Portfolio

April 2021

Market overview and positioning

The world developed at varying tempos in the first quarter of 2021. The US impressed not only with its expansionary fiscal policy, but also with its efforts to combat the pandemic. By contrast, many observers have been shaking their heads over developments in Europe. So should the "Old World" be written off?

US: Throwing everything at coronavirus

Two figures attest in no uncertain terms to the magnitude of the efforts of the new administration under US President Joe Biden to combat the coronavirus pandemic. The first is the sum of no less than USD 1.9 trillion being made available by the government under the "American Rescue Plan" to combat the pandemic and support the population. This plan comprises direct support payments of USD 1,400 per person along with a national vaccine roll-out programme, support payments for local governments, schools and hospitals, and an extension of support for the unemployed. The aim of all this is to bring an end to the pandemic and stimulate the US economy. Although the measures will run for several years, the stimulus for 2021 alone is likely to amount to around 4 % of gross domestic product (GDP). The second impressive figure is the number of administered vaccine doses per 100 US inhabitants. This is currently more than 40, which gives a good idea of the rapid pace of the US vaccination campaign. Here too, the US is among the most impressively performing nations worldwide.

Focus on inflation and interest rates

Forecasts of inflation started to rise from the depths plumbed at the start of the coronavirus pandemic as early as the summer of 2020. Inflationary expectations have risen slowly but surely, and have now reached just under 2.6 %. This has led to fears that nominal yields will rise rapidly on the one hand and that the US central bank (FED) could signal the onset of more restrictive monetary policy. These fears have now been proved correct, at least in part: Since our last issue, the yields on 10-year US government bonds have risen further and are now just under 1.8 %. This trend could persist for a while yet. We are therefore maintaining our cautious view of both government bonds and investment-grade corporate bonds. Furthermore, we continue to expect the economy to recover, which should support interest rates.

"Rising inflation has unsettled investors – there is clear evidence of sector rotation in equity markets"

Alex Müller, Chief Investment Officer

US central bank expects further growth

The latest forecast by the FED has confirmed this positive economic outlook. US GDP should rise by 6.5 % in 2021. The FED had previously expected an increase in economic growth of just 4.2 %. However, this is likely to go hand in hand with a rise in inflation. The FED is currently forecasting an inflation rate of 2.4 %, compared to just 1.8 % in December 2020.

Market overview and positioning

Strategy confirmed

FED chair Jerome Powell has confirmed the US central bank's strategy: The main focus is on mastering the coronavirus crisis and bringing stability back to the US labour market. Accordingly, inflation will be allowed to rise above 2%. This statement has calmed financial markets. In addition, the FED is continuing to purchase government bonds to control the rise in nominal yields.

Rising interest rates – what does that mean for real estate and bonds?

Find out more about our appraisal for portfolio real estate and bond investments. You can find a succinct and compact video response to this question at www.zugerkb.ch/outlook-2021 (in German only).

Europe – no great momentum

European countries have not managed to keep pace with the fiscal measures of the US, nor – with the exception of the UK – have they kept pace with its vaccine rollout. The progress of vaccine programmes in the Eurozone has been sluggish so far, and the European recovery plan has lagged well behind those of many other countries. Applications for aid must meet various criteria, and take up to two months to process. The first payouts are not expected before the end of June 2021 at the earliest. Indeed, it is quite possible that the processing of applications will be delayed, which would mean the effects of the programme would not be felt until the second half of the year – far later than elsewhere in the world.

Cyclical sectors first to recover

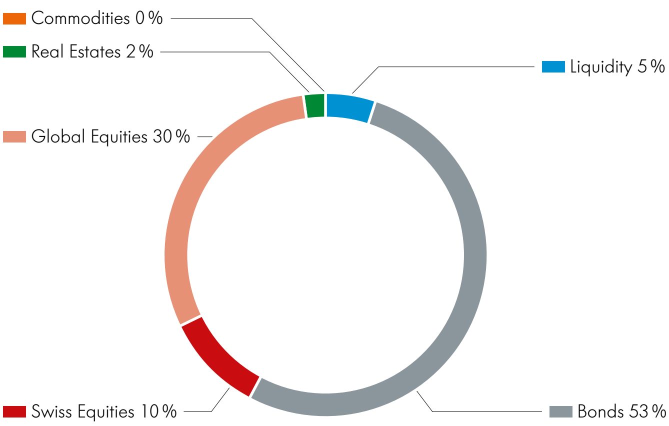
In the short term, the situation in Europe looks challenging. It should take longer for pre-pandemic levels to be reached here than elsewhere. Nonetheless, we should not be blind to the fact that a recovery is taking place. The leading indicators for manufacturing development give cause for optimism, and the signals coming from the services sector are likewise positive.

Fiscal stimulus measures – even if these are implemented relatively late – and the expansionary monetary policy of the European Central Bank (ECB) provide positive parameters for companies. Investors are therefore likely to look beyond the pandemic era in the "Old World" too. The recovery in cyclical stocks expected by us has already begun in impressive style (see graph on page 3). The investment community is therefore unlikely to adopt an unduly negative stance vis-à-vis Europe.

