PostFinance Investment navigator 2021

Table of Contents

Interview
The democratization of asset management has just begun

Daniel Mewes is Chief Investment Officer at PostFinance. In an interview he discusses the year of coronavirus, why asset management isn't just for millionaires and ponders the differences between a casino and the financial market.

Mr Mewes, a year ago you warned us: "There may be a recession in 2020 – we simply can't tell at this stage." Did you have any inclination of what lay in store for us last year?

Of course not! But in actual fact it wasn't surprising per se that there was a recession. The global economic situation was already fragile at the turn of the year in our view. But I obviously couldn't have imagined that the recession would be caused by a pandemic. And I must admit, prices on the financial markets being higher at the end than at the beginning of the year in such a scenario would have been even more unexpected.

Daniel Mewes
Chief Investment Officer

What lessons have you learned?

It has highlighted just how powerful the combination of monetary and fiscal policy can be. These measures meant average household income in the USA was higher than in the previous year during the greatest crisis since the 1930s. This is remarkable and will obviously bolster the economy and financial markets in the short term, even though the resulting medium-term problems cannot be overlooked.

It was also an exciting year for PostFinance's investment business. PostFinance launched e-asset management on the market in the middle of the crisis. Wasn't that the wrong time?

We pushed ahead with our plans despite the crisis – and don't regret our decision. We're delighted by how well our products have been received. Times of crisis highlight just how important the right investment solutions can be.

A slightly contentious question: doesn't Switzerland have enough asset managers already? Why does PostFinance need to enter this market too?

There are lots of other providers, which is a good thing. But PostFinance can play to very specific strengths. We're completely independent – we don't invest the capital of the portfolios entrusted to us in our own funds to generate further revenues. We can act entirely in our customers' best interests and invest in solutions offering the best value for money. We can also draw on our strengths as a retail bank. Digitization means even very small amounts of money can be invested on the markets.

So I don't have to be rich to invest?

Not at all. And I firmly believe we're going to see a big shift in this respect in Switzerland. Investment isn't just for millionaires! The democratization of financial investment has only just begun and our solutions open up this opportunity for ordinary Swiss people.

But why shouldn't I simply handle this myself and invest my money as I see fit?

PostFinance also provides solutions for investors who wish to take the time to make their own decisions. But getting to grips with economic issues and the financial markets isn't everyone's cup of tea. There's also lots of hype on the financial markets which can be safely ignored. I can understand anyone preferring to focus on other more important things. We at PostFinance are pleased to take care of these matters completely in line with the customer's goals and wishes. I'm also of the view that the wheel doesn't need reinventing so no experiments are necessary. Past mistakes made by others can be avoided. As in many walks of life, leaving the job to experts pays off.

But as a customer why should I entrust my money of all things to a company new to the business?

While we're a new player, our investment committee and portfolio management team are made up of experts from a wide range of sectors with a wealth of experience. Entering this market was not a rash decision – we planned everything meticulously. I also want to point out that the returns generated on the portfolios in the first year are nothing to be ashamed of –

quite the opposite in fact. Despite cautious positioning, we outperformed most competitors in terms of returns.

You indicated at the beginning that the financial markets seem increasingly detached from the real economy. Is the financial market a casino? Is this really where I should invest my money?

There are clearly risks involved in the financial markets that you need to be aware of. The markets do not always move on an upward trajectory. Generally speaking, the longer an investor's horizon, the easier it is to get through lean spells. The comparison with a casino is misguided in many ways.

In what respect?

Diversification is a good example. Investors shouldn't put all their eggs in one basket, but spread their money broadly across a range of asset classes and various regions and sectors within the asset classes themselves. After all, life is unfortunately never without risks. Even tucking cash under the mattress isn't safe – especially in times of high inflation which has become more likely over the medium term owing to the extraordinary measures taken by governments and central banks.

So your money's not tucked under your mattress?

Absolutely not. In May, I also signed up to e-asset management with the sustainable investment focus by putting in an initial 8,000 francs and, since then, have additionally invested 1,000 francs each month.

«Life is never without risks.»

Finally, let's take a look ahead: how much longer will coronavirus be an issue? Can we expect a return to normality soon?

We're all desperate for an end to the crisis. An end to the pandemic appears to be in sight from a health perspective. The financial markets have already factored in this hope. We have to be patient in overcoming the crisis, otherwise we face huge economic upheaval. And coronavirus will reverberate on the financial markets and in the economy for some time to come yet – in a positive way because coronavirus has seen a great deal of innovation and a shift towards future-oriented sectors. But there are downsides too: global debt levels will remain an issue on the financial markets over the medium term.

