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Portfolio Update
January 2021

Annual review 2020

As we begin the new year, we can look back on the last 12 months which, although eventful, were certainly successful in portfolio terms. In addition to publishing daily figures of new coronavirus infections, the media focused heavily on the economic consequences of the pandemic – and so much so that it was often tempting to look away. The financial markets also took a battering in the early days of the pandemic as lockdowns were swiftly imposed on the majority of the world's population. Those who held their nerve were rewarded as the drastic sell-off was followed by an unexpectedly strong rally that pushed share prices to new record highs in some cases.

While infection rates remain high and many countries have reintroduced lockdowns, it seems that the worst was over for the stock markets some time ago. Investors who thought that the year-end rally came in the shape of November's gains were proved wrong when share prices saw another pronounced surge in December.

This may whet investors' appetite even more amid the widespread optimism for 2021 that currently prevails on the markets. But first of all, let us return to the review of last year. Share prices continuously rose more sharply than forecast after undergoing a correction early in the year. Interestingly, this proved highly lucrative not only for equity investors (except in a few regions), but also generated significant gains for bonds as illustrated in the table above. Thus, the challenges of last year offered investors opportunities to achieve an attractive performance and it is satisfying to note that our portfolios generated comparatively solid returns.

Financial markets 2020 total return

Equities	December	2020
S&P 500 (US)	3.8%	18.4%
Dow Jones Industrial Average (US)	3.4%	9.7%
EURO STOXX 600 (EU)	2.6%	-2.0%
DAX (DE)	3.2%	3.5%
SMI (CH)	2.2%	4.3%
MSCI Emerging Markets (EM) in USD	7.3%	18.5%
Fixed Income	**December**	**2020**
US Corporate Bonds Inv. Grade	0.4%	9.9%
US Corporate Bonds High Yield	1.9%	7.1%
Pan-Europe Corporate Bonds Inv. Grade	0.5%	2.8%
Pan-Europe Corporate Bonds High Yield	0.8%	1.8%
Alternative Investments	**December**	**2020**
Gold	6.5%	24.4%
Oil (brent)	8.5%	-23.0%

Source: 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%
Nov 20	2.6%	4.5%	7.0%	2.2%	5.3%	7.5%	3.2%	5.5%	8.2%	2.4%	4.4%	7.0%
Dec 20	1.3%	2.1%	3.1%	1.0%	1.9%	2.9%	1.9%	3.1%	4.2%	1.5%	2.0%	3.2%
2020	3.2%	5.3%	8.6%	2.6%	5.5%	9.0%	6.7%	9.7%	13.6%	4.6%	6.5%	10.3%

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

TRANSACTIONS IN DECEMBER

Vontobel Global Aggregate Bond Fund CHF LU1181655199 EUR LU1112751067 USD LU0278091383	Sell 15 December 2020 Conservative -5.0% Balanced -3.0%	While the Vontobel Bond Fund has recovered from last year's lows, our aim is to minimise risks relating to bonds in the portfolio via a switch. Moreover, the underlying bonds in the fund are close to the boundary of the high-yield category, which generally implies greater volatility in periods of stress. This is a quality that we intend to avoid as we think it is inadequately compensated on the bond markets at present.
Allianz Strategic Bond Fund CHF LU2068227243 EUR LU2066004388 USD LU2028906522 GBP LU2207432928	Buy 15 December 2020 Conservative +1.5%	The Allianz Strategic Bond Fund already partly features in our strategies and operates in a higher-quality segment than the Vontobel fund. We remain impressed by the fund's manager and approach and are confident in his ability to minimise losses – precisely in periods of stress. In the conservative strategy, we have moderately increased the weighting of the fund to 4.0%. In terms of risk ratios, this leaves us with an AA rating and a medium duration, which takes our portfolio slightly further away from the high-yield threshold.
JPM Aggregate Bond Fund EUR LU0430493568 USD LU0430493485 GBP LU0872748966	Buy 15 December 2020 Conservative +1.5% Balanced +3.0%	Several percentage points resulting from the switch have been allocated to the JPM Aggregate Bond Fund, which did not previously feature in all of our strategies. Exposure to the fund was increased in the conservative strategy and introduced in the balanced strategy. The fund is also in a higher rating category but has a significantly longer duration of around 8.7. This element produces the desired increase in duration within the bond allocation, while the return on capital is generally higher without compromising on borrower quality.
CS (Lux) China RMB Credit Bond Fund USD LU1577536490	Buy 15 December 2020 Conservative +2.0%	The China RMB Credit Bond Fund invests in the credit market region where we expect growth to be strongest. Thanks to a successful selection of bonds, the manager has proven his ability to generate a relatively high current yield, despite a better rating in the investment grade segment. We are increasing the position in conservative strategies, which will improve the overall mix in regional terms while boosting the return on capital at the same time.

