Zuger Kantonalbank

Portfolio

June 2021

Market overview and positioning

It has become very evident in recent weeks that the financial markets are currently being pulled in different directions. On the one hand companies have delivered very pleasing financial results, which have met the high expectations of investors. On the other, the issue of inflation is becoming ever more pressing. What should investors expect from the summer months?

Healthy parameters in the US

The key leading indicators published over the last few weeks have confirmed that the economic weathervane is set fair for the next few months. The development of the services sector is following that of manufacturing – a trend that is similarly strong in both developed and emerging economies. This will have the effect of placing the recovery on a broader footing. The US is an excellent example of why this is happening: the pace of the vaccine program was ramped up massively, and mobility is gradually approaching pre-crisis levels as a result. Expansionary fiscal and monetary policy, ultra-low interest rates, healthy financing conditions and the high disposable incomes of private households are all buoying sentiment.

Resurgence in Europe

The pattern of development in the US appears to be repeating itself in Europe. The pace of vaccination campaigns has risen dramatically in recent weeks. Although the EU is still well behind the US with its 40 or so administered doses per 100 citizens, the trend is going the right way and accelerating further. Moreover, mobility is on the rise – in keeping with the increasing opening-up of the economy. Economic growth should therefore accelerate further. This assertion is backed up by the very healthy data provided by the purchasing managers indices for manufacturing and services in the eurozone. In particular, following a bout of weakness at the start of 2021, the PMI for the services sector has now surged to a three-year high. The recent increase in new orders was the most powerful for 50 years. Order backlogs have also risen, underlining the demand overhang that is a legacy of the coronavirus pandemic.

"Inflation is coming under the spotlight – 'flash in the pan' or the new normal?"

Alex Müller, Chief Investment Officer

Emerging markets also picking up

Emerging market investments have been under a certain amount of pressure recently. Flare-ups in a number of COVID-19 hotspots have been holding back what has otherwise been basically positive regional development. However, these countries are being supported by a combination of positive leading indicators, the ongoing weakness of the US dollar and recovery in Europe. We are therefore retaining our positive view of the emerging markets.

Wir begleiten Sie im Leben.

Market overview and positioning

The unwelcome spectre of inflation
In many areas, the combination of massive restrictions and great uncertainty during the coronavirus pandemic has caused consumer prices to decline in many areas. Fast forward a year or so, and new data is emerging that must be set against a low comparative base. This statistical effect is now turning out to be more powerful than expected, and has pushed inflation in the US up to a hefty 4.2 percent for the month of April. The low-baseline effect will probably continue to be felt over the next few months. Despite full knowledge of this effect, there is great uncertainty in the markets over what this means in the current situation: Has the much-feared spectre of inflation been well and truly unleashed, or will the strong recent rise prove just temporary?

All in the detail
Up until now, it has primarily been professional investors who have been grappling with the issue of higher inflation – but this issue now appears to have made it onto the radar of most market participants. For the time being, this heightened awareness is likely to persist. However, there are many reasons to believe that the recent price increases will be of a temporary nature. The highest price rises have been recorded by those products and services that have been most in demand following the reopening of shops and businesses, or which have been subject to delivery delays due to supply bottlenecks. Good examples of this include used cars (plus 10 percent) and flights (plus 7.6 percent). The financial markets are likely to subject the US inflationary numbers for May to plenty of critical scrutiny before reacting.

"A nice portfolio proposal – an unalloyed success"

Bilanz Private Banking Ratings 2021

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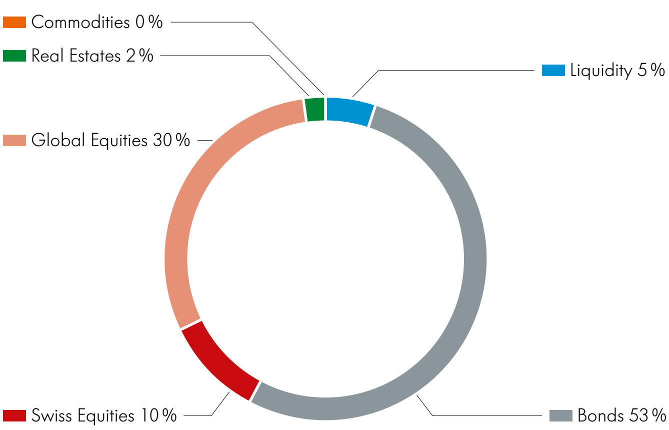
Fed staying calm
In our basic scenario, we are expecting inflation to cool in the late summer. The US central bank (Fed) is unlikely to be perturbed by these temporary effects. In the long term (5-year horizon), the markets are anticipating a low inflation rate of just over 2 percent. The Fed is only issuing its next forecast for its key interest rate in mid-June 2021, at which point it will also release a growth and inflation forecast commentary. However, in a number of statements on the subject of inflation recently it has remained consistently relaxed on the topic.