What are you most looking forward to when the pandemic is over?

Lots of things, of course. Working from home has been remarkably successful, but I look forward to meeting customers face to face, seeing staff and attending the investment committee in person again. But more everyday things too. As a huge ice hockey fan, I'm really excited about seeing some top-class hockey in a packed PostFinance Arena!

Your question
Are ESG investments just hype?

Our answer
No. Are there indications that sustainable and ethical ESG investments – ESG stands for environment, social and governance – could yield better long-term returns than traditional investments. At the very least it seems that ESG investments can hold pace with conventional investments in terms of yield. And they've got a major advantage: they enable the belief in the importance of a responsible approach to society and the environment to be incorporated into the portfolio. The value of such non-monetary factors is increasing, especially in times of falling yields on investment worldwide.

Review of 2020

Easy come, easy go

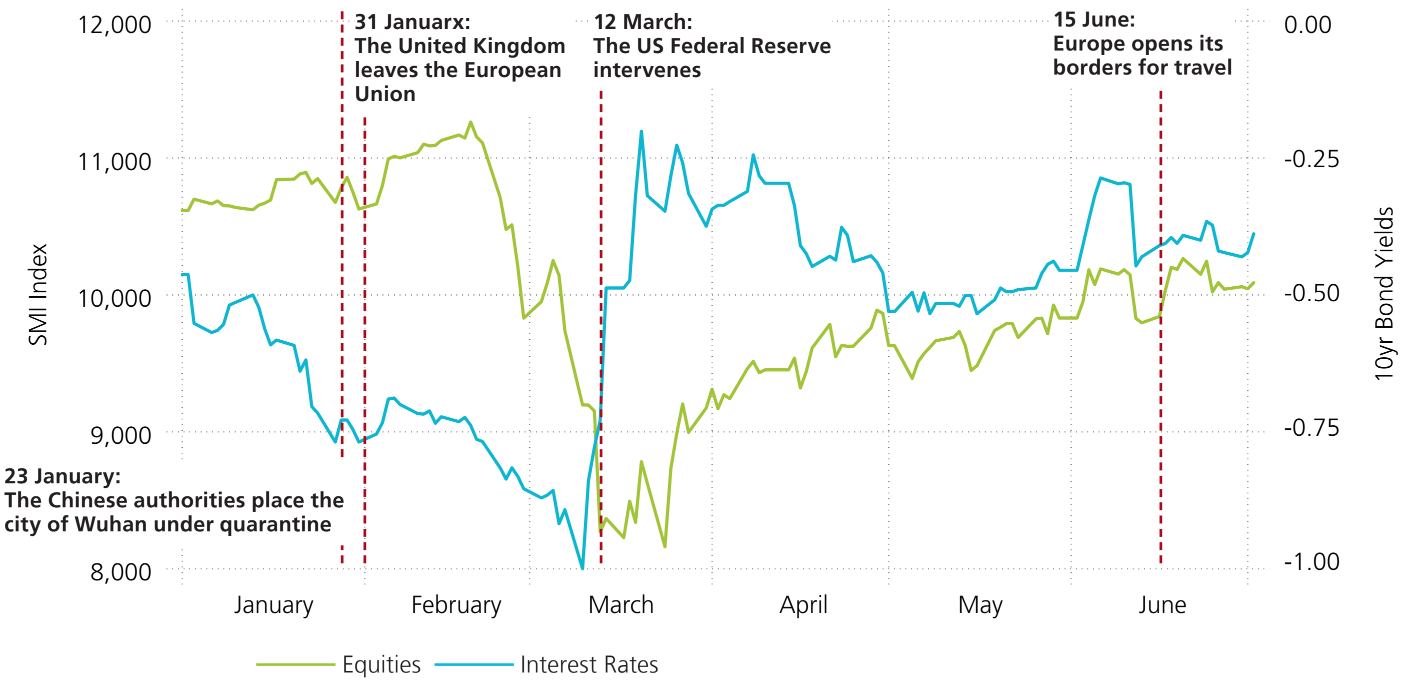
2020 was a year full of surprises. Coronavirus meant the world we now live in is a different one. But even if you'd known this: who would have imagined the crisis would only cause a month-long downturn on the equity markets?
Beat Wittmann, Head of Investment Office, recalls the most eventful days of 2020 and how PostFinance navigated its customer portfolios through this turbulent year.

