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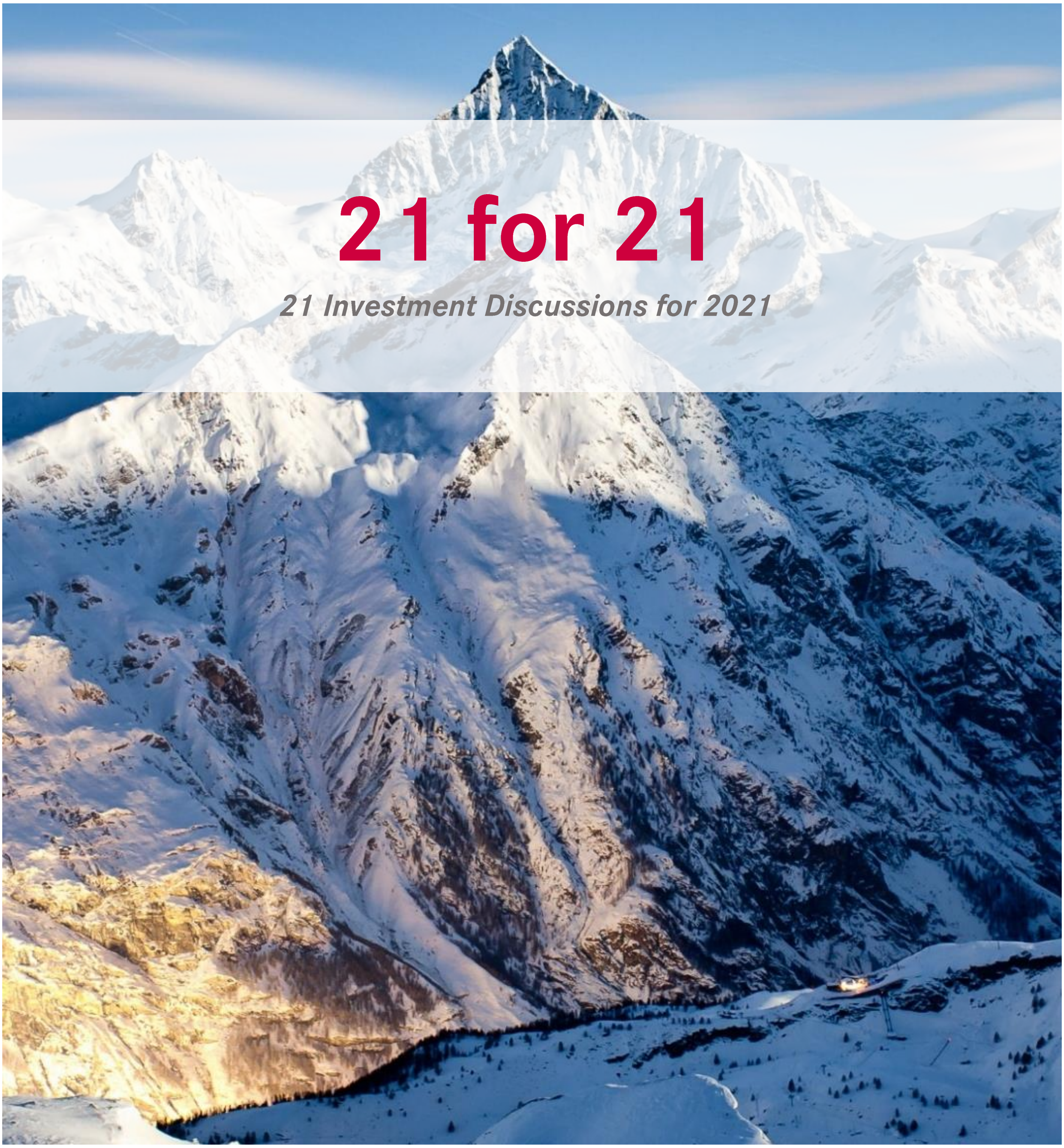
Investment **News**



21 for 21

21 Investment Discussions for 2021

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"Economic recovery is likely to begin in the second quarter of 2021. Pent-up consumption, reversing a previous sharp rise in savings during the pandemic, is expected to lead to a sustained recovery."

