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# PORTFOLIO UPDATE

## APRIL 2021

## MONTHLY REVIEW

While February saw the markets wholly preoccupied by higher inflation expectations and the attendant risk of bond yields rising too quickly, in March the focus clearly shifted to the positive aspects of the economic recovery. Although it seems difficult at present to imagine a bounceback of this nature when it comes to continental Europe, it is a prospect rooted in hopes of further moves to open up the economy and society and of a near-term return to normality. While the citizens of the eurozone are still facing ever more severe restrictions, elsewhere the traffic lights have already switched back to green. It is therefore worth looking at the big picture.

There is no doubt that the success of vaccination programmes in some parts of the world provides grounds to hope for a near-term pick-up. In the US, Israel and the UK, not only are case numbers of hospitalised or severely ill patients considerably lower, the efficient provision of sufficient vaccines is lifting these countries out of the crisis sooner, as indicated by improved economic data readings in the US. These numbers have come as especially welcome news for those investors who have been paying close attention to the rise in leading indicators.

Investor sentiment has therefore been correspondingly upbeat, though market players have been less interested in these regional vaccination success stories than the fact that it should not be long until the overall approach bears fruit globally. As the table above shows, this is especially evident in the performance of the leading index of German equities (DAX), which features a large number of exporters.

**Financial markets 2021** total return

| Equities | March | 2021 |
|---|---|---|
| S&P 500 (US) | 4.4% | 6.2% |
| Dow Jones Industrial Average (US) | 6.8% | 8.3% |
| EURO STOXX 600 (EU) | 6.4% | 8.2% |
| DAX (DE) | 8.9% | 9.4% |
| SMI (CH) | 6.4% | 4.6% |
| MSCI Emerging Markets (EM) in USD | -1.5% | 2.2% |
| **Fixed Income** | **March** | **2021** |
| US Corporate Bonds Inv. Grade | -1.7% | -4.6% |
| US Corporate Bonds High Yield | 0.1% | 0.8% |
| Pan-Europe Corporate Bonds Inv. Grade | 0.5% | -0.6% |
| Pan-Europe Corporate Bonds High Yield | 0.7% | 2.1% |
| **Alternative Investments** | **March** | **2021** |
| Gold | -1.3% | -9.6% |
| Oil (brent) | -3.1% | 22.0% |

Sources: swisspartners, Bloomberg

Against this backdrop, the fresh wave of questionable business practices in the financial industry has almost been brushed aside. The fact that renewed failures in risk management and record writedowns at major banks have not (or at least not yet) triggered a mass sell-off suggests that some lessons were indeed learned from the financial crisis.

## 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% |
| **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% |
| Jan 21 | 0.2% | 0.3% | 0.8% | 0.2% | 0.2% | 0.8% | 0.0% | 0.1% | 0.5% | 0.0% | 0.0% | 0.3% |
| Feb 21 | 0.3% | 1.3% | 2.1% | 0.7% | 1.8% | 2.6% | 0.3% | 1.3% | 2.1% | -0.1% | 0.6% | 1.4% |
| Mar 21 | 0.9% | 2.1% | 2.8% | 1.1% | 2.4% | 3.1% | 0.2% | 1.1% | 1.6% | 0.4% | 1.5% | 2.2% |
| **2021** | 1.4% | 3.7% | 5.8% | 2.0% | 4.4% | 6.7% | 0.6% | 2.5% | 4.3% | 0.3% | 2.0% | 3.9% |

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

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# Portfolio Update
April 2021

## Transactions in March

For a detailed overview of the transactions for each strategy, please do not hesitate to contact us.