Beat Wittmann
Head of Investment Office

Thursday, 23 January 2020: the Chinese authorities place the city of Wuhan under quarantine
On 23 January, the Chinese authorities decided to put the city of Wuhan's millions of inhabitants under strict quarantine due to a new type of coronavirus. This gave us a clear indication that the risks to the economy and financial markets had risen significantly. When China locks down entire cities, its economy will suffer. And if the world's biggest economy in terms of purchasing power parity suffers, then the global economy will not escape unscathed either. So we reduced our risks in the portfolios and increased the underweighted position in equities.

However, the financial markets initially seemed unfazed by developments. It was one month later, when the Italian government became the first European country to impose a Chinese-style lockdown, before the first major reaction came. Concerns that the global spread of coronavirus could no longer be prevented also prompted us to reduce risks further. The next shock arrived on 8 March when the oil-exporting nations were unable to agree limits to production, causing the oil price to plummet dramatically by 30 percent. The year of coronavirus was undeniably under way.

Review of 2020 – 1st Semester



Thursday , 31 January 2020: the United Kingdom leaves the European Union
On 31 January 2020, the UK left the European Union. There was no direct impact on this date as the transition agreement had postponed all decisions on the future relationship. Negotiations continued throughout the year, but remained overshadowed by the coronavirus crisis. A deal was reached at the last minute so that a hard Brexit was not followed by a disorderly one. We remained sceptical all year – and were rewarded for our underweighted position in UK equities.

Thursday, 12 March 2020: the US Federal Reserve intervenes
On 12 March 2020, the US Federal Reserve demonstrated the major role that central banks worldwide will play in this pandemic. An auction for 30-year US bonds saw weak demand on the market. The Federal Reserve had to step in to prevent the collapse of the US bond market and, as a result, the global financial system. However, this was only the start of the measures, which surpassed anything that had gone before: liquidity support, bond-buying schemes and the provision of loans.

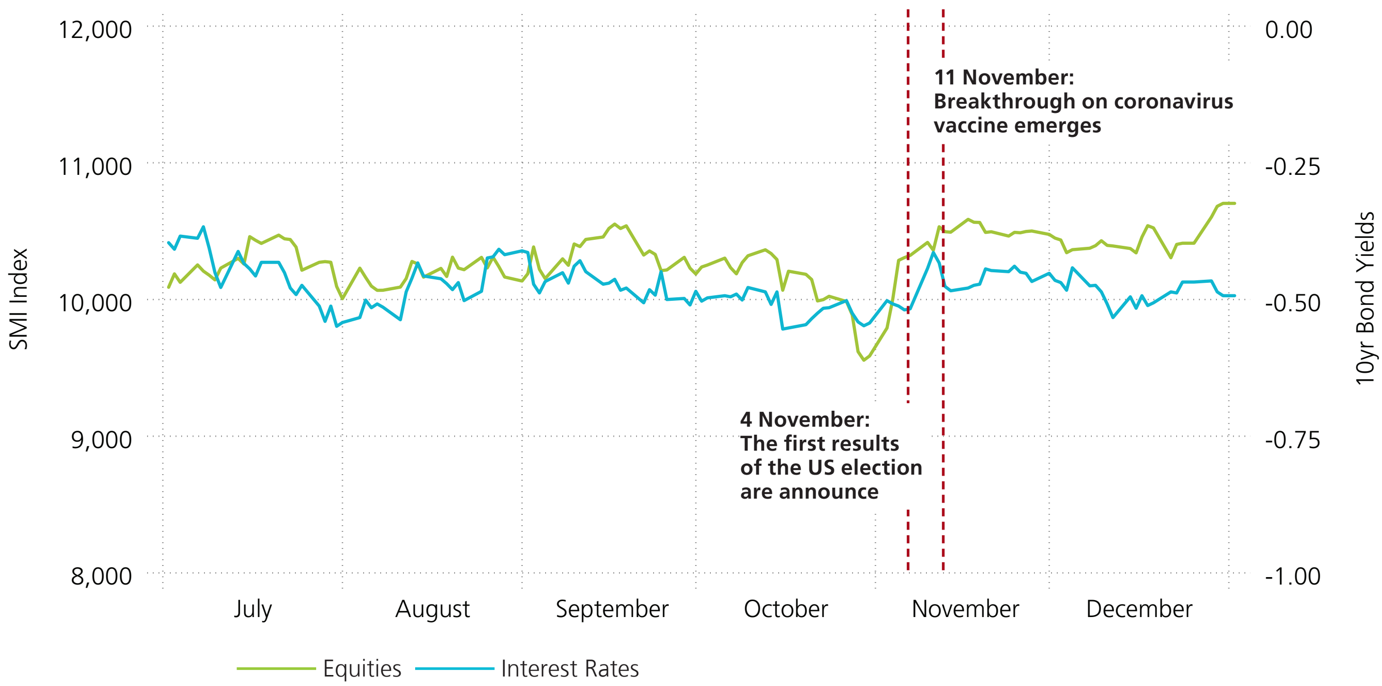
Within just two months, the Federal Reserve's balance sheet increased just as sharply as it had between 2008 and 2015 when tackling the financial crisis. The central banks of the eurozone, the UK and Japan also launched major bond-buying programmes. The aim was to keep interest rates low – for companies and states. This also enabled an extremely generous fiscal policy to be adopted. The USA ended up with a fiscal deficit of around 20 percent for 2020. While direct transfers to citizens played a major role here, government spending in Europe mainly rose due to generous short-time working arrangements, loss-of-earnings compensation for companies and investments in reconstruction.

