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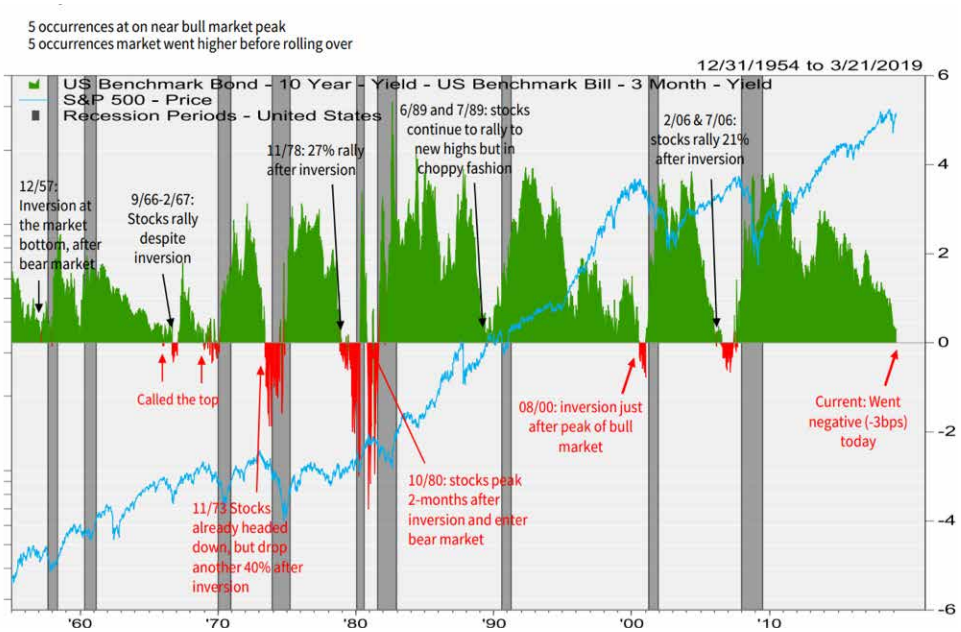
PARTNERS ' VIEW
MAI 2019

WEALTH MANAGEMENT
Inversion, aversion, perversion, reversion

Rather than the usual format I thought it would be much more interesting and a change of pace to do our usual commentary in a question and answer format. The questions are a mixture of real ones we have received from clients and anticipated ones I thought are going through clients' minds. Of course, there will be others that have been missed and I therefore welcome your engagement

Q. I see in the financial media large number of people is talking about the inversion of the US yield curve (short term bonds yielding more than long term ones). I hear that this means a recession is coming to the USA should I sell everything?

A. You are right this is definitely the topic du jour at the moment. Yes the US yield curve has inverted but only part of it the 10 year bond yields more than 3 month bonds.[i] It should actually not come as a big surprise given the flatness of the yield curve for a considerable period of time (see graph below)



Source: FactSet, Bloomberg, Raymond James Equity Portfolio &Technical Strategy; Summary of Inversions since 31.12.1954 until 21.3.2019

Q. Yes that's wonderful but is a recession coming and should I sell everything

A. Yes and no- a recession is always coming the key question is when. Every US recession since 1962 has been preceded by an inverted yield curve but not every inverted yield curve has led to a recession.[ii] Please read and reread that.

The yield curve inversion has been a very early indicator around about 2 years too early in fact so there should be plenty of time to make money[iii]

In fact there have been arguments put forward that everyone is looking at the wrong part of the yield curve and in fact should be looking at the 2year versus the 10 year or versus the 30 year which are both not inverted

Q. Ok I feel a little better now and won't sell this minute. Can you explain why this happened?

A. As you know the FOMC (Federal Open Market Committee) was raising interest rates and winding down its monetary stimulus and they came out with the announcement that interest rates were on hold for the foreseeable future and they would stop the quantative tapering (winding down monetary stimulus). In simple terms they found out they couldn't walk and chew gum at the same time.

