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Portfolio Update

November 2020

- **Déjà-vu!**
- **Risks reduced, well-positioned!**

Month in review – October

Déjà-vu!

There were firm hopes of a V-shaped economic recovery following the first lockdown in April and May. Given that consumers had clearly not lost their desire to spend money, over the summer months these aspirations certainly appeared realistic. This made the explosion in the number of new infections in recent weeks even harder to stomach. Experts and governments alike were evidently surprised by the speed at which Covid-19 was spreading again. They have now gone back to attempting the – almost impossible – balancing act of "doing as much as necessary but as little as possible" in terms of imposing restrictions to combat the pandemic.

The first riots over the handling of the virus in parts of Europe demonstrate that there is no longer universal acceptance of nationwide lockdowns among the general public – far from it. This is understandable given that some sectors of the economy have been suffering due to significantly lower revenues and substantially reduced wages for months now.

But unlike back in the spring, politicians are not quite so keen to open the public purse this time around. Following the outbreak of the first coronavirus wave, a consensus was soon reached that fiscal policy packages would have to be approved. In contrast, it is now proving difficult to arrive at a cross-party commitment in the US to prevent shortfalls in wages. In Europe too, though, implementation of the coronavirus aid package is proving to be difficult. There is a real risk of a renewed standstill, which would have drastic consequences for the labour market. The response from financial market investors to the news that more restrictive measures were being introduced to contain the spread of the virus in Germany and France was correspondingly nervy. It dawned on investors that this approach would serve as a blueprint for neighbouring countries, some of which are struggling with infection rates that are similar or even higher.

But investor sentiment had already taken an appreciable hit after it became clear there would be no agreement before the US presidential elections on passing another coronavirus economic stimulus package, which is worth around USD 2 trillion.

For a while the markets appeared to be responding positively to the clear lead in opinion polls enjoyed by the challenger Joe Biden, especially if this would lead to a clear outcome at the polls, with Trump's broadsides failing to land and the transfer of power potentially proceeding smoothly despite widespread fears to the contrary. Nevertheless, sellers ultimately gained the upper hand, sending equity markets deep into negative territory. With weekly share price losses in excess of 5% across the leading global indices, in some respects the situation is reminiscent of the start of the pandemic.

Even asset classes perceived to be safe havens were not immune to the sell-off. Like equities, gold and US Treasuries produced a generally weak performance, albeit to a much lesser extent. For its part, at least the Japanese yen lived up to its reputation and held up well against other leading currencies over the month.

Financial markets 2020 Total return

Equities	October	2020
S&P 500 (US)	-2.7%	2.8%
Dow Jones Industrial Average (US)	-4.5%	-5.4%
EURO STOXX 600 (EU)	-5.1%	-16.1%
DAX (DE)	-9.4%	-12.8%
SMI (CH)	-5.9%	-6.7%
MSCI Emerging Markets (EM) in USD	2.1%	1.1%
Fixed Income	**October**	**2020**
US Corporate Bonds Inv. Grade	-0.2%	6.4%
US Corporate Bonds High Yield	0.5%	1.1%
Pan-Europe Corporate Bonds Inv. Grade	0.8%	1.1%
Pan-Europe Corporate Bonds High Yield	0.3%	-3.1%
Alternative Investments	**October**	**2020**
Gold	-1.0%	23.4%
Oil (brent)	-9.9%	-44.4%