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)	The Covid-19 pandemic still has a firm grip on the global economy and the stock markets. The first few countries have issued emergency approval for some vaccines, which have begun to be administered to high-risk patients. As negative reports on tolerance have been limited, the rollout of the vaccines will lend continued support to the stock markets as it offers the prospect of a gradual return to normality. Furthermore, the fact that the uncertainty surrounding the handover of the US presidency has now faded will also have a positive effect in the near term. There are other reasons for the overweight in equities such as ongoing ultra-loose monetary policy, vast fiscal policy support programs implemented by governments around the world and the dearth of alternative options for investors on the financial markets. 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 2020 levels to be undershot.
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 remains advisable in view of the current interest rate environment. This is because these strategies continue to benefit from a positive roll yield due to the interest rate differential versus the EU/Switzerland. Nevertheless, this approach is becoming less appealing due to the high level of net new debt and the shrinking interest rate advantage, not least as a result of the waning global dependence on the US dollar. In this environment, we have relative overweights in the euro and the Swiss franc.

OUTLOOK

Looking ahead with optimism, but without losing sight of the risks

Now that the calendar year is over, does this also mean that the plague year is behind us? This is of course wishful thinking as even though vaccination has begun across the world, for the time being there is still no sign of a fundamental improvement. On the contrary, the continued high rates of infection are leaving governments no option but to extend existing lockdowns or to impose even tougher restrictions. For its part, the United Kingdom has introduced another national lockdown in an attempt to combat an especially virulent strain of the virus. For the time being, other governments are responding by simply extending restrictions on the freedom of movement in order to keep the number of hospitalisations at a manageable level. It remains to be seen whether this will be enough. However, there is no doubt that the high level of case numbers across the world and the attendant restrictions on consumer spending will put the brakes on economic data readings in the first quarter.

In spite of all the bad tidings, there is still a real chance that since moving into the new year the darkest hours of the coronavirus pandemic are now behind us and that the start of vaccination programmes means we are already on the road to recovery. This optimism, which may have emerged several months too soon, is also reflected in the consensus view of numerous financial market analysts, who are forecasting asset price growth on the usual scale over the investment year that has just commenced. The fact that this view entails ignoring multiple warning signs for the equity markets is justified with reference to the immunisation story and also the prevailing liquidity glut. This deluge of money no longer stems solely from the monetary policy measures taken by the central banks, as governments have been providing bounteous levels of fiscal policy support since the advent of Covid-19.

For a sense of how vaccination could progress, it is worth taking a look at Israel, whose government has already immunised more than one million citizens since the turn of the year having reportedly ordered an estimated four to five million doses of the vaccine in time for the beginning of 2021. This means that a vaccination speed per person could be achieved that is estimated to be around twice as high as that of Germany, which has approximately nine times the population of Israel. As a result, the Middle Eastern nation should have evidence of the progress made much sooner than elsewhere, providing experience that can be drawn upon by the rest of the world.

Naturally, alongside all this optimism there are also many known risks. The dramatic rise in debt ratios on account of the pandemic is probably the weightiest of these. This is not necessarily a question of the debt amassed by private households, especially as the lack of opportunities to engage in consumer spending has to some extent boosted personal savings. Instead, national debt is a far more pressing issue. Debt piles that may look manageable while interest rates are low may rapidly trigger a vicious chain reaction on the financial markets if rates move in the opposite direction. Of course, interest rates may remain stuck at such low levels for extended periods, making the debt burden sustainable for a while yet. But what if inflation were to make a comeback, necessitating interest rate hikes? While the huge glut of liquidity has barely prompted any inflation at all for a number of years now – and for good reason – the anticipated extravagance of the incoming US administration is gradually shifting expectations on the financial markets. We know that because of the coronavirus pandemic governments elsewhere are not afraid to spend money either.

It is therefore a question of keeping on the lookout for the first signs of a withdrawal from ultra-loose monetary and fiscal policy. In this regard, it is worth paying a little more attention to central bankers this year. However, until then the indications are that asset prices are likely to keep rising. Even though we prefer to take a different stance, we are therefore subscribing to the consensus view for now. With the economy set to open up again once the worst of the Covid-19 pandemic is over, we are therefore sticking with our overweight in equities, while continuing to mitigate debt risks in fixed income via the transactions outlined above.

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