Q. But it's the FOMC didn't they see something we haven't – I'm getting nervous again

A. Having talked recently to people who have worked for central banks they only get the data 3 days before the rest of us. You have to remember these are academics who are way smarter than I am and are working off complex financial models. Sometimes they miss the obvious and anyway if they really knew well in advance we would never have a recession ever as they would take preventative action well before

Q. Ok I feel calmer now but am getting a bit bored – I'm very interested in perversion

A. You might want to rephrase that last part!

When I talk about perversion I am talking about the unusual situation we are in at the moment- trade wars/tariffs, the partial government shutdown, new car regulations in Europe which stopped the selling of cars for a while, populism, BREXIT and so on. Each of these factors will have had an influence on economies and economic data at least in the short term. You must remember that many economic indicators are based around manufacturing yet the major global economies are now geared towards individual consumption.

Q. Yes you are right there are so many things to worry about in the world I can hardly sleep. I feel a bit queasy I think perhaps I should sell everything!

A. I am afraid the whole global situation is quite troublesome. In fact you could almost call it aversion I remember the time when there wasn't a problem anywhere – they called it Camelot[iv] oh hang on a moment I seem to remember some troubles surfacing there as well.

Seriously though if you look back at the very recent past we should have all been dead from Ebola, nuclear war should have broken out and Eurozone would have collapsed first thanks to Greece then because of Spain and Portugal and latterly because of Italy.

None of these things has happened and markets have done quite nicely.

Q. Ok you have a point markets did really well this this year... perhaps it's time to take profits and aren't stocks expensive now?

A. There is never any harm in taking a profit however we have to set the scene yes markets have recovered nicely this year but you must take into account the rather dramatic falls we had last year. Turning to valuations let's take the S&P500 as an example, we are neither at the cheapest nor the most expensive levels. It all depends on if earnings beat expectations (this has been a dominant trend-under promise and over deliver) and also whether economic growth will rebound- which we believe will happen.

Q. Is everything priced in – what will move markets higher?

A. In my opinion a recovery from the oversold panic driven selling at the end of last year along with an easier FED (Federal Reserve System) and a temporary ceasefire on the US/China trade war is currently built in, however, the removal of some or all tariffs and a full trade agreement is not. A rebound in economic growth is not.

Source: Bloomberg; Price Earnings Ratio for S&P500 long term, as of April 12, 2019.

Q. Didn't the IMF[v] just warn about growth?

A. Im not sure about Tom Cruise's economic track record I will have to watch the last mission impossible film

Q. No the other IMF

A. I am not sure about their predictive economic ability[vi] – didn't markets already fall last year on recession fears?

Q. What about BREXIT?

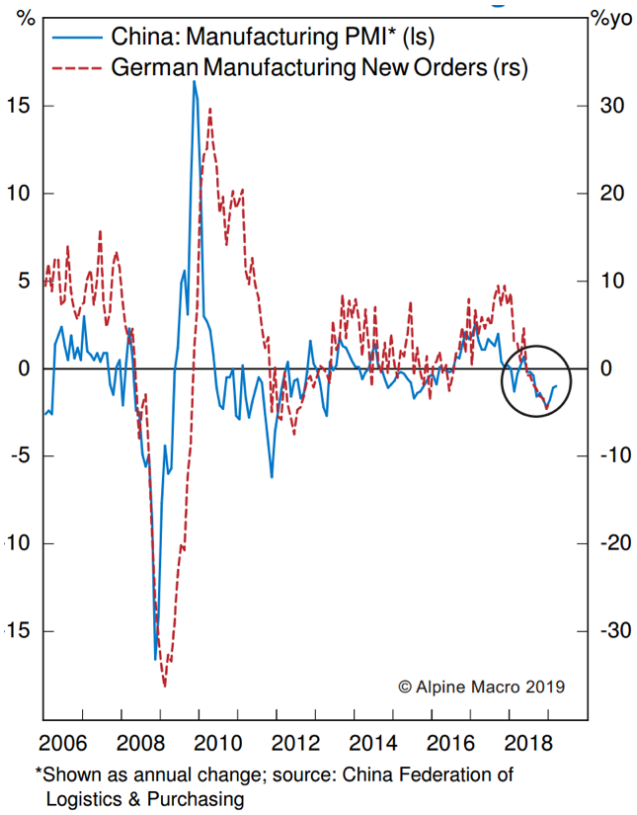
A. let me ask our expert … Theresa … she seems to be on her tea break however I found this post it note

BREXIT MEANS BREXIT

The can will be kicked down the road and or the road will be extended

Q. An economic rebound really?

A. Yes there are already early signs that China is stabilising and Germany is following



Source: China Federation of Logistics & Purchasing; China PMI/German manufacturing correlation between 2006 and 2019.