High expectations, optimum environment
Thanks to positive surprises and confident forecasts on the part of companies, analysts have ratcheted up their expectations recently. Many investors will no doubt be asking what additional positive and potentially market-boosting stimuli might be unleashed. Equity markets appear to be looking for a direction to go at the moment, as there are no catalysts for higher prices as things stand. Nonetheless, the ongoing rise in corporate earnings should provide support. Low interest rates and the state of the economic environment are likewise positives.

Strategic Allocation (Source Balanced Mandate)



Tactical Allocation

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

Source: Zuger Kantonalbank

What does this mean for investors?

Equities still enjoying a good tailwind

Equity markets have continued to develop positively since our last portfolio publication. In US dollar terms, the MSCI World Index has risen by just under 6 percent. The economy is in good shape, with global leading indicators pointing to a persistent cyclical upturn. As corporate earnings can be expected to rise sharply over the next few quarters, we are expecting equities to outperform other high-risk asset classes over the course of the year. Thus our response to any corrections in the equity markets – caused by temporary political, economic, or inflation-related newsflow – would be to build up positions rather than scale them down.

Portfolio position: new equity weighting

We continue to recommend overweighting global equities from both developed economies and the emerging markets. Global economic development currently favours companies from Europe in particular, as explained in our previous portfolio publication. Equities from the automotive, industrial and construction sectors have managed to increase their yield advantage since the outbreak of the pandemic significantly. We therefore recommend reducing the overall weighting of global equities and shifting the investment focus more to the European equity environment.

Europe catching up

European equities should continue performing well even after their impressive recent rally. The coronavirus situation is being defused by the acceleration of vaccine programmes, while the earnings expectations of companies are rising sharply (see graph). Moreover, in view of this positive economic outlook, European equities look more attractively valued than other markets.

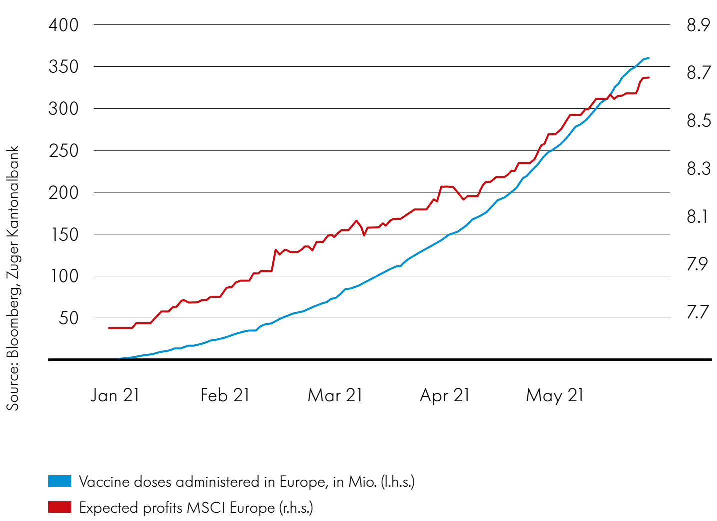
Dark clouds hang over bonds

The risk of a wave of inflation is weighing on bond investors most of all. We therefore continue to view government bonds – and above all European bonds – as unattractive. For their part, corporate bonds have benefited from the greater risk appetite of investors in recent months. This has resulted in a further narrowing of credit spreads, to the point where this segment now looks very expensive. Only in the area of high-yield bonds do we still see some potential. On the one hand, current yields are higher here, while on the other this segment of the fixed-income market is favoured by the positive economic outlook and low overall interest rate environment.

Gold continues to glitter

Gold too is benefiting from the risk of rising inflation. As capital market interest rates have recently stopped spiking, real interest rates remain negative for the time being. Against a backdrop of a weak US dollar, a currency-hedged gold position appears to make sense for Swiss franc investors.

