberg or respective fund company.

The rise in interest rates is also unlikely to simply carry on in this fashion. In any case, the Central Banks around the world are trying to keep short-term borrowing costs as low as possible in order to provide protection for the economic recovery. However, it is precisely this zero interest rate policy that is currently driving the economy and the stock markets. Ultimately, both may end up overheating. A vicious circle, one is tempted to say.

Economists, such as those of the independent research company, "Bank Credit Analyst", do not see the flare-up of inflation as problematic for the time being. Even a glance at the opinions of the analysts interviewed by Bloomberg (see the table mentioned above) does not yet reveal any alarm bells ringing across the board.

Conclusion: Do not lean out of the window.

Where there is light, there is always shadow. With the continued rise of share prices, the fundamental valuations of equities have also gone up. Speculative excesses in individual stocks (especially in the US high-tech sector) or the tumultuous collapse of aggressive investment vehicles such as Greensill and Archegos remind experienced investors that there is a limit to everything, even on the stock markets.

In addition, debts continue to be piled up as if there were no tomorrow, especially on the part of governments. These are reasons why, despite all the stock market and economic euphoria, we stuck to the slightly above neutral weighting of stocks in the first quarter and do not want to

Other funds employed by us
performed as follows:

Acatis IfK Value Renten Fond (CHF hedged)	-0.4 %
Acatis IfK Value Renten Fond (€)	-0.3 %
Franklin Templeton K2 Alternative Strategies Fund (CHF hedged)	-0.2 %
Franklin Templeton K2 Alternative Strategies Fund (€ hedged)	-0.1 %
Franklin Templeton K2 Alternative Strategies Fund (USD)	0.2 %
Lyxor ETF Euro Corp. Bond Fund (€)	-0.6 %
Pictet CH-CHF Bond Fund	-1.3 %
Swiss Rock Absolut Ret. Bond Fund (CHF hedged)	-0.1 %
Swiss Rock Absolut Ret. Bond Fund (€ hedged)	0.0 %
ZKB ETF Gold (USD)	-10.1 %

Performance incl. re-invested dividends where applicable.

lean too far out of the window. A closer look at the volatility of the stock markets, which has fallen to its lowest level in a year (see page 9), also suggests that there is perhaps too much nonchalance on the stock markets at the moment.

Asset Allocation

At its meetings, the Investment Committee decided on the following changes to the asset allocation for medium-risk balanced Swiss Franc portfolios, not subject to client's restrictions. Mandates in different reference currencies at times display different nominal weightings and weighting changes.

Money Market
The bottom line is that the liquidity ratio has not changed. The funds released from the sale of the energy certificate (see section US stocks) were used to increase alternative investments in the further course of the quarter. We, therefore, remain slightly overweight in cash.

Bonds
There was no change in bonds either. The rise in interest rates has pushed prices down slightly everywhere, but we are still a long way from attractive purchase prices. We are therefore still underweighted in bonds overall and are at the lower end of the range of the strategic asset allocation.

During the course of the year, yields on **10-year government bonds** increased almost everywhere:

	Dec. 2020	Mar. 2021	Change
Europe	-0.57 %	-0.29 %	49 %
United Kingdom	0.20 %	0.85 %	325 %
Japan	0.02 %	0.09 %	350 %
Switzerland	-0.55 %	-0.28 %	49 %
USA	0.91 %	1.74 %	91 %

Equities Switzerland
In the first quarter, Helvetic stocks were able to build seamlessly on the final quarter of the previous year and have risen further. The Swiss Performance Index gained 5.2% (overall performance consisting of price gains and dividends). In particular, the stocks of small capitalised companies (so-called small caps) and the stocks of medium-sized companies (mid-caps) dazzled with increases of + 10.1% and + 8.9% respectively. The heavyweights collectively gained 4.2%.

Our selection of direct investments, the "Swiss Stock Portfolio" (SSP) compiled according to value criteria, gained 8.6% in this period, outperforming the index by more than three percentage points. In this stock selection, too, with Coltene (+ 40%) and Bell (+ 21%) the biggest winners are from the small caps field. Among the medium-sized companies, Siegfried and Helvetia were particularly popular with around 19% performance each. All figures are understood as total income, i.e., price changes plus any dividends.

Measured on the **Price / Earnings ratio** using the latest 12 months profit figures, equity markets have developed differently:

	Dec. 2020	Mar. 2021	Change
SPI Index	22.6	21.4	-5.3 %
DJ STOXX 600 Index	51.4	53.5	4.1 %
MSCI AC Asia ex Japan	25.8	25.1	-2.7 %
MSCI Japan	30.7	28.8	-6.2 %
MSCI USA	30.4	32.4	6.6 %
MSCI AC World Index	33.3	34.2	2.7 %

Source: Bloomberg. MSCI-Indices are net total return.