Q. You talk about aversion shouldn't I buy low and sell high

A. Yes I have generally found that to be a money making strategy. Index levels are higher year to date however so is risk aversion and investor participation in markets is low. Total assets in money market funds is around USD3 trillion – near the highest level since 2010. [vii]

In fact despite posting the best quarter for 7 years investors pulled USD 79 billion [viii] from equity funds.

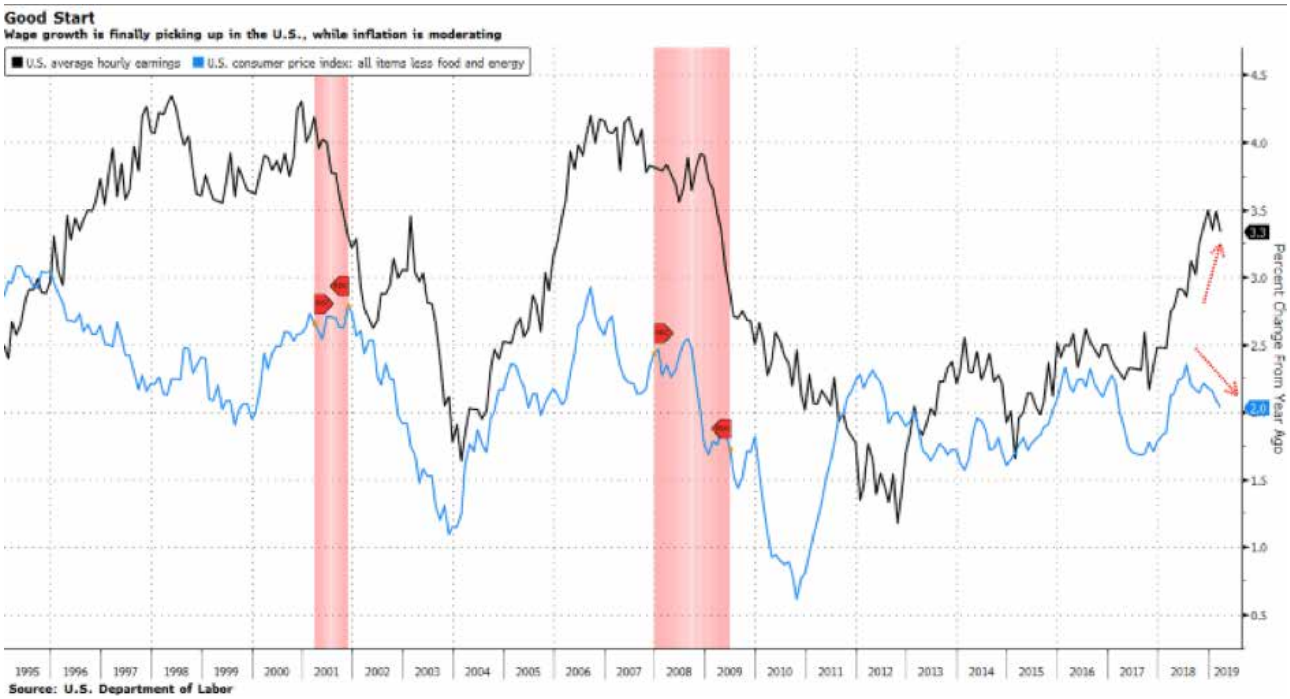
Q. Ok we covered a lot of ground could you give me a short summary

A. Yes

Our belief is that we are reverting towards a Goldilocks style of economic growth- neither too hot nor too cold.

Monetary policy is going to remain easier for much longer than anyone anticipated leading investors to eventually ramp up risk (there is no alternative).

Consumer spending is likely to hold up in major economies as is the low jobless rate and the targeted stimulus from China will have a magnified effect on the rebound as the year progresses. Markets are likely to push significantly higher from current levels as a US/China trade deal is concluded (both sides have too much to lose by not doing it). There will be some US/European trade skirmishes but I believe a war will be averted (again there is no political appetite for this).



Source: U.S. Department of Labor; US average hourly earnings on private nonfarm payrolls between January 31, 1995 and March 31, 2019.