Corporate earnings and pace of vaccine campaigns in Europe



Investment Update

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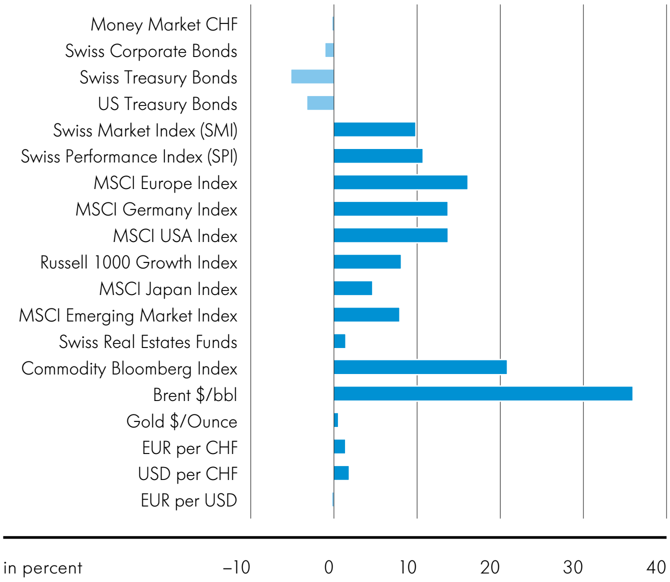
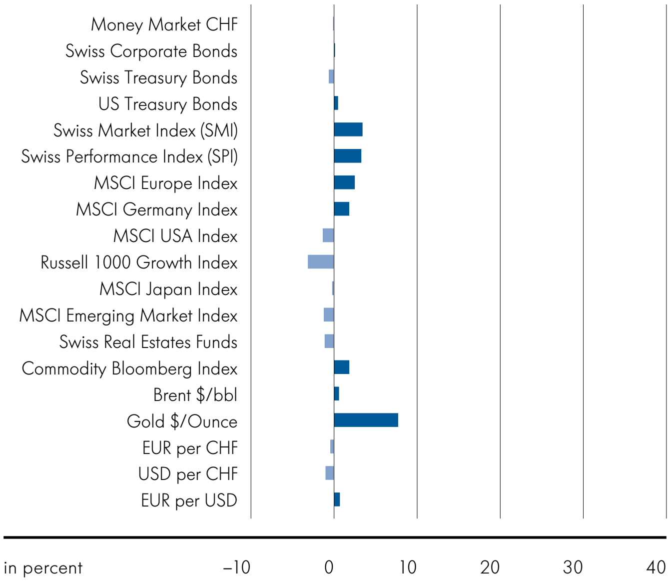
Market data (exchanges & markets)

Return Asset Class (in CHF) since year start (as of 28.05.2021)



Return Asset Class (in CHF) since year start (as of 28.05.2021 rolling)



Source: Bloomberg, Zuger Kantonalbank

Swiss Equities SMI (since year start till 28.05.2021)

Swatch Group 36.6% / CHF 326	**Richemont** 36.5% / CHF 109.3	**Partners Group** 33.6% / CHF 1360	**ABB** 27.7% / CHF 30.68	**Sika** 21.1% / CHF 290.1
UBS 20.6% / CHF 14.7	**Geberit** 20.2% / CHF 653.8	**Swiss Life** 19.2% / CHF 469.5	**Lafarge Holcim** 14.9% / CHF 53.92	**Swiss Re** 11.8% / CHF 87.08
Swisscom 11.5% / CHF 508.8	**Givaudan** 9.8% / CHF 4025	**Nestle** 9.3% / CHF 111.12	**SGS** 8.6% / CHF 2815	**Alcon** 7% / CHF 62.84
Zurich 6.7% / CHF 378.7	**Roche** 5.2% / CHF 315.6	**Lonza** 2.9% / CHF 582.4	**Novartis** –1.2% / CHF 79.6	**Credit Suisse** –12.6% / CHF 9.85

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

	April 2020	May 2020	June 2020	July 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	April 2021
Global	39.6	42.4	48	50.6	51.8	52.4	53.1	53.8	53.8	53.6	53.9	55	55.8
Switzerland	41.2	42.5	41.4	49.6	51	52.8	52.9	54.5	57.3	59.4	61.3	66.3	69.5
Eurozone	33.4	39.4	47.4	51.8	51.7	53.7	54.8	53.8	55.2	54.8	57.9	62.5	62.9
Germany	34.5	36.6	45.2	51	52.2	56.4	58.2	57.8	58.3	57.1	60.7	66.6	66.2
Great Britain	32.6	40.7	50.1	53.3	55.2	54.1	53.7	55.6	57.5	54.1	55.1	58.9	60.9
USA	41.7	43.1	52.2	53.7	55.6	55.7	58.8	57.7	60.5	58.7	60.8	64.7	60.7
Japan	41.9	38.4	40.1	45.2	47.2	47.7	48.7	49	50	49.8	51.4	52.7	53.6
Emerging Markets	42.7	45.4	49.6	51.4	52.5	52.8	53.4	53.9	52.8	52.1	51.6	51.3	52.2
China	49.4	50.7	51.2	52.8	53.1	53	53.6	54.9	53	51.5	50.9	50.6	51.9
Brasil	36	38.3	51.6	58.2	64.7	64.9	66.7	64	61.5	56.5	58.4	52.8	52.3

Source: Bloomberg, Zuger Kantonalbank

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

Simply contact us by e-mail (alex.mueller@zugerkb.ch) or call us at +41 (0)41 709 11 11.

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