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Portfolio Update

October 2021

Monthly Review

For the first time in a long while, habitually successful investors were reminded in September how quickly their fortunes can change. The combination of a blaze affecting an undersea electricity cable, the financial woes of a real estate giant in China, a US Federal Reserve meeting and the prospect of US debt reaching its ceiling was somewhat overwhelming. Concerns that global Covid-19 measures will remain in place for longer than expected sent share prices tumbling, especially for companies that stand to benefit from the reopening economy. Prior to all of this, however, the broad-based indices were being shored up by a small set of equities with a high dependency on China. The fact that companies' growth forecasts were not as buoyant as they had been earlier in the year was enough to trigger profit-taking and reallocations, leading the major equity indices to trend sideways overall. News of a potential insolvency at the Chinese property developer Evergrande was a particularly sore point for some investors. Fears of a Lehman-style real estate crisis sparked widespread sell-offs as market jitters took hold. Meanwhile, the prospect of UK energy providers going into administration due to their inability to pass on surging energy prices to consumers as a result of regulatory price caps almost became a sideshow to these other events.

The monetary policy meeting of the US Federal Reserve was on the agenda in the second half of the month. Hints of plans to taper its bond purchases came as little surprise to the markets. However, the fact that half of the FOMC members now expect a key rate hike as early as 2022 sent yields climbing on the bond markets. As a result, investors in this asset class also suffered losses.

The debate about the US reaching its debt ceiling was another source of unease on the markets. Ultimately, the government shutdown was postponed again, leading the markets to breathe a temporary sigh of relief. Attention is now turning to President Joe Biden's potential infrastructure programme worth several trillion dollars.

Financial markets 2021 total return

Equities	September	2021
S&P 500 (US)	-4.7%	15.9%
Dow Jones Industrial Average (US)	-4.2%	12.1%
EURO STOXX 600 (EU)	-3.3%	16.1%
DAX (DE)	-3.6%	11.2%
SMI (CH)	-6.1%	11.9%
MSCI Emerging Markets (EM) in USD	-4.0%	-1.2%
Fixed Income	**September**	**2021**
US Corporate Bonds Inv. Grade	-1.1%	-1.3%
US Corporate Bonds High Yield	0.0%	4.5%
Pan-European Corporate Bonds Inv. Grade	-1.0%	-0.2%
Pan-European Corporate Bonds High Yield	-0.1%	4.2%
Alternative Investments	**September**	**2021**
Gold	-3.1%	-7.2%
Oil (brent)	10.6%	53.9%

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%
Jul 21	0.3%	0.0%	0.2%	-0.2%	-0.7%	-0.6%	0.4%	0.0%	0.2%	0.2%	-0.2%	0.0%
Aug 21	0.6%	1.4%	1.8%	0.8%	1.5%	2.0%	0.6%	1.2%	1.7%	0.8%	1.6%	2.0%
Sep 21	-1.3%	-2.0%	-2.6%	-1.3%	-1.9%	-2.7%	-1.6%	-2.5%	-3.2%	-1.2%	-1.9%	-2.5%
2021	3.8%	7.4%	11.1%	3.6%	7.2%	10.9%	2.9%	5.9%	9.3%	3.0%	6.1%	9.8%

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

TRANSACTIONS IN SEPTEMBER

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

POSITIONING

Liquidity (neutral)	Conservative 3.5% Balanced 5.0% Dynamic 4.0%	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. We have taken advantage of the current higher level to slightly reduce the underweight in duration.
Equities (overweight)	Conservative 27.5% Balanced 51.5% Dynamic 76.0%	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. At present, investors are mainly focusing on Asian countries, where the easing of restrictions and return to normality have stalled. This is primarily reflected by supply chain problems, which are being exacerbated even further in some areas. These factors will also have an impact on the upcoming reporting season as input costs rise. As previously, 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.
Alt. investments (overweight)	Conservative 21.0% Balanced 18.5% Dynamic 14.0%	A broadly diversified portfolio of gold, cat bond funds, market-neutral equity and credit strategies, commodities and option-based arbitrage/volatility hedging strategies. In contrast to traditional asset classes, these instruments exhibit low to very low levels of correlation and generally offer a certain degree of protection from pronounced market corrections. In normal market conditions, the aim is to achieve a positive market return while minimising volatility. A high level of liquidity is a fundamental requirement and therefore determines which UCITS strategies can be pursued. The directionality of the alternative allocation can be adjusted if required in order to ensure better protection against lengthier corrections or to slightly increase participation in a longer-lasting uptrend. Due to the recent removal of Waystone's Coburn Barrett E-GLI Enhanced Equities UCITS, the directionality has returned to a neutral level, which is also consistent with our current tactical asset allocation.

