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The art of finance.

PORTFOLIO UPDATE

MAY 2021

MONTHLY REVIEW

The levels of US indices in April demonstrated once again that things can turn out even better than expected. Driven by central banks and their steely determination to keep money cheap, a vaccination programme in Europe that is gradually having an impact as well as outstanding – and therefore better than expected – corporate earnings in the first quarter of 2021, the S&P 500 set fresh records yet again.

In particular, the latest quarterly earnings releases are likely to have prompted widespread astonishment. Admittedly, it is fair to assume that analysts will generally have erred towards setting the bar too low when forecasting the latest quarterly results in order to take account of the Covid-19 pandemic. Nevertheless, growth rates of 40% and more certainly put a smile on investors' faces. It is therefore worth reminding ourselves of the key figures:

Index	Profit growth (YoY)	Sales growth (YoY)
S&P 500	45.8%	9.1%
Stoxx 600	83.1%	2.2%

Sources: Factset, Refinitv, Lipper Alpha (Status US: 30.04.2021, EU: 04.05.2021)

As is so often the case, however, one man's meat is another man's poison. In this instance, we are referring to the abrupt end of the value rotation. While demand has centred on cyclical value stocks since the start of the year (in contrast to the situation in 2020), over the last month growth stocks such as Facebook, Alphabet and Amazon have regained their dominance of the financial markets. It therefore comes as little surprise that US indices, which are skewed towards tech stocks, significantly outperformed their counterparts on this side of the Atlantic. US indices are now exhibiting similar growth rates to those of European benchmarks over the year to date.

Unsurprisingly, the defensive bias of the Swiss equity market has also made its presence felt. It is not unusual for Switzerland's heavyweight stocks such as Nestle, Roche or Novartis to struggle to keep pace during rallies such as this. As they collectively make up some 50% of the index, they prevent sharp spikes in prices.

Financial markets 2021 total return

Equities	April	2021
S&P 500 (US)	5.3%	11.8%
Dow Jones Industrial Average (US)	2.8%	11.3%
EURO STOXX 600 (EU)	2.2%	10.6%
DAX (DE)	0.8%	10.3%
SMI (CH)	0.9%	5.6%
MSCI Emerging Markets (EM) in USD	2.5%	4.8%
Fixed Income	**April**	**2021**
US Corporate Bonds Inv. Grade	1.1%	-3.6%
US Corporate Bonds High Yield	1.1%	1.9%
Pan-Europe Corporate Bonds Inv. Grade	-0.2%	-0.8%
Pan-Europe Corporate Bonds High Yield	0.4%	2.6%
Alternative Investments	**April**	**2021**
Gold	3.3%	-6.6%
Oil (brent)	6.6%	30.0%

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%
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%
Apr 21	1.4%	2.2%	3.0%	1.2%	2.0%	2.7%	2.0%	3.1%	4.0%	1.9%	2.9%	3.9%
2021	2.8%	5.9%	8.9%	3.1%	6.4%	9.5%	2.6%	5.7%	8.4%	2.2%	5.0%	7.9%

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

TRANSACTIONS IN APRIL

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

POSITIONING

Liquidity (neutral)	Conservative 3.0% Balanced 5.5% Dynamic 5.5%	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)	Conservative 48.0% Balanced 25.0% Dynamic 6.0%	In light of increasing debt levels in the public and private sectors, we favour bond issuers with solid balance sheets, a healthy business model and correspondingly good credit ratings. At the same time, however, the only way of achieving a positive yield to maturity is to take positions outside of the AAA/AA rating segment. Within the asset class, we utilise various bond types and market segments to maintain a cautious approach, including in the lower rating categories. As scope for further rate cuts is limited, we are keeping the duration (interest rate risk) low in the portfolio, which affords greater protection against sudden rises in interest rates. Given the recent rise in bond yields, opting for a low duration has worked out well. The current level now offers potential leeway to generate better returns on the fixed income front.
Equities (overweight)	Conservative 27.5% Balanced 50.5% Dynamic 74.5%	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. Nonetheless, progress is being made in the level of vaccination coverage. It is therefore reasonable to assume that the lockdowns and restrictions in Europe will be eased gradually as we move into the summer months. The prospect of a near-term return to normality continues to be positively received on the financial markets. Other reasons for maintaining an overweight position in equities include ultra-loose monetary policy, the vast fiscal policy support programmes implemented by governments, the dearth of alternative options for investors on the financial markets and solid company results. If these supports are removed, the situation will have to be reassessed.
Alt. investments (overweight)	Conservative 21.5% Balanced 19.0% Dynamic 14.0%	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.
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

