

Investment strategy 2020 – investment focus

- We are expecting a **positive base scenario** for 2020: a mutually acceptable solution is starting to take shape within the trade dispute between the USA and China. There will soon be more clarity on Brexit. As a result of the reduced uncertainty, businesses will start to make investments that had previously been kept on ice. Thanks to the cyclical recovery, the manufacturing industry is experiencing an upturn.

Global monetary policies still expansive - increasing influence of politics

- We are monitoring with some degree of concern the attempts from the political sphere to exert influence over central bank decisions. Sooner or later this will undermine trust in the respective currencies.
- Expectations concerning **economic growth** in 2020 are cautious, and lower overall than in the previous year. Global growth of +2.6% is forecasted. Expectations are as follows for the various regions: USA +1.5%, Eurozone +1.1%, China +5.7%.
- **Inflationary pressure** has eased. Technological progress has continued to have deflationary effects over the last few years. However, above-forecast economic growth, salary inflation and increasing climate change regulation may operate as drivers of higher inflation rates.
- In the long run, the **CHF** will remain a hard currency for investors domiciled outside Switzerland. We are expecting the **USD** to follow a slight downward trend against the EUR and CHF due to the reduced interest rate differential.
- Assuming that low **interest rates** continue, bonds denominated in EUR and CHF are expected to yield a negative return in 2020. Whilst it is possible that the SNB may rein in its negative interest rate policy in the event of stronger growth, this is however quite unlikely. Bonds with positive anticipated returns will continue to be sought after.

- High yield bonds, emerging market bonds with investment grade quality and selected corporate bonds are sound investments. “CoCos” (hybrid capital securities of banks) have become less attractive. Private debt is an alternative in the fixed-income sector.

- **Equities** remain the most attractive investment class. In regional terms, the European equity market continues to be undervalued. All of the most important indices reached all time highs in 2019, with some trading on a technical level above their long-term trading ranges. This fact must not be underestimated and in our view points towards a continuation of the bull market.

Equities – neutral valuation positive trend

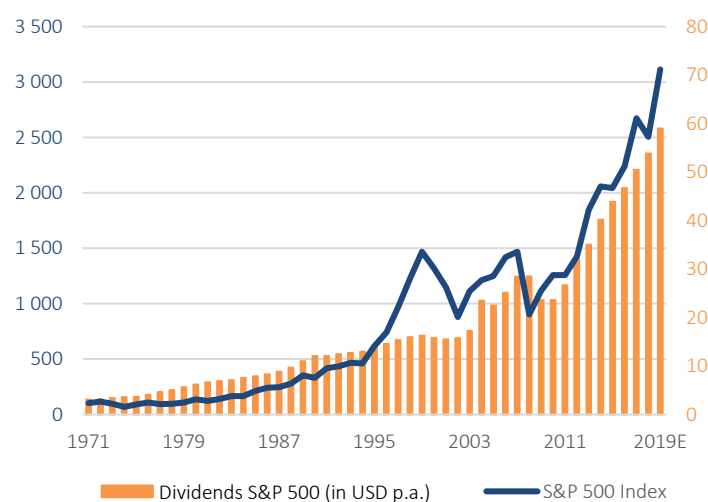
- We focus on quality equities with a selective pick of cyclical stocks. We invest in companies with a leading market position in the relevant sector, where the return on the capital invested is consistently higher than the cost of capital. We recommend opportunistic partial hedges against equity exposure by purchasing put options.
- In 2019 the investment crisis has resulted once again in more robust demand and strongly rising prices for **real estate**. Healthy construction activity is disregarding rising vacancy rates. Caution is required in relation to investment funds and equities with high premiums above the intrinsic value.
- On the **commodities** front we invest in attractively valued equities as well as in gold and remain optimistic regarding its future price trend.
- We make **alternative investments** in the area of private equity in the form of first-class investment funds, which invest flexibly in various assets (private equity, debt, real estate and infrastructure).

Equities

Profit evolution of key equity indices

Region	Index	03.12.19	Aggregated annual profits per equity index							P/E	
			2014	2015	2016	2017	2018	2019E	2020E	2019E	2020E
USA	S&P500	3'114	113	109	112	125	153	164	181	18.9	17.2
Europe	EuroStoxx50	3'645	166	152	186	208	211	239	262	15.3	13.9
Germany	Dax30	13'063	589	487	704	812	821	866	957	15.1	13.7
Great Britain	FTSE100	7'258	292	182	260	376	459	545	579	13.3	12.5
Switzerland	SMI	10'379	477	338	365	392	494	590	650	17.6	16.0
Japan	Nikkei	23'380	879	897	885	1274	1409	1317	1408	17.8	16.6
China	Shanghai	2'885	209	196	203	208	222	249	274	11.6	10.5

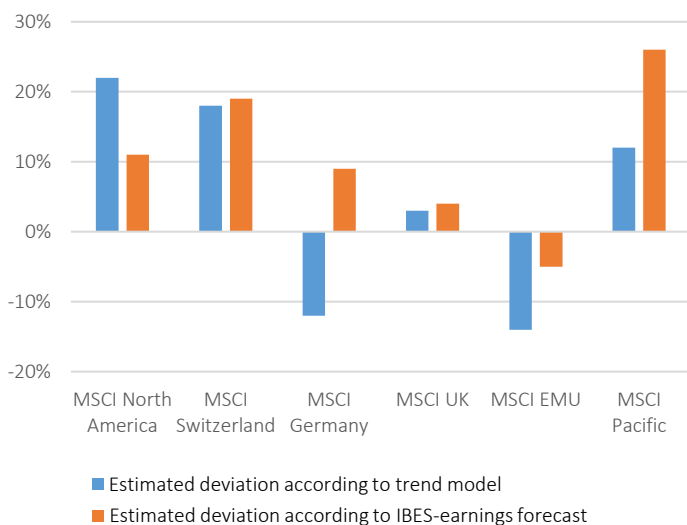
S&P500 Index – Price performance and dividends since 1970



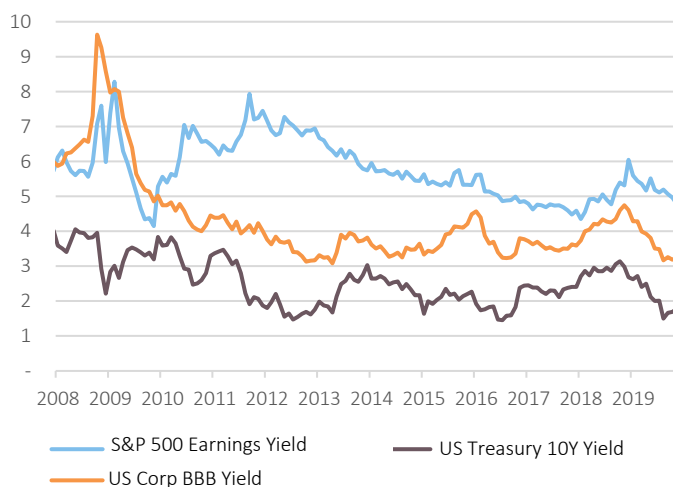
MSCI World – Price / Sales



Equity valuation – current deviation from fair value



USA – Comparison of Earnings Yield and Interest Rate



Source: ZKB/Swisscanto Invest, November 2019

Source: Bloomberg, Belvalor AG, November/December 2019