Sources: swisspartners, Bloomberg

MANDATE RETURNS GROSS

	Euro			Swiss Franc			US Dollar			British Pound		
	Cons	Bal	Dyn	Cons	Bal	Dyn	Cons	Bal	Dyn	Cons	Bal	Dyn
2012	**6.6%**	**7.4%**	**10.5%**	**4.3%**	**6.5%**	**10.9%**	**5.9%**	**8.4%**	**11.8%**			
2013	**1.5%**	**6.5%**	**13.5%**	**1.9%**	**8.3%**	**16.7%**	**2.9%**	**9.4%**	**18.5%**			
2014	**6.1%**	**8.0%**	**10.2%**	**4.9%**	**6.5%**	**9.2%**	**1.6%**	**2.2%**	**3.1%**			
2015	**2.7%**	**6.3%**	**9.9%**	**-0.8%**	**0.0%**	**1.8%**	**-0.3%**	**0.0%**	**1.0%**			
2016	**2.3%**	**5.3%**	**7.1%**	**1.3%**	**3.9%**	**5.7%**	**2.8%**	**6.2%**	**7.2%**	**4.6%**	**9.5%**	**12.1%**
2017	**3.5%**	**7.3%**	**10.8%**	**4.3%**	**8.9%**	**15.0%**	**7.1%**	**12.7%**	**18.1%**	**4.7%**	**8.7%**	**14.2%**
2018	**-4.3%**	**-9.0%**	**-10.5%**	**-5.6%**	**-10.1%**	**-12.1%**	**-2.5%**	**-7.9%**	**-9.8%**	**-3.3%**	**-8.6%**	**-10.4%**
2019	**9.2%**	**15.7%**	**21.6%**	**8.3%**	**14.8%**	**19.6%**	**11.5%**	**17.5%**	**22.0%**	**9.4%**	**15.3%**	**19.8%**
Jan 20	0.4%	-0.3%	-0.1%	0.0%	-0.7%	-0.7%	0.3%	-0.5%	-0.5%	0.3%	-0.4%	-0.3%
Feb 20	-2.0%	-3.3%	-5.3%	-2.1%	-3.5%	-5.5%	-1.9%	-3.3%	-5.4%	-1.6%	-2.8%	-4.7%
Mar 20	-7.1%	-8.7%	-10.5%	-6.8%	-8.3%	-9.5%	-6.7%	-8.6%	-10.0%	-7.0%	-8.6%	-10.6%
Apr 20	4.1%	5.4%	7.4%	4.3%	5.2%	7.1%	4.2%	5.4%	7.2%	3.9%	4.9%	6.9%
May 20	1.4%	1.8%	2.3%	1.7%	2.0%	2.6%	1.8%	2.3%	2.9%	2.2%	2.7%	3.6%
Jun 20	1.4%	2.5%	2.9%	1.4%	2.2%	2.6%	1.7%	2.8%	3.2%	1.8%	2.8%	3.4%
Jul 20	0.9%	1.5%	1.7%	0.9%	1.8%	2.2%	2.1%	3.1%	3.8%	0.7%	1.3%	1.5%
Aug 20	1.5%	2.7%	3.9%	1.2%	2.7%	3.8%	1.8%	3.2%	4.4%	1.3%	2.5%	3.6%
Sep 20	-0.2%	-0.5%	-0.5%	0.0%	-0.5%	-0.4%	-0.6%	-1.0%	-1.2%	0.2%	-0.1%	0.0%
Oct 20	-0.7%	-1.6%	-2.1%	-0.8%	-1.9%	-2.5%	-0.8%	-1.8%	-2.4%	-0.8%	-1.7%	-2.4%
2020	**-0.7%**	**-1.2%**	**-1.5%**	**-0.6%**	**-1.6%**	**-1.4%**	**1.4%**	**0.8%**	**0.8%**	**0.6%**	**0.0%**	**-0.2%**

Actual portfolio returns may differ from the values shown above owing to costs and restrictions on implementation.

TRANSACTIONS IN OCTOBER

McDonald's Corp Cyclical consumer goods USD US5801351017	Sell 16 October 2020 Dynamic -1.5%	In recent months McDonald's (MCD) has demonstrated its ability to defend its position with new products, which has benefited the company's share price. As a result, the shares recently hit our price target. However, in light of upcoming lockdowns the restaurant group's sales are expected to fall significantly as opportunities for consumption become more restricted. Given this uncertainty we are taking the profits in our position and investing the proceeds into more defensive stocks.
Fiat Chrysler (FCA) EUR NL0010877643 Booking Holdings (BKNG) USD US09857L1089	Sell 19 October 2020 FCA BKNG Balanced -1.0% -1.5% Dynamic -1.0% -2.0%	With infection rates on the rise and the possibility of renewed lockdowns, consumers will cut their spending either voluntarily or because they lose their jobs or are working fewer hours. This will have an especially negative impact on cyclical consumer goods, as well as on the travel industry. In addition, Fiat will probably have priced in the bulk of the synergies arising from the forthcoming merger. Booking Holdings' revenues will be lower for an extended period due to national contagion prevention measures. Furthermore, sales will also suffer if there is a delay in easing the restrictions. Both stocks are likely to make above-average losses and are therefore being removed from our allocation for the time being.
Ubisoft Entmt (UBI) EUR FR0000054470 Video gaming & eSports ETF USD IE00BYWQWR46	Sell / Buy 19/20 October 2020 UBI ETF Balanced -1.5% +1.5% Dynamic -2.0% +2.0%	In this age of digitalisation, games developers are performing well and have made above-average gains thanks to lockdowns in particular. But according to our analyses Ubisoft is now slightly overvalued. That said, the sector will continue to post strong growth in future, especially as the market itself is not yet exhausted, particularly in Europe. We have therefore switched out of our holding in the Ubisoft stock into an ETF focusing on eSports (VanEck Vectors Video Gaming and eSports UCITS ETF). The ETF exhibits broad global diversification and incorporates games makers as well as hardware manufacturers.
Japan Equity ETF EUR IE00B42Z5J44 USD IE00BCLWRG39 CHF IE00B8J37J31 GBP LU1169822423	Sell 19 October 2020 Conservative -1.5% Balanced -2.0% Dynamic -3.0%	Japan is a region that offers various opportunities but is also facing at least as many problems, including demographics and opening up the labour market. The Japanese stock market has recovered well nonetheless, even though numerous issues are only being tackled inadequately and growth does not appear to be picking up speed as a result. Until we see any indications to the contrary, we intend to withdraw from this region in order to make the most of opportunities elsewhere.
Roche Holding Healthcare sector CHF CH0012032048	Buy 20 October 2020 Balanced +1.5% Dynamic +1.5%	In the scenario of a second wave of Covid-19, the alternative to cyclical consumer shares is a defensive stock that could grow its sales in this environment. Roche is also likely to benefit from additional testing (especially using rapid tests) over the winter months. The stock's fairly low valuation at present offers slightly lower entry levels for investors, making Roche a solid candidate for more volatile markets.

