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Portfolio Update

July 2021

Monthly Review

The month began against the backdrop of the lowest volatility since the coronavirus crisis began. Equity markets initially turned in a fairly unspectacular performance as positions were adjusted ahead of the (mini) options expiration date in mid-month. However, the low level of liquidity over the summer months did prompt a little more movement, giving the main leading indices one of their worst weeks in the year to date.

This marginal correction was led by the financial sector as well as companies from the commodities industry, which had previously benefited hugely from economic and inflationary expectations. While these expectations were still valid, they clouded somewhat on the prospect of an earlier key rate hike by the US Federal Reserve. In a matter of days, the Fed's wording prompted market participants to demand 0.1% more for two-year government bonds. Given the absolute levels of interest rates, this was a relatively abrupt rise. This caused the yield curve to flatten, which in turn underpinned the sharper correction suffered by banks. Nonetheless, these more attractive equity prices were deemed to be an entry opportunity, triggering steady buying. As a result, the month still finished in positive territory.

Furthermore, the shift in expectations triggered a rapid repricing of the US dollar, which meant that in dollar terms some assets were now considerably cheaper. For example, gold shed around 5% of its value in a single day.

For their part, corporate bond indices held up well this month. One reason for this was that yields only moved up at the short end. This meant that indices, which are predominantly made up of longer maturities, were hardly impacted at all on average. Spreads also moved in investors' favour on the whole. As a result, the month ended in positive territory for bonds too.

Financial markets 2021 total return

Equities	June	2021
S&P 500 (US)	2.3%	15.2%
Dow Jones Industrial Average (US)	0.0%	13.8%
EURO STOXX 600 (EU)	1.5%	15.2%
DAX (DE)	0.7%	13.2%
SMI (CH)	5.1%	14.7%
MSCI Emerging Markets (EM) in USD	0.2%	7.4%
Fixed Income	**June**	**2021**
US Corporate Bonds Inv. Grade	1.6%	-1.3%
US Corporate Bonds High Yield	1.3%	3.6%
Pan-Europe Corporate Bonds Inv. Grade	0.5%	-0.1%
Pan-Europe Corporate Bonds High Yield	0.6%	3.6%
Alternative Investments	**June**	**2021**
Gold	-7.1%	-6.4%
Oil (brent)	9.3%	46.8%

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%
May 21	0.5%	0.6%	0.6%	0.5%	0.6%	0.6%	0.9%	1.2%	1.2%	0.3%	0.3%	0.2%
Jun 21	0.8%	1.4%	2.1%	0.7%	1.3%	2.0%	0.1%	0.4%	0.9%	0.7%	1.3%	2.0%
2021	4.1%	8.1%	11.8%	4.4%	8.5%	12.4%	3.6%	7.3%	10.8%	3.2%	6.7%	10.3%

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

TRANSACTIONS IN JUNE

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

POSITIONING

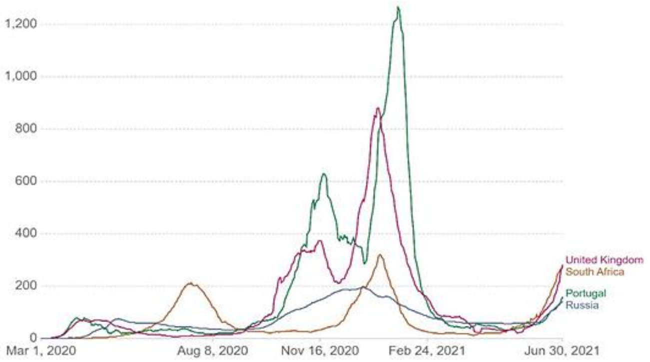
Liquidity (neutral)		Outside of the US dollar investment universe, there are few opportunities to avoid the negative interest rates applied by the central banks. If necessary, we are parking excess liquidity in cash and accepting a negative return, which is partially passed on to customers, especially as there are no other risk-free alternatives. Short-dated bond and trustee investments offer opportunities in US dollars.
Conservative	3.0%	
Balanced	3.5%	
Dynamic	3.0%	
Bonds (underweight)		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.
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 throughout the world and the level of vaccination coverage is constantly rising, new variants of the virus pose a risk to the economic recovery. Investor attention is currently focusing on southern European countries and Asia, where delays to the easing of restrictions are stalling the prospects of a return to normality. Nonetheless, the prevailing mood remains upbeat as the latest scientific guidance shows that mRNA vaccines provide adequate protection against the virus. 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 investment options on the financial markets and better-than-forecast company results so far. If these supports are removed, the situation will have to be reassessed. In particular, it is worth keeping a close eye on the upcoming reporting season.
Conservative	27.5%	
Balanced	52.5%	
Dynamic	77.0%	
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%	

OUTLOOK

Delta variant and US central bank policy

As the lifting of restrictions in Switzerland creates a sense of new-found freedom, with holidaymakers looking forward to travelling abroad in the summer after the changeable weather this year, while the Swiss national football team is bringing an estranged population back together after the isolation of lockdown, it would be all too easy to ignore charts such as the one below.

Coronavirus infections (7-day average) per million resident population



Sources: Jeroen Blokland, Johns Hopkins University CSSE COVID-19 Data

This is especially true given the noticeable rise in case numbers in the UK, which is considered a pioneer in Europe in terms of its inoculation campaign and, with the rate of fully vaccinated people now at 48.2% (as of June 29, 2021 according to statista), is still ahead of the game. What this shows is that, no matter how much of the population has been inoculated, the Delta variant is highly transmissible. Portugal and Spain are currently afflicted by similar problems and would be hit hard if they faced another summer without a flourishing tourist trade. In this setting, it looks as though it will only be a matter of weeks before other regions report comparable trends in case numbers.

That said, there is still reason to be hopeful, as pressure on healthcare systems remains low despite steepening infection curves. This suggests there is a good chance that the Delta variant will have a limited impact on the number of hospitalisations despite high infection rates. However, it will be some time yet before we can be certain given that hospitalisation numbers lag the infection rates by several weeks.

It is precisely this uncertainty that is making itself felt on the financial markets at present – not in the form of falling asset prices, but in the directionless movement of the underlying sectors. While the share prices of companies in the travel sector and other reopening plays might rise today, the well-known tech giants driving last year's rally in share prices could be the ones posting gains tomorrow. This makes the selection part of the investment process all the more difficult.

At the same time, the US Federal Reserve is playing its part in making investors increasingly unsure about whether to favour growth or value stocks in their equity selections. Since the early days of the pandemic, the central bank has remained very firmly on a clear path and left no doubt that it will adhere to its stance despite the rapid recovery on the financial markets.

That was at least until the FOMC meeting in June 2021, when the monetary guardians signalled that they are contemplating a change of direction after what seems to have been an eternity. Admittedly, however, there was no actual mention of a shift in policy – probably because the central bank is merely at the stage of thinking about how to take its foot off the accelerator. Rate hikes are therefore unlikely for some time yet, especially in Europe and Switzerland.

Nonetheless, this is an indicative move on the part of the FOMC that will make it even more challenging for investors to structure their portfolios going forward. Thanks to a balanced mix of growth, quality and value stocks, we think we have found the right strategy for our portfolios in the second half-year. We will avoid any heavily weighted bets while the uncertainty continues and the way forward remains unclear. A broadly diversified portfolio can perform well in phases such as these and will be less prone to volatility in a direct comparison with other strategies. We will maintain a high equity weighting for the time being.

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