The measures had a considerable impact. Although economic output slumped, on average households actually had more disposable income than before the crisis. This aided economic recovery after the lifting of lockdown measures. But the financial markets also benefited from the new certainty that the central banks and governments would do everything possible to avoid exposing the economy to too many risks. From 23 March – a month after the dramatic sell-off on the financial markets – equity prices soared almost as quickly as they had previously plummeted.

«Although economic output slumped, households actually had more disposable income than before the crisis.»

As we were aware of the economic scale of the coronavirus crisis despite all the government support packages, we remained sceptical about the recovery on the financial markets – rather too sceptical as it turned out in hindsight. Yet. the gold price indicated that the extraordinary measures may also have negative long-term effects. It rose due to the increasing level of debt financed by central banks and the inherent inflation risks, reaching a historic high on 7 August of USD 2,075 per troy ounce. Our portfolios benefited strongly from this due to the tactical overweighted position in gold investments.

Review of 2020 – 2nd Semester



Monday, 15 June 2020: Europe opens its borders for travel

On 15 June 2020, most borders within Europe reopened for travel. Foreign tourism nevertheless remained extremely limited. However, people didn't stop their consumption once lockdown measures had been lifted. Few people were affected by a decline in income thanks to the short-time working arrangements. Money was spent domestically instead of on foreign travel. This was especially true in Switzerland. Retail sales over the summer were around 4 percent up on the previous year – so no sign of any crisis there. A similar picture emerged in the USA. Despite the economic crisis and sharp rise in unemployment, the average household income over the entire summer was 10 percent higher year-on-year. This additional income was then also spent.

«We focused on Chinese equities early on from the summer and reaped the rewards.»

The situation was different in the emerging markets where social networks are less well established. Consumers had no option but to remain more cautious. This also applied to the Chinese population. Unlike the western industrial nations, the Chinese economy made a rapid recovery thanks to its coronavirus-optimal export mix with the emphasis on electronic devices and medical products. The longer the year went on, the stronger the consumer recovery grew, as strict social distancing and monitoring measures helped to keep coronavirus case numbers low. This means China is still expected to be one of the few countries to achieve economic growth in 2020. We focused on Chinese equities early on from the summer and reaped the rewards.

Wednesday, 4 November 2020: the first results of the US election are announced

On 4 November 2020, we awoke in Europe just in time for the announcement of the first results of the US presidential election. There was huge uncertainty in the run-up to this election. The economic and social situation had rarely been so fraught: against a backdrop of an out-of-control coronavirus pandemic, a deep economic crisis and expiring economic stimulus measures, political and social tensions were mounting. The US election could hardly have taken place in a more volatile climate. There were also fears that the defeated party would refuse to recognize the victor regardless of the election outcome. The financial markets were clearly anxious. In light of the high risks, we decided in September to adopt an underweighted position in the US equity market.