No holding back Asia

Emerging market investments have come under a certain amount of downward pressure recently. Although regional development has been fundamentally positive, this has been overshadowed by tense exchanges between the US and China, as well as by the strength of the US dollar. We are maintaining our positive stance. Viewed overall, the economic indicators are at very pleasing levels for both the manufacturing and services sectors. The recovery is unlikely to be derailed by negative geopolitical newsflow.

Strategic Allocation (Source Balanced Mandate)



Tactical Allocation

	– –	–	=	+	+ +
Liquidity/Money Market				■	
Bonds		■			
Government Bonds	■				
Corporate Bonds		■			
High Yield Bonds & Emerging Markets				■	
Equities				■	
Swiss Equities		■			
Global Equities ex Switzerland				■	
Emerging Markets Equities				■	
Real Estates Switzerland			■		
Commodities				■	

Source: Zuger Kantonalbank

What does this mean for investors?

Virtually no change in portfolio positioning

The starting point for portfolio allocation remains the low-interest policy of the central banks of the US and Europe, which is creating a very good financial environment for companies. Corporate sector developments continue to look positive, and global leading indicators support the expectation of a further cyclical upturn. Thanks to the likely strong rise in corporate earnings over the next few quarters, we are expecting equities to outperform other high-risk asset classes between now and the year-end. We continue to recommend the overweighting of global equities, including those of the emerging markets in addition to those of developed economies. Where Swiss equities are concerned, we are now recommending a slight underweight position. This defensive equity market is dominated by companies from the pharmaceutical and food sectors, and tends to react sluggishly to economic recovery. We continue to view government bonds – particularly those of European countries – as unattractive. Slight rises in capital market interest rates can be expected to wipe out the already meagre yields on offer here.

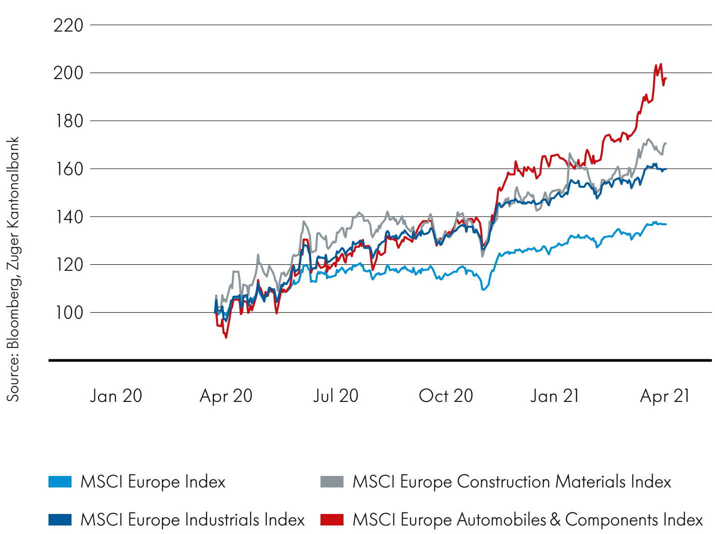
Technology stocks under pressure

Rising interest rates have affected investors in fixed-income securities first and foremost. But equity markets have also responded to this development in the form of rapid sector rotation. US technology stocks have underperformed the wider equity market by just under 8% since mid-February 2021. The rise in interest rates has prompted many investors to take the handsome profits generated in 2020 and realign their portfolios. We too have reduced our overall weighting of the technology sector. The current rotation could well continue for a short while. In the medium term, however, the tech sector will continue to benefit from the global trend of digitalisation. Business models aligned with this trend remain attractive and should prove highly profitable.

Selection geared around return

The development of the global economy favours cyclical companies from Europe, as we emphasised in our last issue of Portfolio. Equities from the automotive, manufacturing and construction sectors have significantly increased their return advantage since the outbreak of the pandemic (see graph). On the one hand, European stocks can be expected to continue to benefit from positive development even after this impressive rally. On the other, structurally disadvantaged sectors such as tourism and air travel will suffer the consequences of the pandemic for even longer. Achieving the right selection will therefore remain the big challenge for investors in 2021 too.