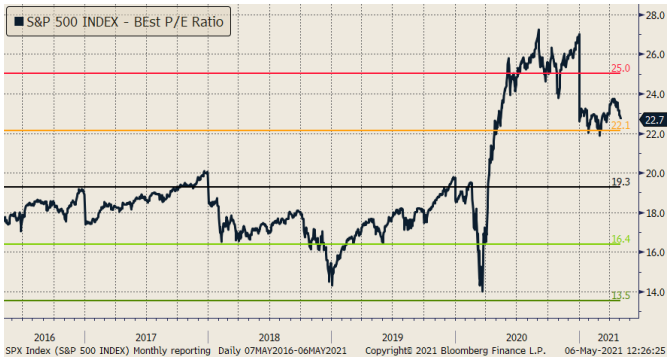
How much optimism is priced in?

Thanks to robust quarterly results, investors are celebrating the rally on the equity markets and playing their part in fuelling the surge in share prices, with demand remaining strong. What is noticeable is that the underlying sentiment on the market is positive across the board. As an analysis of US company data by Factset shows, the share prices of firms that reported above-consensus earnings rose by around 0.9% in the two days before and after the results were published. While it may seem insignificant, this increase exceeds the 5-year average for the previous periods. However, it is even more interesting to note that companies posting negative results over the same period suffered a relatively moderate decline in share prices of around 0.6% compared to the long-term average (-2.5%).

The breadth indicator also shows how widespread the prevailing optimism is on the financial markets. This indicator measures the percentage of stocks in an index that are trading above their longer-term (i.e. 200-day) average. At present, this level is exceeded by some 92% of stocks in the Euro Stoxx 50 and by as much as 94% in the S&P 500 (Bloomberg).

In this setting, it is worth considering how long the euphoria on the equity markets is likely to last, as the fact that various indices remain in overbought territory despite the sharp rise in earnings forecasts implies that valuation levels are still too high.

S&P 500: Expected price-earnings ratio



Sources: swisspartners, Bloomberg

As history has shown us, the above situation may continue for a prolonged period depending on the state of the market, although this alone is not enough to justify a correction. At the same time, as progress is made in containing Covid-19 in the US and many parts of continental Europe, the opportunities for consumers to spend their money will increase, potentially triggering a surge in consumption given the sharp rise in savings ratios during the pandemic. Moreover, to date the central banks have kept their promise to maintain highly accommodative funding conditions to bolster the economy. This is a factor that cannot be emphasised enough and plays a crucial role in supporting the current valuation levels.

Nonetheless – and contrary to our mid-term market outlook – the pronounced movement in share prices during recent months has prompted us to take a tactical approach. By opting for a hedging strategy, we are conscious of the fact that current investor sentiment is too heavily skewed to the positive aspects and too neglectful of the risks at large. Plans to increase taxes in the US, combined with the coronavirus crisis in the emerging markets and signs of rising inflation rates are important elements to consider. In the scenario we forecast, we expect to see a period of consolidation in tandem with potential for share price corrections. Accordingly, we have opted for a partial hedge by buying a put option on the S&P 500. This will expire worthless if it is not utilised (i.e. if the equity market uptrend continues), which will still allow us to participate in rising equity markets. If the opposite scenario applies and the markets undergo a correction in the next two months, the hedge will minimise any losses on the positions.

This hedge is specifically intended as a short-term tactical measure as we generally maintain an optimistic outlook for the financial markets in the medium to long term.

Editorial deadline: 3pm CET, 6. May 2021

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