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For the "Strategy Certificate linked to the SIM – Swiss Stock Portfolio Basket" certificate based on the SSP (Valor: 36524524, ISIN: CH0365245247), the performance for the first quarter amounts to a plus of 8.3%.

In the long term, the development of the "Swiss Stock Portfolio" is still quite presentable. Since 2012, the average annual performance of the SSP amounts to 14.8%, a result that beats the average benchmark's performance of 11% markedly. Since 2012, the total cumulative return of this strategy amounts to about 258%, while that of the index is 162%. The SSP figures bear transaction costs, whereas the benchmark index does not bear any costs.

Equities Europe

European stocks also got off to a fulminant start to the year. The Dow Jones Stoxx 600 Index achieved a total return (price changes plus distributions) of 8.2%. Our European direct investment selection, the "European Stock Portfolio" (ESP), even achieved 8.7%. Since the last rebalancing a year ago, the ESP has achieved a total return of 55%, the benchmark, however, produced an increase of around 34% during this period.

In the figures for the ESP, transaction costs and withholding taxes are deducted, whereas the reference index is naturally calculated without bearing any costs. The total cumulative performance of the ESP since 1993 amounts to about 1021%, while that of the benchmark to about 624%.

Among the suppliers of the best performance in this value stock selection in the past three months were the stocks of Dialog Semiconductor, which advanced by over 46% thanks to a takeover offer, as well as ASM International (+ 38%) and A2A (+ 21%). British stocks also did well, especially Tate & Lyle with a positive performance of almost 20%, Barratt Developments with 17% and Persimmon with 16%.

Price / Book and **Dividend Yield**
of major equity markets:

	Price / Book	Div. Yield
SPI Index	2.35	2.72 %
DJ STOXX 600 Index	2.10	2.33 %
MSCI AC Asia ex Japan	0.04	1.76 %
MSCI Japan	1.52	1.80 %
MSCI USA	4.45	1.41 %
MSCI AC World Index	2.99	1.72 %

Source: Bloomberg. MSCI-Indices are net total return.

Equities USA

In mid-January, we sold the shares in the MSCI World Energy ETF. The investment, which had a global focus but a good half of which were in US stocks, was acquired as a tactical element last spring after the collapse of the oil price. With the price recovery of the Black Gold, the shares of the energy companies have also risen across the board, triggering the end of this commitment and producing a nice profit. In the portfolios managed in US Dollars, we also reduced the weighting in American equities at the beginning of February. Thanks to the fundamentally higher weighting (home bias) and the price gains, there was a clear overweight here, which has now been corrected.

Equities Asia (ex Japan)

In the Asian developing countries, sights had to be lowered a little in the first quarter. After the impressive 2020 (index + 25%), this region of the world has now achieved an increase of just below 3%. We have not changed any of the positions and are therefore still slightly overweight.

Equities Japan

Secretly and silently, Japanese stocks crept their way up to the top of the international stock exchanges in the first quarter. The broad MSCI Japan Index is up over 8%. As in other markets, cyclical stocks were among the most popular, including mining, steel and air transport. Despite the higher price level, Japanese equities, in an international comparison, are still among the fundamentally rather cheap stocks. We have not changed anything in this position and are therefore still slightly overweight in the Land of the Rising Sun.

Alternative Investments

So far this year, alternative investments have not made much headway. Towards the end of the quarter, we added three percentage points to our exposure by buying units of the BCV Liquid Alternative Beta Fund. This instrument of the Banque Cantonale Vaudoise does not invest in hedge funds but replicates the investment strategy of the funds represented in the leading index using liquid instruments such as futures and swaps. We have used this investment fund before and have made a positive experience with it. Speaking of hedge funds, The Franklin K2 Alternative Strategies Fund has no exposure to the Archegos Hedge Fund, which recently made negative headlines on Wall Street.

Precious Metals

After last year's spectacular rally, in which the price of gold in US Dollars rose by 24%, the precious metal has initially consolidated in the first three months of the New Year. The decline in the exchange rate of around 10% was significantly mitigated for Swiss Franc and Euro investors by the higher valuation of the Greenback. Nothing changed in the positions during the reporting period, which means that precious metals continue to be overweighted.

Summary of our current
Asset Allocation:

Asset class	
Money Market	slightly overweight
Bonds	underweight/ short duration
Equities Switzerland	neutral
Equities Europe	underweight
Equities USA	neutral
Equities Asia	slightly overweight
Equities Japan	slightly overweight
Precious Metals	overweight
Alternative Investments	slightly overweight

For a Swiss Franc referenced portfolio.