As it turned out, this was an insurance policy that didn't cost us much, but wasn't absolutely necessary. As expected, the outcome of the election was more on a knife-edge than the polls had predicted beforehand. It was only over the course of the week that the Democratic candidate Joe Biden emerged triumphant. And as anticipated, the defeated US President Donald Trump refused to accept Biden's victory. Joe Biden's victory was nevertheless resounding enough to make results being overturned in court unlikely. The equity markets and interest rates rose sharply. With growing certainty over the election outcome, we advised our customers to abandon the insurance policy on the US equity market.

Global economic data 2020

	Real GDP-Growth		Potential growth[2]	Inflation		Unemployment		Prime rate	Public debth (in % of GDP)	
	2020[1]	Ø 10Y	2020	2019[1]	Ø 10Y	2019	2020	Dec 2020	2019	2020[1]
Switzerland	–3.60%	1.70%	1.50%	–0.70%	0.00%	2.30%	3.10%	–0.75%	42%	49%
USA	–3.70%	2.00%	1.70%	1.40%	1.70%	3.70%	8.10%	0.09%	109%	131%
Eurozone	–7.50%	1.20%	0.80%	0.30%	1.20%	7.60%	8.10%	–0.50%	84%	101%
UK	–11.20%	1.60%	1.60%	0.80%	2.00%	3.90%	4.60%	0.10%	85%	108%
Japan	–5.30%	0.80%	1.00%	0.20%	0.60%	2.40%	2.80%	–0.10%	238%	266%
China	1.80%	6.60%	6.30%	2.80%	2.60%	3.60%	5.70%	3.85%	53%	62%
India	–8.40%	5.80%	6.10%	5.90%	6.20%	6.00%	10.50%	4.00%	72%	89%
Brazil	–5.10%	0.70%	0.90%	2.70%	5.60%	11.90%	13.20%	2.00%	89%	101%

[1] Forecast
[2] Potential growth: Long-term change in gross domestic product with sustainable capacity utilization.

Whether the Democrats can also count on a majority in both chambers of parliament was not entirely clear on 6 January 2021 because of the again close election result for the last two Senate seats in Georgia. A united Congress with Joe Biden as president and the possibility of a runoff by Vice President Kamala Harris in the event of a stalemate in the Senate would clear the way for another aid package and significantly fewer obstacles to the implementation of Democratic election promises in the future.

Monday, 11 November 2020: breakthrough on coronavirus vaccine emerges

On 11 November 2020, the financial markets received news that came as a great relief: the US pharmaceutical company Pfizer and the German biotech firm Biontech announced a breakthrough on the coronavirus vaccine. Initial evaluations indicated that its mRNA-based vaccine candidate had achieved impressive efficacy of 90 percent. This meant speedy authorization was within sight. This light at the end of the tunnel came at just the right moment as the second wave of coronavirus was hitting Europe and the USA at full force. This barely caused a ripple on the stock markets. On the contrary: the positive news over the vaccine was greeted with euphoria by these markets. In particular, cyclical industries and those severely hit by the coronavirus crisis, such as energy and aviation, achieved price gains and cut the losses suffered over the course of the year to some extent.

There was more good news on vaccines during November. Other companies added to the mood of hope with their vaccine successes. The imminent prospect of bringing coronavirus under control and the bright outlook in terms of further fiscal and monetary support also went down well on the financial markets. Given these developments, we decided to return the equity allocation in our portfolios to a neutral position in November and to further increase it in December.

Conclusion

In retrospect, we can be satisfied with the yields from our portfolios and our positioning decisions. This turbulent year closed on a positive note, without too many risks being assumed. In particular, the positions in gold and inflation-protected bonds in the first six months and the focus on Chinese equities in the second half of the year stood us in good stead. The new year will also be challenging. While our lives will in all likelihood increasingly return to normal over the course of the next 12 months, we will continue dealing with the fallout of coronavirus next year and almost certainly beyond that.