## 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. |
| Conservative | 3.0% | |
| Balanced | 5.5% | |
| Dynamic | 5.5% | |
| **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. Given the recent rise in bond yields, we have done well to opt for a low duration (interest rate risk). The current level now offers potential leeway to generate better returns on the fixed income front. |
| Conservative | 48.0% | |
| Balanced | 25.0% | |
| Dynamic | 6.0% | |
| **Equities** (overweight) | | The Covid-19 pandemic maintains a firm grip on the global economy and the stock markets. While vaccines are being administered worldwide, producing the required volumes remains a challenge for the manufacturers. Nevertheless, the first countries can achieve vaccination success. Accordingly, it can be assumed that lockdowns and slowdowns in Europe will slowly come to an end by the summer. This imminent return to normality will continue to be positively received by the financial markets, particularly because of the effectiveness of the vaccines developed against mutated virus variants. There are other reasons for the overweight in equities such as ongoing ultra-loose monetary policy, vast fiscal policy support programmes implemented by governments and the dearth of alternative options for investors on the financial markets. If these supports are removed, the situation will have to be reassessed. The steeper yield curve will weigh on market sentiment in the short term. |
| Conservative | 27.5% | |
| Balanced | 50.5% | |
| Dynamic | 74.5% | |
| **Alt. investments** (overweight) | | A broadly diversified portfolio of gold, cat bond funds, market-neutral equity and credit strategies, global macro, commodities and option-based arbitrage/volatility hedging 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. |
| Conservative | 21.5% | |
| Balanced | 19.0% | |
| Dynamic | 14.0% | |
| **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

### Sticking to the script?

As expected, US bond yields continued to rise for a few more days following our report last month before growth rates soon began to slow from the middle of the month onwards (see chart below).

**Yield on 5-year US Treasuries**


Sources: swisspartners, Bloomberg

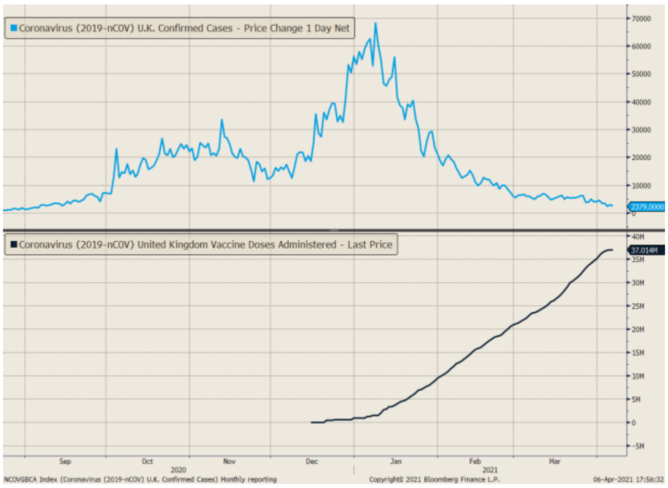
As a result, US yields are still trending as forecast and, as previously, do not pose any real threat to the economic recovery going forward even though, in percentage terms, some gains were substantial in March. The general consensus on Wall Street is that a return to normal interest rate levels per se should not have a dampening effect on the recovery, providing it is a gradual process.

Ten-year yields are currently taking a breather, having (almost) returned to pre-crisis levels (yellow line). This has been resoundingly well received by financial market players, mainly because the economic leading indicators have been significantly more robust thanks to the success of the vaccination roll-out in the US, giving bond investors more than enough reason to let yields move higher. As the encouraging economic data therefore seem to be largely priced into the current yield level, any further uptrend in yields going forward is likely to be more moderate.

**In this setting, we expect little to change for the time being:** as the rise in yields is unlikely to prompt the central banks to take any action in the immediate future, the existing monetary stimulus looks set to remain in place. At the same time, governments remain extremely accommodative and are pulling out the stops to make the crisis as tolerable as possible for individuals and businesses by providing facilities such as grants, loans and infrastructure packages. In any case, the noticeable rise in savings rates shows that by no means everyone stands to lose out as a result of the crisis, especially given that the effects of many support packages are not even visible yet, while additional new plans are already being announced given President Biden's infrastructure programme.

Moreover, great progress has been made on the pandemic front. The marked decline in cases of severe illness in regions that have administered high numbers of vaccinations suggests that far-reaching advances will soon be made in combating the coronavirus. The chart below illustrates the promising correlation between the number of vaccinations and the fall in positive coronavirus cases, using the example of the UK.

**UK coronavirus cases (top) versus vaccine doses administered (bottom)**




Sources: swisspartners, Bloomberg

The charts for Israel and the US paint a similar picture.

These favourable conditions for investors currently support our expectations and our decision to retain a high equity allocation in the portfolio. However, the strategy has become more broadly diversified in recent weeks, with an increase in exposure to cyclical companies that have attractive valuations. On the bond front, we are maintaining a low duration risk to ensure that any losses in the event of a continued rise in yields are tolerable.

Changes to the yield level will continue to play a defining role in our portfolio strategy.

Editorial deadline: 3pm CET, 6 April 2021

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