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PORTFOLIO UPDATE

NOVEMBER 2021

MONTHLY REVIEW

Upbeat news relating to quarterly results on both sides of the Atlantic sent the equity markets soaring after the September lull. Except for the Japanese Nikkei 225, which is the only major financial market index to post a negative month-on-month change, the indices have recorded substantial gains of 5% or more in some cases. In China, the government also managed to halt the sell-off in Chinese financials by refraining from any further regulatory interventions, while its communication regarding local real estate bubbles was more favourable to the markets. As a result, the equity market is gradually recovering from its year-to-date lows.

US energy stocks were in particularly high demand in October thanks to the sharp uptrend in energy prices. However, companies from the cyclical sectors of consumer goods and building materials also benefited as confidence was restored amongst investors. At the same time, utilities in Europe staged a strong recovery after topping the losers' table in the previous month.

Share prices have therefore moved higher despite the continued rise in shipping, materials and wage costs as a result of ongoing production and logistics problems. However, given the longevity and scale of the surge in prices, central bank officials are now under mounting pressure to get the timing of any monetary policy adjustments right. This in turn has pushed up short to medium-dated yields, leading to losses in the bond segment.

Financial markets 2021 total return

Equities	October	2021
S&P 500 (US)	7.0%	24.0%
Dow Jones Industrial Average (US)	5.9%	18.8%
EURO STOXX 600 (EU)	4.7%	21.6%
DAX (DE)	2.8%	14.4%
SMI (CH)	4.0%	16.4%
MSCI Emerging Markets (EM) in USD	1.0%	-0.1%
Fixed Income	**October**	**2021**
US Corporate Bonds Inv. Grade	0.2%	-1.0%
US Corporate Bonds High Yield	-0.2%	4.4%
Pan-European Corporate Bonds Inv. Grade	-0.2%	-0.4%
Pan-European Corporate Bonds High Yield	-0.4%	3.8%
Alternative Investments	**October**	**2021**
Gold	1.4%	-5.9%
Oil (brent)	6.5%	64.0%

Sources: swisspartners, Bloomberg

Gold prices have continued to show surprisingly little reaction to these developments, undermining the precious metal's reputation as a hedge against inflation. The price of gold was not even affected by the weakness of the US dollar, which tends to have an inverse correlation with commodity values and shed around 2.5% against the Swiss franc in the course of October.

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%
Oct 21	1.1%	2.7%	4.0%	0.6%	1.9%	3.2%	1.1%	2.6%	4.0%	0.7%	2.1%	3.3%
2021	4.9%	10.2%	15.6%	4.2%	9.2%	14.4%	4.1%	8.7%	13.6%	3.8%	8.3%	13.5%

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

TRANSACTIONS IN OCTOBER

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

POSITIONING

Liquidity (neutral) Conservative 4.0% Balanced 7.0% 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. 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 pandemic (COVID-19) continues to hold the global economy and stock markets firmly in its grip. Investors are currently focusing primarily on the countries of Asia, where the easing of the situation and thus the return to normality has stalled. This is primarily reflected in, or further exacerbates, the strained supply chain. This development is also impacting the current reporting season, as well as increased input costs. The reasons for the overweight in equities continue to be the ultra-loose monetary policy, massive fiscal policy measures by governments, the lack of alternatives for investments in the financial markets, as well as better-than-expected corporate figures to this point. If these pillars collapse, the situation will have to be reassessed.
Alt. investments (overweight) Conservative 20.5% Balanced 16.5% Dynamic 12.5%	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. However, we can imagine that we will once again make the alignment more dynamic.

MARKET ASSESSMENT

Considerably better than expected!

We did not have to wait long for the recovery. Strong price gains following on from the prior month's weakness, as well as the positive numbers in the quarterly corporate earnings releases published to date, put a smile on many investors' faces. That said, the share price rally may have come too early for some. Those who dared to exit equity investments in September will have needed some luck as well as judgement to have timed their return to the market correctly. Investors who maintained their equity allocation during the correction – or even added to it at favourable times – had it easier.

One of the reasons for the renewed confidence is what has so far been an outstanding reporting season. This is still in full swing, with just 117 of the 500 companies in the S&P 500 and 88 in the Euro Stoxx 600 having published their quarterly results. Nevertheless, we have already seen enough evidence to suggest that what have in many cases been sharp rises in purchase prices and production costs have had far less of an impact on companies' results than anticipated. To the surprise of many market participants, numerous businesses have even managed to increase their earnings despite stagnant or falling sales – a clear sign that they have been able to pass through high prices to customers. Once again, this has led to analysts underestimating the spikes in earnings. And all of this has been taking place in an environment in which there were widespread fears that estimates were still too optimistic, even though they had already been revised down ahead of the earnings season.

To be precise, 84% of US firms have reported stronger earnings, while around three-quarters of the companies that have already released their figures have posted revenues in excess of expectations, according to Factset. The scale of increases in earnings is striking. On average, profits have climbed by 33% versus the corresponding quarter last year (Q3 2020), which marks the third-highest growth rate since 2010. Results in Europe have been similarly impressive. With earnings up 52% on the same quarter last year, they have actually come in even higher than across the Atlantic. Accordingly, in Europe too around two-thirds of analysts underestimated companies' earnings and sales figures. A glance at past quarterly reports based on data from Refinitiv shows that in Europe as well, the current reporting season has so far been an outstanding one compared to the long-term average.

The cocktail of oversold financial markets and earnings releases that have come in far better than expected has sent equity markets surging back to their former highs. The final quarter of the year has therefore got off to a good start. Interestingly, the setback for share prices provided a reminder of the breather that equity markets took in September last year (see chart below). In 2020, share prices then rallied again strongly up to the end of the year. In any case, statistically speaking the months of November and December tend to provide exceptionally successful trading days, which keeps hopes of a year-end rally high. The ongoing progression of the reporting season is likely to set the tone for the rest of the year.

Correction was only short-lived (MSCI World Index in USD)

Sources: swisspartners, Bloomberg

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