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THE MACRO ENVIRONMENT

1. Corona vaccine as a "game changer"

Although we still face some difficult months ahead of us, with varying degrees of lockdowns, by mid-year sufficient individuals across industrialized countries should have received COVID-19 vaccines. Prioritization of vaccination to those belonging to high-risk groups should lead to declining capacity utilization in hospitals, which in turn will allow for a gradual relaxation of lockdown measures.

2. A "W-shaped" recovery

"[The] Corona boost to the digitization of the economy can be expected to be sustained."

The second Corona wave has led to a further slump in economic activity across western industrialized nations, although industrial production in particular has dropped far less during the second wave than in March/April. Economic recovery is likely to begin in the second quarter of 2021. Pent-up consumption, reversing a previous sharp rise in savings during the pandemic, is expected to lead to a sustained recovery.

3. Inflation: not an issue (for now)

Despite highly expansionary monetary and fiscal policy, inflation is expected to remain subdued given capacity underutilization. Temporarily higher inflation figures will do little to change this trend, as they are largely attributable to specific technical factors. For example, in Germany temporarily higher inflation figures can be expected when the temporary reduction in VAT rates are adjusted back to their original levels.

4. Monetary policy in repair mode (low rates to remain)

Central banks across western industrialized nations will remain preoccupied with restoring economic activity in numerous industries and sectors. Accordingly, both the Fed and the ECB are expected to maintain low interest rates for years to come. In most countries, it will take at least another two to three years before the massive economic contraction of the Corona years is made up for and we return to the long-term growth path. Fiscal policy is likely to be similarly expansionary.

"[ESG] is a trend that can no longer be ignored."

5. Digitization to continue

The Corona pandemic has greatly accelerated the pace of digitization in numerous sectors. Even though workers will return to their offices in greater numbers in the second half of 2021, the Corona crisis has highlighted the possibilities of new forms of work. Likewise, many consumers have become familiar with new digital services (e.g. online shopping). Accordingly, the Corona boost to the digitization of the economy can be expected to be sustained.

6. Further ESG and decarbonization measures

Today there are hardly any providers in the investment business that do not also offer their clients investment strategies and products fulfilling the so-called ESG criteria (that is: Environmental, Social and Governance). Even if the offers differ significantly, not least because of less transparent and diffuse ESG concepts, it is a trend that can no longer be ignored. It is to be hoped that superficial ESG concepts aimed at cheap marketing (so-called greenwashing) will increasingly be replaced by well-founded approaches. The focus is on how countries, given existing economic and industrial structures, can gradually be transformed over the next 20 to 40 years towards net-zero CO2 societies. Against this background, avoiding energy-intensive industries, such as concrete or steel producers, on principle does not seem to be a sensible strategy, either socially or in terms of investment policy. Instead, massive investments are needed to put these industries on a sustainable footing, for example through hydrogen technologies or the capture and conversion of CO2.

INVESTMENT STRATEGY

7. No action for bonds

" Emerging market bonds remain one of the few fixed income exceptions with meaningful return potential, with a preference given to hard currency bonds."

It does not seem too bold to suggest that bond yields would be much higher without the Corona crisis. In view of the high contagion figures, and the lockdowns triggered by them, central banks have been compelled to pursue ultra-expansive monetary policy of a kind otherwise only seen in post-war periods. This has led to further price gains for government bonds. However, this trend has now reached a level that no longer offers any prospect of meaningful returns from first-class government bonds for some time to come. Emerging market bonds remain one of the few fixed income exceptions with meaningful return potential, with a preference given to hard currency bonds. A profound selection is required to "separate the wheat from the chaff" when adding so-called green bonds, or bonds associated with catastrophe risks, to a portfolio.

8. Changing favorites - catch-up potential for Corona losers

After the so-called "stay-at-home" stocks outperformed the "going-out" stocks by worlds in terms of performance last year, a change of favorites is still emerging in the middle of the lockdowns. Banks, insurance companies and cyclical stocks in general show a clear potential for catching up. In general, stocks of small- and mid-cap companies are likely to outperform large-cap stocks. In the case of Corona losers, however, care must be taken to ensure that their balance sheets are not too badly damaged from the lockdowns and that these companies also survive long term in a more digitalized economy.