Performance of asset classes

		Performance 2020 In Local currency	Performance 2020 in CHF	Performance 5Y[1] in CHF	Performance 10Y[1] in CHF
Currencies	EUR	–	–0.4%	–0.1%	–1.4%
	USD	–	–8.4%	–2.5%	–0.5%
	JPY	–	–3.8%	0.5%	–2.9%
Equities	Switzerland	3.8%	3.8%	7.9%	8.7%
	World	16.0%	6.3%	9.5%	9.3%
	USA	20.7%	10.6%	12.2%	12.8%
	Eurozone	–1.0%	–1.4%	4.8%	4.7%
	United Kingdom	–13.2%	–18.2%	0.1%	2.5%
	Japan	8.8%	4.6%	6.0%	5.9%
	Emerging Markets	18.3%	8.3%	10.0%	3.1%
Fixed income	Switzerland	0.9%	0.9%	1.1%	2.2%
	World	9.2%	0.0%	2.2%	2.3%
	Emerding Markets	5.8%	–3.1%	4.6%	5.7%
Alternative Investments	Swiss real estate	10.8%	10.8%	7.6%	6.7%
	Gold	24.6%	14.1%	9.5%	2.4%

[1] Average yearly performance

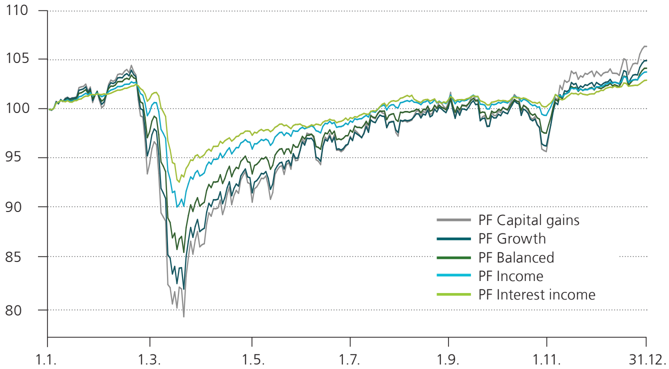
Data as 31.12.2020

E-asset management

Our portfolios in 2020

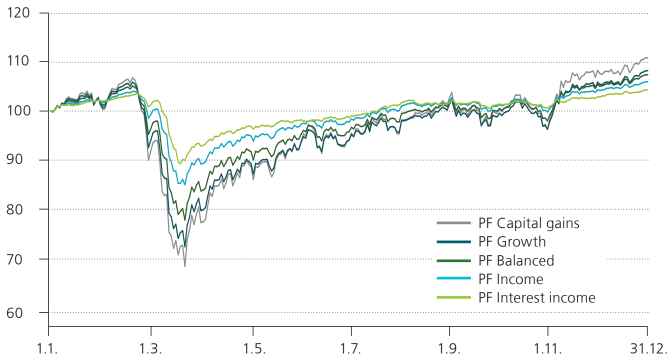
2020 was a turbulent year on the financial markets. This makes the fact that all our portfolios generated satisfactory returns all the more pleasing. While Swiss equities, real estate, gold and bonds cushioned the slump in the first six months, the portfolios benefited from the phenomenal rally of global equities in the second half of the year.

Switzerland



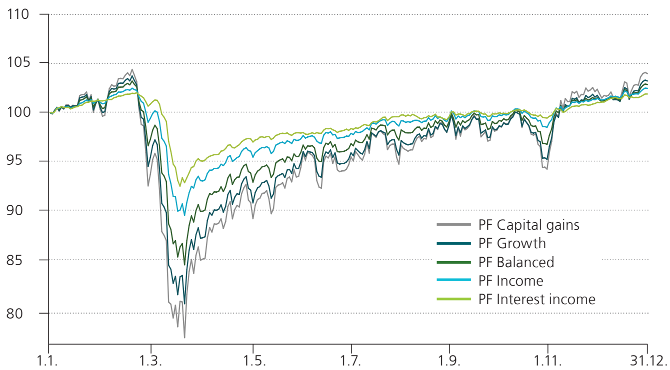
The portfolios with the Swiss focus generated decent returns of 2.9 to 6.3 percent last year despite the slump in March caused by the pandemic. The combination of Swiss and global equity markets paid off. While Swiss equities were less heavily exposed to the downturn in March, cushioning losses, the global equity markets yielded high returns in the second half-year. Portfolios with a high equity market allocation, such as the capital gain portfolio, consequently fared particularly well, but were more volatile as anticipated. The interest income portfolio, which has a heavier bond weighting, also performed well as it was less severely hit in March owing to the bond allocation and was boosted by falling interest rates in the second half of the year.

Global



The portfolios with the Global focus are weighted more towards global equities. This orientation meant that portfolios with a high equity allocation, in particular, initially fell sharply in value in March, particularly as gold and real estate could not offset the slump to begin with. In contrast, the interest income portfolio, which has a heavier bond weighting, was less severely hit by the downturn and yielded better returns than the more equity-oriented portfolios until the end of the third quarter. However, the latter staged such a strong recovery – thanks to the equity market rally which took place soon after – that their returns were more than twice as high as those on the interest income portfolio by the end of the year.