Since the beginning of the year, selected **foreign exchange rates** have developed as follows:

	Dec. 2020	Mar. 2021	Change
CHF / Euro	1.0821	1.1069	2.3 %
CHF / USD	0.8852	0.9421	6.4 %
Euro / USD	0.8178	0.8511	4.1 %
Yen / USD	103.3000	110.61	7.1 %

Source: Bloomberg.

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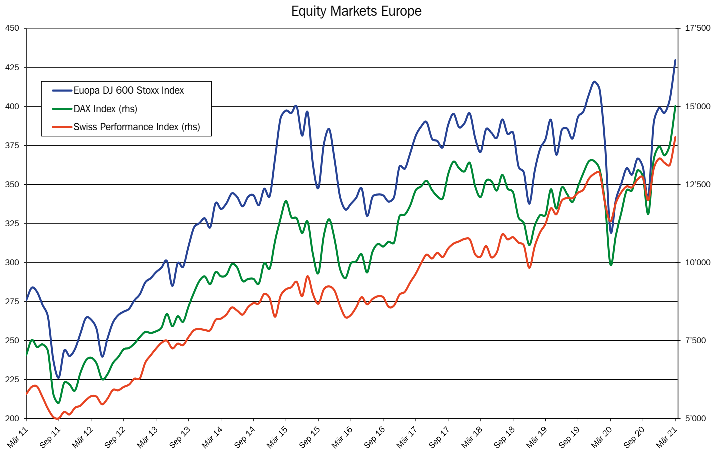
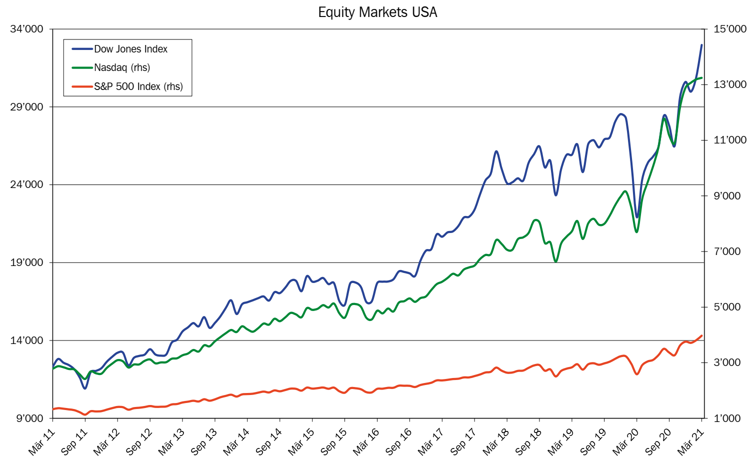
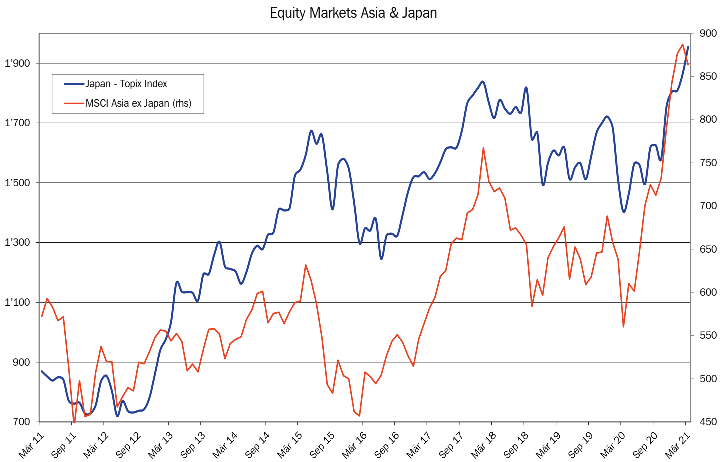
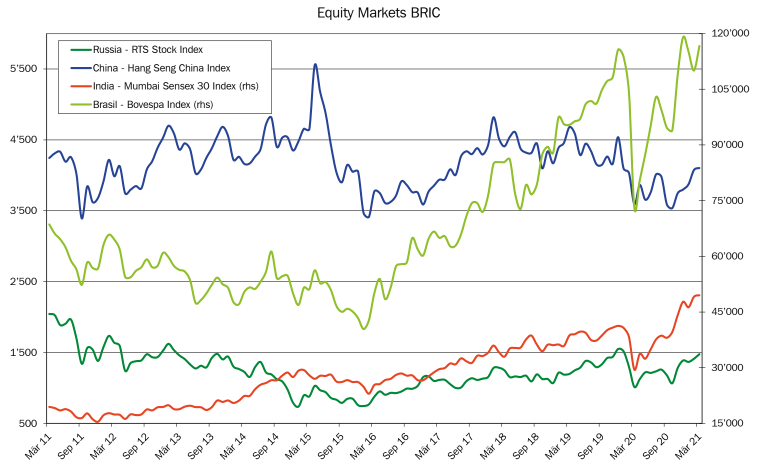
Equity Markets at a glance

