

Investment strategy 2021 – Investment focus

- A gradual return to normality with a significant **economic** recovery and rebounding corporate profits is expected in 2021. The central banks have essentially contributed to supporting the system. They enabled the economic recovery and ensured the financing by purchases of government debt.

Interest rates will remain low over the longer term, though the risk of inflation is growing

- The zero-interest rate policy of the major **central banks** will most likely be continued. This has resulted in increased prices for real assets such as equities and real estate. A significant rebound of corporate profits has been factored into share prices, at least in part. Nonetheless, dynamic growth in Asia including China gives grounds for optimism. Risk premiums have not lost any of their attractiveness.

Despite higher prices, equities still offer an attractive risk premium

- Joe Biden's election as US President will result in more predictable **politics** and will shift the growth momentum towards sustainability. Stimulus packages to revive the economy are ready to be rolled out around the globe. However, trade tensions between the USA and China will not be resolved immediately.
- **Bonds** with Investment Grade (IG) quality have zero or negative returns in almost all currencies and are thus unattractive for new investments. Positive yields to maturity can only be achieved by investing in fixed income specialties like convertible bonds, emerging markets investment grade, senior loans, cat bonds, "CoCos" or US "municipal infrastructure", which are however associated with higher risks.

- We recommend keeping **currency** risks low by hedging. The costs of doing so have fallen due to the collapse in interest rate differentials. USD weakness has advanced and is consensus. The EUR upside potential against the CHF is limited. There may be some opportunities with currencies that have exposure to commodities, such as the NOK, GBP and CAD.

- **Equities** remain attractive despite their high prices. A balanced portfolio made up of structural winners (quality companies with sustainable returns on capital and growing profits), leaders in key technologies and companies with earnings growth potential is recommended.

- On a regional level, Asia and especially China are interesting. Portfolios should also include investments in US growth companies. Swiss equities, e.g. blue chips, remain attractive over the long term/from a strategic perspective. "Value" equities, for instance, are mostly found in Europe.

Commodity prices are likely to rise

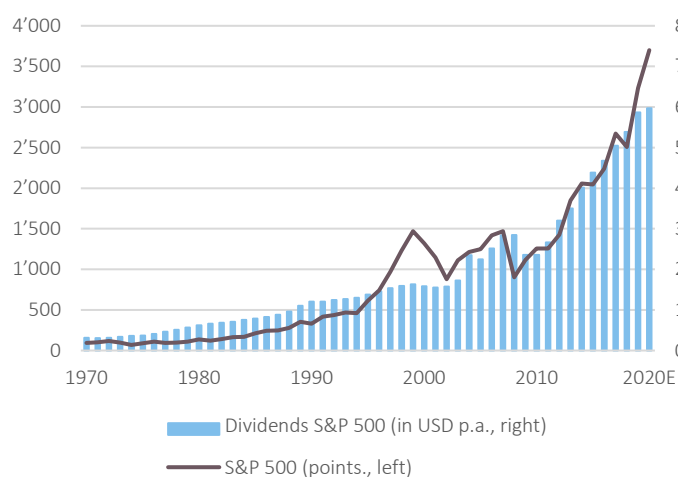
- The economic upswing is driving up **commodity** prices. Oil could break through the USD 60 a barrel mark in 2021. Companies that take sustainability considerations seriously should be preferred.
- **Gold** should remain part of the mix within a balanced portfolio on hedging and diversification grounds.
- Nobody is expecting resurgent **inflation**. The main risks concern commodity prices and protectionist tendencies. Similarly, expansive monetary and fiscal policy could trigger sudden bouts of inflation
- Among alternative investments, **private equity** is still attractive. We invest in themes like private equity, private debt, real estate, and infrastructure and prefer equities of leading private equity managers.

Equities

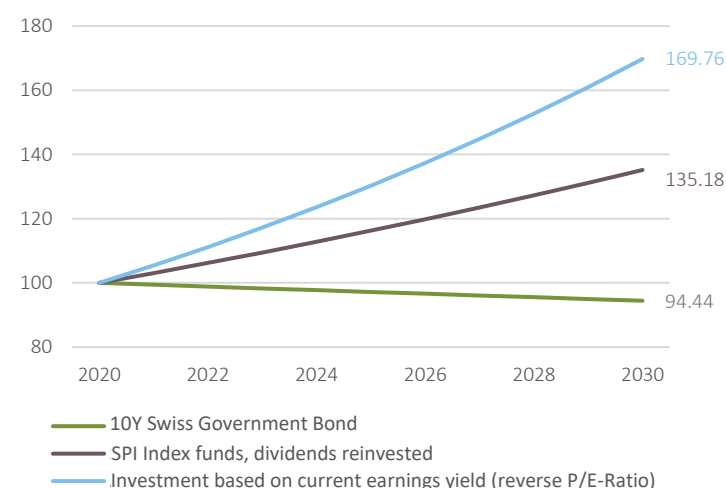
Profit evolution of key equity indices

Region	Index	31.12.20	Aggregated annual profits per equity index							PE		
			2016	2017	2018	2019	2020E	2021E	2022E	2020E	2021E	2022E
USA	S&P500	3'756	109	126	151	152	164	192	213	22.9	19.6	17.6
Europe	EuroStoxx50	3'553	213	236	224	233	196	231	248	18.1	15.4	14.3
Germany	Dax30	13'719	779	834	759	797	866	1000	1093	15.8	13.7	12.5
Great Britain	FTSE100	6'461	321	409	498	484	435	520	558	14.8	12.4	11.6
Switzerland	SMI	10'704	415	457	511	524	603	664	714	17.8	16.1	15.0
Japan	Nikkei	27'444	889	1407	1406	1084	1127	1321	1515	24.3	20.8	18.1
China	Shanghai	3'473	173	202	208	212	260	295	294	13.4	11.8	11.8

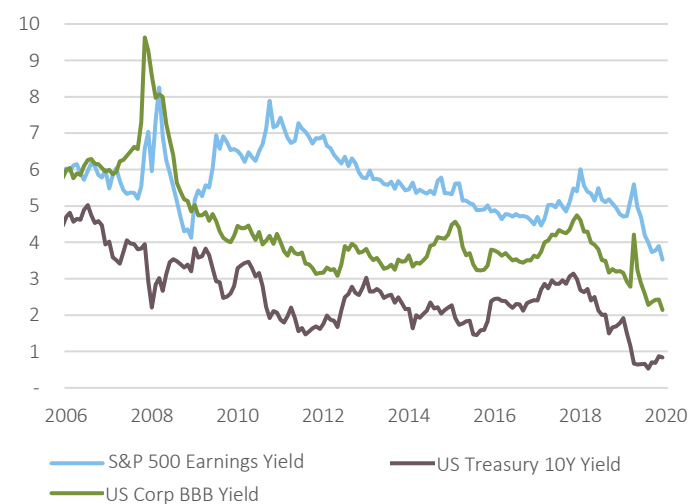
S&P 500 – Price performance and dividends since 1970



Comparison – Development of CHF 100 in 10 years*



USA – Comparison of earnings yield and interest rates (%)



Risk premium of Swiss stocks vs. bonds (%)



Sources: Bloomberg (November/December 2020), Belvalor; * Following assumptions: Dividend yield of the SPI index (and the earnings yield of equities remain unchanged. Dividends are reinvested. The 0% bond issued by the Swiss Confederation maturing in 2030 serves as a basis of comparison.