Sustainability



The portfolios with a Sustainability focus comprise sustainable financial investments only. Gold is avoided completely and equity investments focus on Switzerland. This alignment proved beneficial in March as the downturn on the Swiss equity market was less severe than that on the global equity markets. From the end of March, the portfolios also benefited from the exceptional performance of tech securities – which have a high weighting in sustainable indexes.

Our five investment solutions tailored to your needs and goals

Take the next step now in building up your assets.
We'll support you with the following investment solutions:

I will delegate to PostFinance

E-asset management

You want to leave the management of your assets to the investment experts at PostFinance and devote your time to other things.

With e-asset management, our experts make the investment decisions for you. We closely monitor the financial markets and check daily to ensure your assets are optimally invested in line with your investment strategy. Your portfolio will therefore be monitored by our investment experts on an ongoing basis and regularly adapted to market developments based on PostFinance's house view. We only invest your money in funds and ETFs with no retrocessions.

Find out more:
postfinance.ch/investing

I would like a consultation

Fund consulting basic

You make your own investment decisions – but can benefit from individual advice on demand.

Fund consulting basic offers a straightforward range of PostFinance Fonds and third-party funds that are tailored to your needs. You can receive investment proposals either directly online or in a personal consultation. You can then make changes based on your own personal preferences.

Investment consulting plus

You want to keep up to date with market changes and would like your customer advisor to provide proactive support in your investment decisions.

With investment consulting plus you receive investment proposals monthly based on the decisions of our investment committee in line with your chosen investment strategy. You can individually modify, accept or reject these proposals. You can rely on support from your personal investment advisor when making your decisions. We offer you an attractive range of investment opportunities consisting exclusively of selected third-party funds and ETFs with no retrocessions.

I will make my own investments

Fund self-service

You are an investment expert and want to invest in funds independently without receiving any advice.

With fund self-service you choose independently from our straightforward range of PostFinance Fonds and third-party funds, all tailored to your needs. The third-party funds provide a choice of various countries, sectors and investment themes, such as technology, digitization or sustainability. You also have the option of investing regularly in a funds saving plan.

E-trading

You trade common securities, such as equities, bonds and structured products etc., yourself.

E-trading provides you with a modern and intuitive trading platform. It's ideal for investors wishing to trade their securities independently online and at attractive conditions. The free and individually configurable notification service via push message, SMS or e-mail means you will never miss an opportunity, even when on the move.

Outlook for 2021
The recovery will take time

The signs point to recovery in the New Year. However, the economic fallout of the pandemic will continue to present challenges. The only thing that could unsettle the financial markets are doubts over the effectiveness of monetary and fiscal policy.

The global economy fell into such a deep hole last year that things can only really improve in 2021. With a decline of 4.5 percent, it experienced the steepest slump since the Great Depression. Only a global event similar in size to the coronavirus pandemic could prevent economic output rising in 2021. The Chinese economy is already experiencing an upturn. By contrast, hard winter months lie ahead for Europe and the USA. The restrictions to prevent the further spread of coronavirus will hold back consumption and harm the services sector in particular. Yet, China's upturn also presents good opportunities for many Swiss companies, which is reflected in dynamic global trade and the remarkably upbeat mood among industrial companies. The various vaccines developed also hold out the prospect of a rapid end to coronavirus restrictions.

Structural change with consequences
There are many reasons to be optimistic about this year, then. While this is true, we shouldn't allow ourselves to get too carried away from an economic perspective. Last year saw structural change take place at breakneck speed. This clearly has ramifications. On one hand, many winners will emerge from the structural change, which is also vital to ensure the economy as a whole is well equipped for the future. Yet, there are also downsides to the structural change, especially when it takes place so rapidly. It may result in bankruptcies and higher levels of unemployment in the hardest-hit sectors. There has been little sign of this in Switzerland thus far, but we will not escape unscathed in this respect in 2021.

Monetary and fiscal policy as trusty companions
These effects on the worst-hit sectors have been avoided so far as the companies affected have received government support. Short-time working enabled salary costs to be quickly reduced. Government-backed loans also helped companies to raise liquidity. Central banks kept interest rates low worldwide and in all major currency areas – with the exception of Switzerland – they were responsible for ensuring that state borrowing and spending were possible at all.