Performance after market correction due to Corona Pandemic

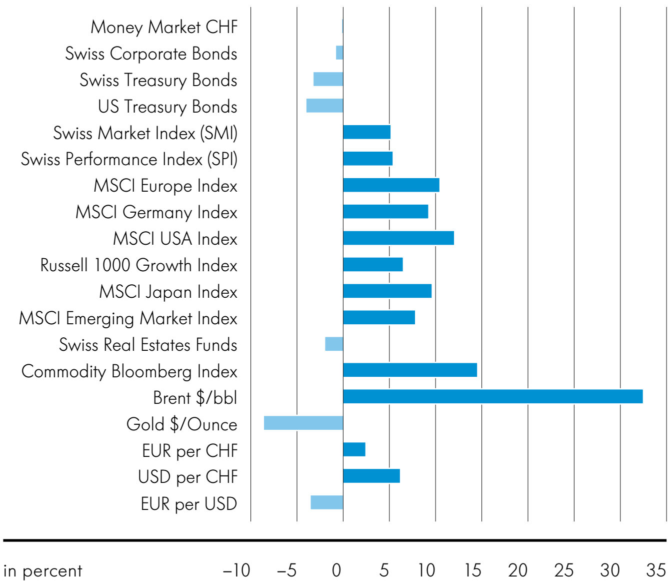


Investment Update

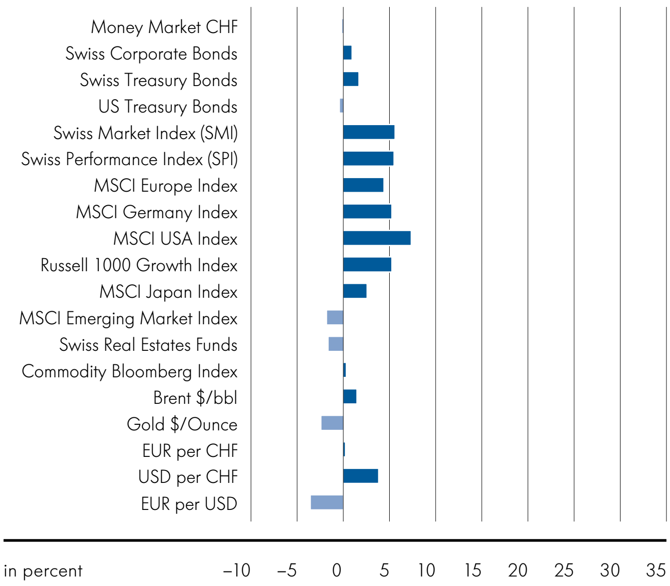
Register for our Investment Updates now to receive the next Update of 15 April 2021 (in German only).

Market data (exchanges & markets)

Return Asset Class (in CHF) since year start (as of 26.03.2021)



Return Asset Class (in CHF) since year start (as of 26.03.2021 rolling)



Source: Bloomberg, Zuger Kantonalbank

Swiss Equities SMI (since year start till 26.03.2021)

UBS 21.3% / CHF 15.13	**ABB** 18.5% / CHF 29.29	**Partners Group** 17.4% / CHF 1220.5	**Lafarge Holcim** 13.2% / CHF 55.02	**Swiss Life** 12.9% / CHF 465.4
Swiss Re 12.5% / CHF 93.72	**Richemont** 12.1% / CHF 89.74	**Swatch Group** 11.1% / CHF 268.2	**Alcon** 10.9% / CHF 65.24	**Sika** 9.8% / CHF 265.5
Credit Suisse 9.4% / CHF 12.47	**Zurich** 7.7% / CHF 402.1	**Geberit** 7.3% / CHF 594.6	**Swisscom** 5.9% / CHF 505.2	**SGS** 2.8% / CHF 2666
Novartis 1.6% / CHF 81.88	**Roche** 1.2% / CHF 303.65	**Nestle** –0.1% / CHF 104.14	**Givaudan** –2.7% / CHF 3631	**Lonza** –3.6% / CHF 548.6

Leading Indicators of industrial production
Values > 50 indicate expansion, Values < 50 indicate contraction

	Feb 2020	Mar 2020	April 2020	May 2020	June 2020	July 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021
Global	47.1	47.3	39.6	42.4	48	50.6	51.8	52.4	53.1	53.8	53.8	53.6	53.9
Switzerland	49.2	43.5	41.2	42.5	41.4	49.6	51	52.8	52.9	54.5	57.3	59.4	61.3
Eurozone	49.2	44.5	33.4	39.4	47.4	51.8	51.7	53.7	54.8	53.8	55.2	54.8	57.9
Germany	48	45.4	34.5	36.6	45.2	51	52.2	56.4	58.2	57.8	58.3	57.1	60.7
Great Britain	51.7	47.8	32.6	40.7	50.1	53.3	55.2	54.1	53.7	55.6	57.5	54.1	55.1
USA	50.3	49.7	41.7	43.1	52.2	53.7	55.6	55.7	58.8	57.7	60.5	58.7	60.8
Japan	47.8	44.8	41.9	38.4	40.1	45.2	47.2	47.7	48.7	49	50	49.8	51.4
Emerging Markets	44.6	49.1	42.7	45.4	49.6	51.4	52.5	52.8	53.4	53.9	52.8	52.1	51.5
China	40.3	50.1	49.4	50.7	51.2	52.8	53.1	53	53.6	54.9	53	51.5	50.9
Brasil	52.3	48.4	36	38.3	51.6	58.2	64.7	64.9	66.7	64	61.5	56.5	58.4

Source: Bloomberg, Zuger Kantonalbank

Do you have any questions or thoughts regarding the current portfolio?

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Zuger Kantonalbank