9. Tech stocks: "When the tide goes out..."

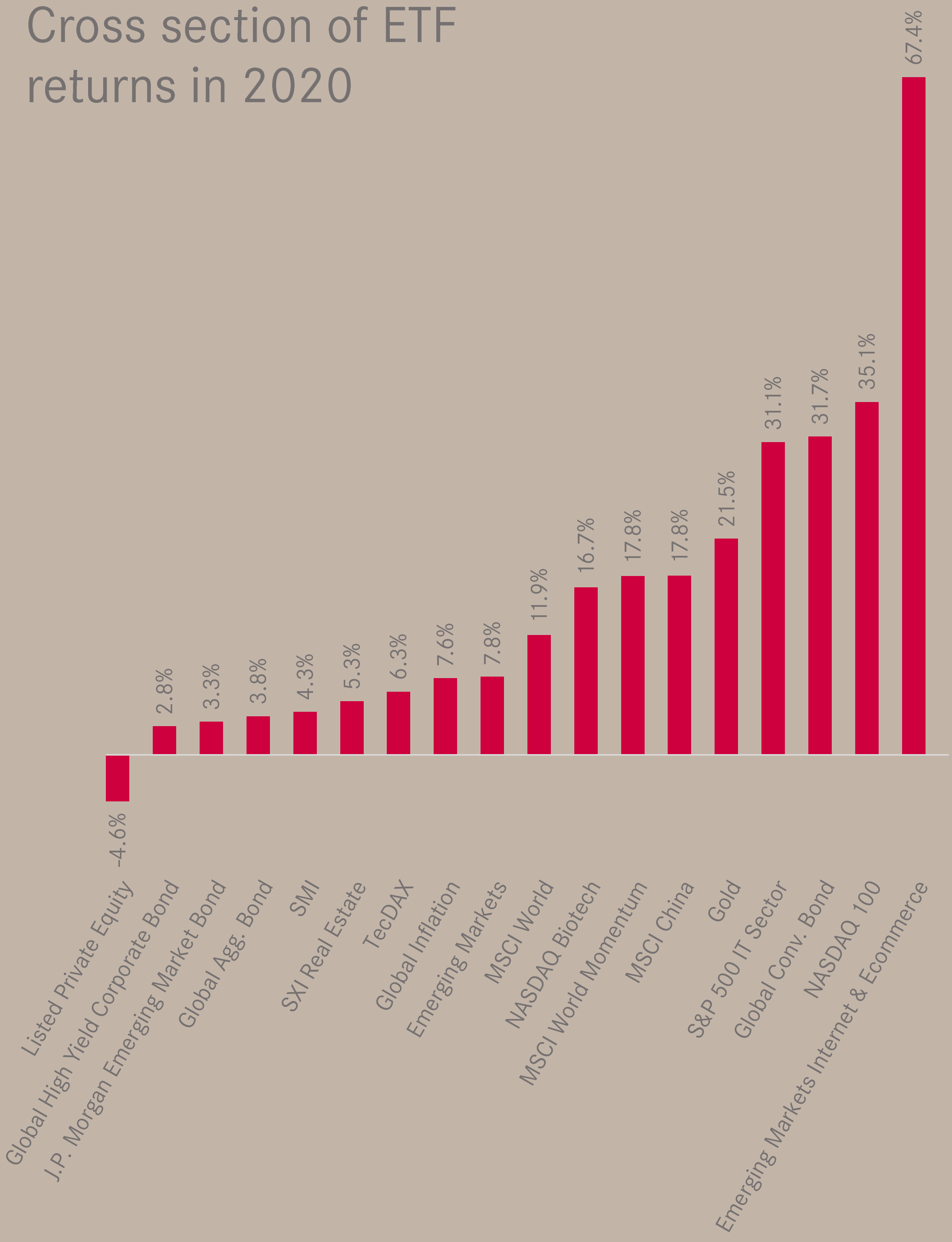
" Despite the rather high valuations, we are holding on to blue-chip tech stocks, as persistently low interest rates make future earnings growth more valuable."