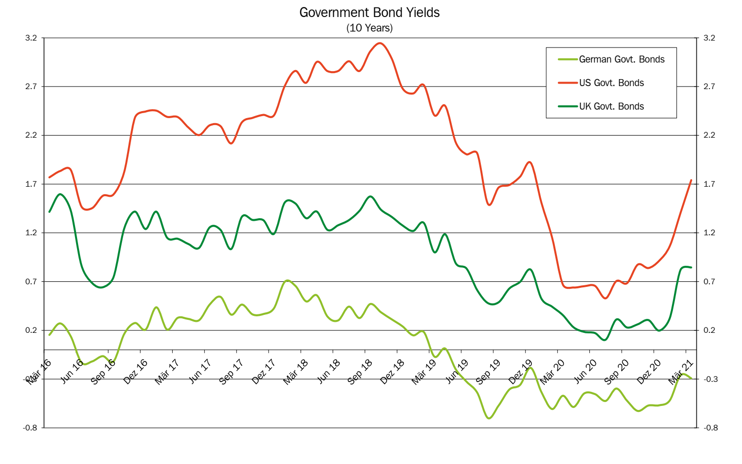


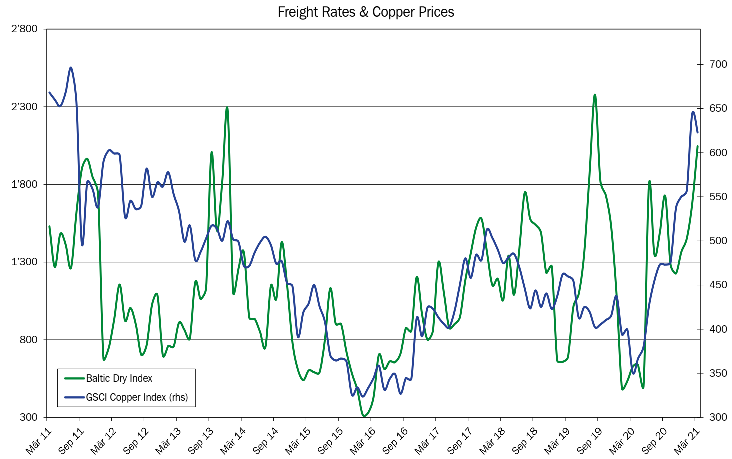


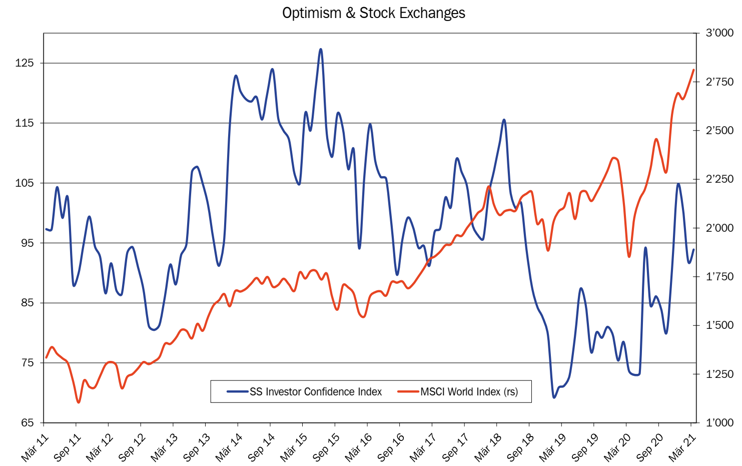


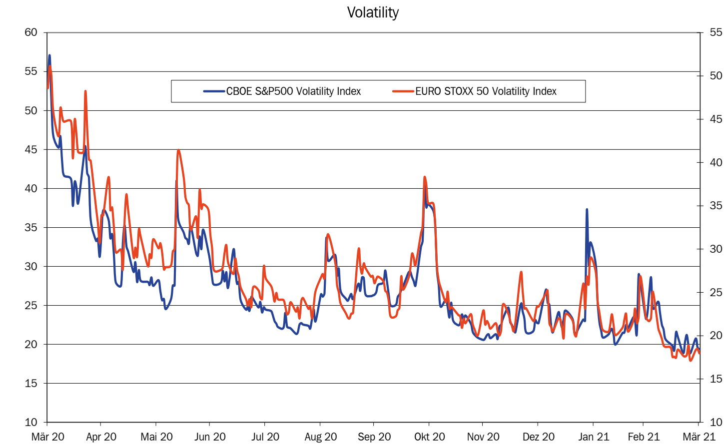


Bond yields and other indicators









Notes

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Closing words

We wish you pleasant Spring days and thank you for the trust you have placed in us.

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