POSITIONING

Liquidity (neutral)	Outside of the US dollar investment universe, there are few opportunities to avoid the negative interest rates applied by the central banks. If necessary, we are parking excess liquidity in cash and accepting a negative return, which is partially passed on to customers, especially as there are no other risk-free alternatives. Short-dated bond and trustee investments offer opportunities in US dollars.
Bonds (underweight)	In an environment of mounting debt, we favour bond issuers with solid balance sheets, a healthy business model and correspondingly good credit ratings. At the same time, however, investors need to look beyond the top borrowers with AAA/AA ratings if they wish to achieve positive yields to maturity. Diversification is absolutely essential. In light of the limited scope for interest rates to be cut further, we are keeping duration – i.e. interest rate risk in the portfolio – low and are therefore better protected against sudden interest rate hikes.
Equities (overweight, hedged to the downside)	The outbreak of the COVID-19 pandemic is noticeably hampering the economic trend. We do not expect to see any near-term improvement until a vaccine is readily available. Other factors such as ultra-loose monetary policy, ample fiscal policy stimulus from governments and the lack of investment alternatives on the financial markets bode well for an overweight in equities. If these supports are removed, the situation will have to be reassessed. Until then, while temporary setbacks cannot be ruled out, we do not expect the March levels to be undershot. A hedge position was implemented in October in the form of a put spread.
Alternative investments (overweight)	A combination of investments in gold, insurance securitisations, market-neutral, arbitrage and option-based volatility strategies. In contrast to traditional asset classes, these instruments exhibit low levels of correlation and offer a degree of protection from geopolitical risks. In normal market conditions, the aim is to achieve a positive market yield while minimising volatility. A high level of liquidity is a fundamental requirement.
Foreign currencies (strategy-related)	Foreign currency allocations differ depending on the risk strategy. Hedging foreign currency positions for US dollar strategies is advisable in the current interest rate environment. These strategies continue to benefit from a positive roll yield due to the interest rate differential versus the EU/Switzerland. In fundamental terms, however, the US faces a bigger dilemma, especially as the coronavirus pandemic is evidently far from being under control. Now that the starting gun has been fired for the EU's fiscal union, the euro is appreciating significantly.

OUTLOOK

Risks reduced, well-positioned!

As this report has been prepared on the day of the US presidential elections, it seems virtually impossible to provide a market outlook for the near term, especially when there is no lack of predictions for the election outcome in the media. We will therefore focus on the current structure of our portfolios and why we believe we are well positioned for the challenges that lie ahead.

Thanks to the above transactions, we have further optimised risks in terms of the outbreak of the second wave of the pandemic and the more extensive lockdowns, the timing of which is in line with our forecast (see commentary on the transactions). At the same time, however, we are still overweighting equities while maintaining a hedge position in the form of the put spread we mentioned last month (October publication). However damaging the measures to contain the virus may be, governments will be under increasing pressure to approve the necessary support packages as quickly as possible. As the implementation of these packages will help to limit – or at least delay – the direct effects on the real economy, according to our forecast the recovery on the financial markets is set to continue, which is the reason for our equity overweight.

If the US presidential elections go smoothly and the winner can be determined within a reasonable time, we would also make a decision on unwinding the hedging instrument in the portfolios. This vehicle was deployed in the portfolios to minimise risks around the time of the presidential election and can be unwound at any time before the expiry date in January.

The election result will therefore undoubtedly influence our short-term strategy bias. However, we expect it to have a limited impact on the financial markets in the medium to long term.

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