In 2020 prices of numerous tech stocks multiplied. In the process, valuations of certain companies rose to levels that could not be justified even in a post-Corona world, as their shares were "flooded" by investors. One example is the video conferencing provider Zoom, whose share price has almost halved since its peak. Similar valuation hype exists for other tech companies that do not possess sustainable competitive advantages (so-called "moats"). Despite the rather high valuations, we are holding on to blue-chip tech stocks, as persistently low interest rates make future earnings growth more valuable.

10. Technological disruption and green megatrends

The societal need to reduce dependence on fossil fuels has helped numerous cleantech companies achieve massive growth and reaching higher valuations in the past year. This applies, for example, to manufacturers of electric cars (such as Tesla, BYD and Nio) as well

Cross section of ETF returns in 2020



Source: Bloomberg, NPB

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"Despite being the world's second most powerful economy, with an enormous economic momentum, China remains heavily underweight in the majority of global investment portfolios and funds. Therefore, equity investing in the "Middle Kingdom" ranks among our favorite opportunities for 2021."

"The Corona crisis hit smaller, less diversified listed companies harder than their larger global counterparts. We expect this trend to reverse and rank small and mid-cap companies in cyclical sectors among our favorites for 2021."

"Bitcoin appears to have become a kind of "millennial gold", despite its high price volatility."

as to numerous companies in the field of hydrogen technology (ITM Power, Plug Power, Nel, etc.). In view of the rather high valuations, the share prices of these companies are unlikely to continue rising at the same pace, and setbacks must always be expected. In view of the long-term high-growth expectations for electric cars, and the associated expansion of an intelligent electric infrastructure, further companies involved are also of interest. For example the leading battery manufacturers (Samsung SDI, LG Chem, CATL), as well as leading lithium and nickel producers such as the American Livent and the Mexican SQM who stand to benefit from the enormous growth in demand. In this segment, however, there is a danger of massive setbacks in individual share prices, such as in the recent case of Quantumscape, a developer of innovative solid-state batteries, whose shares dropped from a peak of around USD 135 following its August 2020 IPO, to USD 57 at present.

11. Asia as the economic engine

Most Asian countries, including China, have weathered the Corona crisis far better and faster than the Western industrialized nations. China, for example, is expected to grow by 8% to 10% this year, following growth of around 2% in 2020. Other Asian countries, such as Vietnam, Taiwan and South Korea, will benefit both from China as an economic locomotive and from a weaker dollar. Despite being the world's second most powerful economy, with an enormous economic momentum, China remains heavily underweight in the majority of global investment portfolios and funds. Therefore, equity investing in the "Middle Kingdom" ranks among our favorite opportunities for 2021.

12. Pent-up demand for small- and mid-cap stocks

Over the long term, small- and mid-cap companies, on average, have significantly outperformed large-cap stocks. The Corona crisis hit smaller, less diversified listed companies harder than their larger global counterparts. We expect this trend to reverse and rank small and mid-cap companies in cyclical sectors among our favorites for 2021.

13. Bitcoin: Millennial gold

After exploding prices of cryptocurrencies in the second half of 2018, Bitcoin, Ethereum, Ripple and thousands of other cryptocurrencies led a subdued existence for more than 18 months. Since the beginning of October 2020, Bitcoin's price, which accounts for around 70% of all crypto coins in terms of value, rose rapidly from around USD 12,000 to around USD 34,000 over the festive period. On the one hand, the price is fuelled by institutional payment providers such as PayPal, which will soon also offer payments in Bitcoin. On the other hand, larger institutional investors and family offices have also emerged as major buyers of the new currencies. Meanwhile, it is also possible to invest in Bitcoin via ETFs (or ETPs). Bitcoin appears to have become a kind of " millennial gold" despite its high price volatility. Bitcoin payments have long been tainted by the stigma that they take too long to process and involve enormous energy consumption. With the addition of the Lightning Network, these drawbacks should largely become eliminated. As a speculative or store of value currency, cryptocurrencies are benefiting from the expectations of a new generation of investors who assume that supply is limited to a maximum amount (21 million for Bitcoin). With Bitcoin, the "point of no return" appears to have been crossed and "la hausse amène la hausse".