Europe will of course have its issues but there is unlikely to be a major disaster and fiscal stimulus in the form of tax cuts is likely to happen.

The key game changer that could move us significantly higher next year as well will be when central banks and governments ease up on their concerns. Perhaps the FED realises there are no real rampant signs of inflation and lets the economy run hot. The ECB really can't do a whole lot more but maybe their efforts are bolstered by Europe realising that the Maastricht criteria is too strict and these are re written.

Overall it is extremely disappointing that economies are not stronger 10 years after the global recession partly due to high saving rates and consistent incorrect worries about inflation. We can and should do better

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Overall it is extremely disappointing that economies are not stronger 10 years after the global recession partly due to high saving rates and consistent incorrect worries about inflation. [ix] We can and should do better

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[i] https://raymondjames.bluematrix.com/sellside/EmailDocViewer?encrypt=0989606c-2f2f-47c4-9e65-8cc17cd5dfcd&mime=pdf&co=raymondjames&id=Peter.ahluwalia@swisspartners.com&source=mail
[ii] https://raymondjames.bluematrix.com/sellside/EmailDocViewer?encrypt=93a45bc6-3d31-4317-94cc-7c201e1bad14&mime=pdf&co=raymondjames&id=Peter.ahluwalia@swisspartners.com&source=mail
[iii] See above (ii)
[iv] https://en.wikipedia.org/wiki/Camelot
[v] https://en.wikipedia.org/wiki/Impossible_Missions_Force
[vi] https://www.bloombergquint.com/view/imf-s-outlook-cut-is-worrying-but-global-growth-isn-t-that-bad
[vii] https://www.bloomberg.com/news/articles/2019-03-29/fear-loathing-and-the-best-quarter-for-risk-assets-in-a-decade
[viii] See above (vii)
[ix] Alpine Macro, Global Strategy; Babbling about Markets, Multiples and Germany. March 15, 2019

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FINANCIAL PLANNING
Tax and your pension fund – worthwhile optimising your arrangements in good time

Almost all employees in Switzerland are enrolled in a pension fund via their employer under Pillar 2. Unfortunately, many employees give little thought to this even though a substantial amount is paid into the pension fund every single month. As well as providing security in old age and in the event of certain health risks, Pillar 2 frequently offers the attractive option of cutting employees' income tax burden – substantially in some cases. The savings can be realised via additional voluntary payments into the pension vehicle. In most cases these contributions are fully deductible from taxable income. The amount of tax relief will vary depending on the employee's tax domicile.

In many cases it makes financial sense to stagger purchases over several years, as lower contributions can enable tax at the highest marginal rate to be avoided. In this way, highly significant tax optimisations can be realised within just a few years. When employees subsequently receive the benefits on (early) retirement, as well as having to make the fundamental decision in favour of a regular pension or a lump sum payout, they also need to consider their tax optimisation options. For example, would it be possible to receive benefits over a period of several years with a view to lowering the tax rate on pension payouts? Can the money in the pension fund be left for a longer period within the tax-free Pillar 2 wrapper?

All in all, this means there are a whole range of pension fund-related options that can be tailored and deployed in line with an employee's personal situation. It is also important to ensure the greatest possible flexibility by taking into account amendments to occupational pensions such as 1e pension plans for high earners.

The key thing is for individuals who have made pension contributions to look at these options in good time and to review their personal provision from around the age of 50 onwards.

We will be happy to help you! Please give us a call so that we can arrange an initial, independent consultation for you.