OUTLOOK

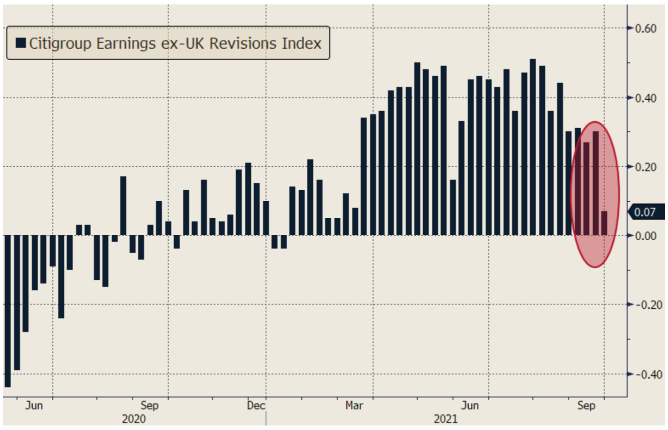
Mounting uncertainty

While media interest on Wall Street is gradually turning away from the coronavirus crisis, the focus is switching to new problem areas – of which there is a long list.

Even though the issues are familiar in some places, they still managed to trigger a consolidation on the equity markets last week. In any case, there has been a palpable rise in volatility since the end of June, and there are clear signs that this trend will be maintained over the coming months.

On the one hand, we are seeing the knock-on effects of the Covid-19 pandemic. With vaccination rates rising and the number of hospitalisations falling, there has been a marked increase in consumption. However, in many places output has not been able to keep pace with this surge in demand. Manufacturing bottlenecks are not the only difficulties, as there are also problems in transporting products to end customers. The Covid-induced shutdown of freight ports sparked delays in the global supply chain. When Chinese manufacturing businesses were forced to curb production due to simultaneous power shortages, uncertainty surrounding corporate earnings going forward started to mount. The supply-side brake on economic growth has also been reflected in numerous analysts' forecasts, and a growing number of market watchers are now predicting a slowdown in earnings momentum (see chart below). Thus, there is a risk that one of the main drivers of this year's equity market rally will gradually be eroded.

Earnings forecasts in Europe ex UK (indexed, change/week)



Sources: swisspartners, Bloomberg

For several months now, one noticeable by-product of the supply bottlenecks has been rising inflation. Although central bankers are still describing this increase as transitory, a growing number of market observers are arguing that rising commodity prices and labour costs, interruptions to supply chains and the scarcity of computer chips are unlikely to end any time soon. As a result, it is clear that investors will continue to focus on central bank policy and the statements made by the monetary guardians. The recent rise in bond yields and the attendant rotation on the equity market from growth to value stocks illustrated once again just how sensitive investors are to changes in the interest rate environment.

Although historically the fourth quarter tends to be a good one for equities, there are ample reasons why we are going to have to live with greater price volatility. Investors who are uncomfortable with such sharp fluctuations should consider minimising the risks in their portfolios. However, we recommend tolerating elevated volatility and not losing sight of the big picture:

- Interest rates will remain highly attractive to equity investors for some time yet, while investment alternatives are still few and far between.
- Sentiment on the markets is muted at the moment, which suggests that many investors have already shifted their portfolio allocations. Put/call ratios are underpinning this theory, demonstrating that many investors have already carried out hedging transactions (both contraindications).
- Meanwhile the pandemic continues to be brought under control, and numerous sectors are benefiting from the bounceback in demand.
- Stock prices can still head higher even in an environment of rising yields. The key thing is to find the right asset mix.

Editorial deadline: 3pm CET, 4 October 2021