14. A structurally weak dollar

The US dollar lost around10% against both the euro and the Swiss franc in 2020. One of the main reasons for the weakness was the narrowing interest rate differential with other currencies. As a result of the Corona crisis, the US FED felt compelled to cut interest rates significantly, while the scope of the ECB and the SNB for further interest rate cuts are limited given the negative interest rates already in place. Given the FED's willingness to leave the monetary policy floodgates wide open, one can speak of a structurally weak dollar. The blue wave in US politics could reinforce the weakness.

15. Precious, precious metals

"[We] expect sideways price movements, or at best slightly higher prices, for the yellow metal in 2021."

The performance of gold and silver seems to have been completely overshadowed by Bitcoin & Co. A successful immunization of larger parts of the population will massively reduce economic risks and thus make gold less attractive. Conversely, persistently low interest rates make holding gold attractive due to correspondingly low opportunity costs. Against this background, we expect sideways price movements, or at best slightly higher prices, for the yellow metal in 2021.

RISKS

16. "We can't Corona"

"[It] seems obvious that current monetary policy will continue to fuel asset inflation (bonds, equities, real estate, cryptocurrencies, etc.)."

Just a few months ago, the Swiss Minister of Health announced somewhat hastily, "we now know how to deal with Corona". Since then it has become clear that we can only efficiently fight Corona with vaccines. In view of a mutating virus we need, similar to most other industrialized countries, a timely and sufficient supply, accompanied by an efficient infrastructure to vaccinate a sufficiently large part of the population. Given the multiple vaccines that have already been approved, or are about to be approved, the "we can't Corona" risk, seems low to us.

17. "Anemic" Recovery

Chinese consumers have demonstrated what happens after the virus is defeated: consumer spending has recovered sharply to above pre-crisis levels. The fact that Western consumers will react more cautiously seems unlikely, given the large amounts of savings lying idle.

"[It] cannot be ruled out that the Fed and other central banks, whilst keeping interest rates low, cut back on purchases of fixed-income securities sooner than investors hope for."

18. Rising inflation

Renowned economists have repeatedly overestimated the danger of inflation in recent decades. In monetarist fashion, an expansion of the money supply has been interpreted as the inevitable trigger for a rise in inflation. For the time being, we see no signs of a sharp rise in the prices of everyday goods. On the other hand, it seems obvious that current monetary policy will continue to fuel asset inflation (bonds, equities, real estate, cryptocurrencies, etc.).

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19. FED hitting the brakes

Most investment strategists forecast that the U.S. FED will maintain its ultra-expansionary monetary policy intact for the next 3 to 5 years. However, once the virus has been defeated it cannot be ruled out that the Fed and other central banks, whilst keeping interest rates low, cut back on purchases of fixed-income securities sooner than investors hope for. Such a scenario is particularly plausible if the economy recovers strongly with further asset inflation, which would weigh particularly hard on prices of longer-dated bonds.

20. Escalation of US/China trade tensions

"The conviction that the emerging great power China must be restrained, politically and economically, is one of the few issues where Republicans and Democrats agree."

The conviction that the emerging great power China must be restrained, politically and economically, is one of the few issues where Republicans and Democrats agree. A return to the WTO globalization strategy of "peacefully" integrating China into the global economy thus appears off the table. China will do everything in its power to achieve an independent leading position in strategically important economic sectors, such as the chip industry, with massive investments. Ultimately, this change will in the short-term result in lost growth for both the US and China. This will ultimately also impact Europe as it is a major exporter from China.

21. Tech "high-flyers": valuations without a safety net

Valuations of technology stocks rose sharply in 2020. Most of these price increases were not backed by earnings growth, but primarily due to increasing price/earnings ratios (so-called multiple expansion). Apple is a case in point. During the last two years its share price has increased by around 230%. In the same period its profits only grew by 18%. Thus with ever increasing tech company valuations, share prices are susceptible to price corrections in the event of disappointing underlying business performance. Accordingly, high volatility and possible disappointments must be expected, which make it advisable to bet on technology "high-flyers" on a selective basis.

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