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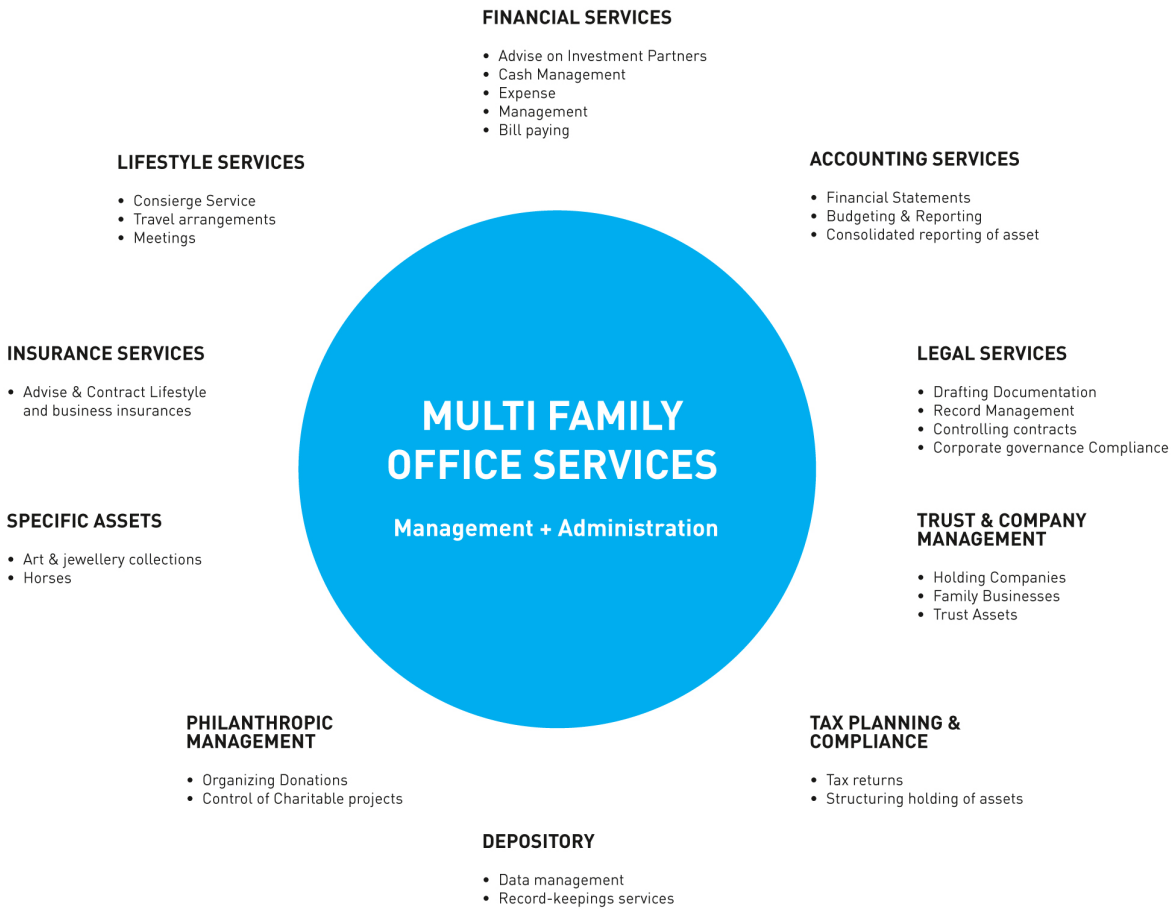
FIDUCIARY SERVICES
The modern art of multi family office services



More than just wealth management

In emerging regions such as Asia, a boom in holistic multi family offices (MFO for short) is taking place, and Europe is now following suit at an increased pace. In Switzerland there is also a growing demand for a broad and expanding range of such services. swisspartners already offers this holistic, personal and independent multi family office service to our clients. Our modern, state-of-the-art MFO offers much more than traditional, highly specialized asset management. Its scope – adapted to the desired investment strategy – encompasses wealth and estate planning, wealth preservation, asset allocation, investment controlling and provision of consolidated reporting.

A comprehensive holistic offering

Our MFO acts as a «competence centre» for our client and makes his/her individual interests and needs its primary focus. Our MFO is independent, has a distinct, personalised approach and services the client consistently with the same main contact person. Our MFO organises and monitors banking services and implements the complex requirements presented by financial regulations.

For risk, legal and tax issues, for all fiduciary matters as well as for insurance related issues, the client receives support from experts at swisspartners in line with his/her requirements. Archiving and backup of

files and electronic data is also an important aspect of the holistic range of services we offer.

Tangible assets

Tangible assets, such as art, jewellery and other valuable objects, are given due prominence by the MFO. Our highly specialized experts guide and advise clients in regard to acquisitions, possible divestments and the custody of such assets.

Real estate

Investing in real estate is gaining in importance as well. swisspartners specialists handle the purchase and/ or sale of real estate, both domestically and abroad, as well as taking care of the administration of such assets. One such example would be an exclusive family property construction project with access to international schools in the hot spots of Europe (Portugal, Spain, etc.).

Philanthropy

Philanthropists need support in the setup of a foundation or a non-profit organisation and they seek know-how in regard to the implementation of their personally tailored strategy. With our 25-yearsexperience we provide comprehensive advisory services in in relation to administration as well as in controlling. We also offer support to the foundation board.

Generation change / estate planning

In our modern society, generation change calls for a subtle balance of interests among family members. Among the many issues that need attention are, for example, the right time to involve children and the way the family makes decisions, such as what solutions would make the family feel comfortable. Through tailor-made and sustainable family governance, including private placement insurance , the experts at swisspartners deliver solutions and ensure transparent and clear succession planning from an early stage.

Our services also include estate planning, comprehensive pension arrangements, wills and - if desired - full estate administration.

Lifestyle services / concierge services

We also offer lifestyle/concierge services that encompass a broad spectrum of ancillary activities providing a one stop offering to our clients, something once undertaken to a limited extent by an executive secretary.

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TRUST & CORPORATE SERVICES
swisspartners Marcuard Heritage: Employer Partnership Programme von STEP

Expanding relationship between swisspartners Marcuard Heritage and STEP. The Society of Trust and Estate Practitioners **(STEP)** is a globally operating professional organisation for specialists in trust management and international succession planning. With currently more than 20,000 members and students, it is the largest interest group in the trust sector and the leading worldwide professional organisation for specialists in trusts and succession planning. Several partners and employees of swisspartners Group have been members of STEP for many years and. swisspartners has been a supporter of various STEP events for a number of years. Furthermore Geralda Kral, a partner in swisspartners Marcuard Heritage AG, is currently a committee member of the STEP branch in Zurich.

STEP's vision and mission. STEP was founded in 1991 with the aim of uniting specialists in the rapidly growing trust industry under one organisation and creating a worldwide network. The purpose of this network is to promote the exchange of information, knowledge and experience between members by offering national and international conferences, seminars, lectures and specialist literature on a regular basis. STEP has evolved over time to become a global professional organisation that also represents the lobbying interests of its members both nationally and internationally.

Membership of STEP. STEP members come from law firms, specialist trust and trustee companies, international accountancy firms, as well as banks, insurance companies and associated areas of the finance industry. Some members specialise in individual products and services in the financial sector, while others operate in diverse fields such as the planning, implementation and management of trusts, succession & asset structuring, company management & administration, in addition to the associated tax planning and legal advisory services.

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STEP
ADVISING FAMILIES ACROSS GENERATIONS

Unlike other similar professional organisations, professionals wishing to obtain STEP membership have to complete a rigorous training programme and pass a qualifying exam. Full members of STEP, called Trust and Estate Practitioners (**TEP**s), have a reputation for being highly experienced and sought-after practitioners in the field of trusts and estate structures due to their solid qualifications under STEP's training modules and the requisite practical experience.

Employer Partnership Programme. STEP is the only institution to offer solid and practical education in the fields of trusts and international succession planning, especially in non-Anglo-Saxon countries. A survey of members showed that most employers in the aforementioned areas consider TEP training and certification to be a sound basis of qualification, while the high level of knowledge developed over time has become indispensable to employers, employees and everyone involved in their day-to-day work.

With this in mind, STEP established the Employer Partnership Programme (EPP) in 2014. The employers participating in this programme are committed to actively supporting and promoting the professional development of their employees, allowing them to provide a qualified service for trusts and succession structuring that is recognised throughout the sector.

swisspartners and the Employer Partnership Programme. As one of four accredited Employer Partnership partners in Switzerland, swisspartners Marcuard Heritage AG actively supports all employees who are interested in training to become full members of STEP as TEPs. It also requires and promotes the con-

tinuous professional development of its full members so that they can maintain and build on their extensive knowledge and experience. Thanks to its involvement, swisspartners offers all of its employees the opportunity to benefit from the positive and motivating impact that this training has on the company, while ensuring that it remains an attractive and committed employer in the job market.

About swisspartners Marcuard Heritage AG: The highly skilled team of experts at swisspartners Marcuard Heritage AG offers comprehensive trust and corporate services in the fields of planning, structuring and administration of trusts and international companies, as well as associated estate planning arrangements.

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