Can fiscal and monetary policy keep this up on the same scale in 2021? It will be difficult for politicians to cut support in the middle of the crisis. However, they will become increasingly aware that borrowing always comes at a cost. Raising taxes or cutting spending in other areas will prove unpopular. Contention over how resources are allocated is therefore set to grow.

Events coming up in 2021 – January to May

20 January: New US President will be inaugurated

Joe Biden will become the 46th President of the United States and Kamala Harris the 49th Vice-President. Biden's presidency will initially focus on tackling coronavirus. He has already announced further fiscal packages. If the Democrats win the two Senate seats in Georgia on 6 January 2021, it will be easier for him to push through his programme with a united Congress.

12 February: Chinese New Year

The world's biggest economy enters the 'Year of the Ox'. China overcame the coronavirus crisis more quickly than other major economies, which will enable it to increasingly become the driving force in the global economy during 2021.

Yet, those in charge of monetary policy have promised to continue their particularly generous support when the recovery kicks in. The only danger appears to be inflation. There are still few inflation risks over the short term. However, higher inflation does look increasingly likely. If the money distributed over the course of the pandemic translates into demand during the recovery, this will affect companies whose costs have risen due to the coronavirus crisis. This means we can expect rising inflation rates in 2021. Such inflation would not necessarily put an end to the generous policy. Only in the event of a sharp increase in inflation would the policy pursued by the central banks to date – including expansive fiscal policy – be more seriously called into question. Interest rates would then have to be increased, which would leave the indebted states in difficulty.

Low interest rates the driving force

Concerns over the effectiveness of monetary and fiscal policy currently appear to be the only thing that could unsettle the markets. Last year showed once again that even an extremely severe slump in economic output alone only troubles the markets briefly. After the downturn in March, the equity markets recovered very quickly and hit a historic high in November. The recovery covered a wide range of asset classes and continued the pre-coronavirus trend. A major driving force is low interest rates, which fell further during the crisis. These low rates have led to high valuations across a wide variety of asset classes. It seems only a rise in inflation could bring these low interest rates to an end.

> «Investors should be cautiously optimistic, but not get too carried away.»

The current euphoria on the markets has to be viewed with scepticism, even without a sharp increase in inflation. The equity markets are banking on a rapid upturn – corporate earnings forecasts remain very positive. We can see a similar picture with corporate bonds. Their prices have recovered strongly and are now higher than pre-crisis levels. A rising number of bankruptcies is barely being factored in. The optimism is clearly based on the expansive fiscal and monetary policy mentioned, which will stay with us as we move into the New Year. Fundamentally the situation looks less bright. Investors should be cautiously optimistic, but not get too carried away.

Potential opportunities in the East

In view of the highly expansive monetary and fiscal policy worldwide, a generally stronger Swiss franc is anticipated for the time being. Swiss investors must take this into account when making investments abroad. One of the losers last year was the US dollar, which fell by over 6 percent against the currencies of America's main trading partners. The dollar is still expensive though. The fact that the USA faces huge economic and social challenges indicates the US dollar is set to remain weak for some time. Emerging market equities are benefiting from a weak US dollar. The emerging markets in East Asia have also staged a strong economic recovery from the coronavirus crisis. In our view, there are good potential opportunities for investors in this region. This applies to 2021, but also beyond.

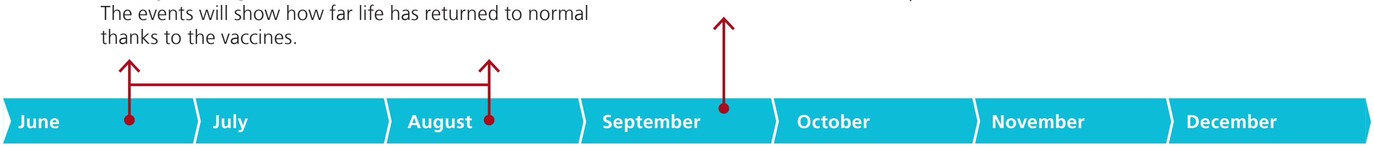
Events coming up in 2021 – June to December

Summer 2021: Sport takes center stage

Delayed by a year, football's European Championship (11 June to 11 July) and the Summer Olympic Games (23 July to 8 August) will take place in summer 2021. The events will show how far life has returned to normal thanks to the vaccines.

26 September: Germany heads to the polls

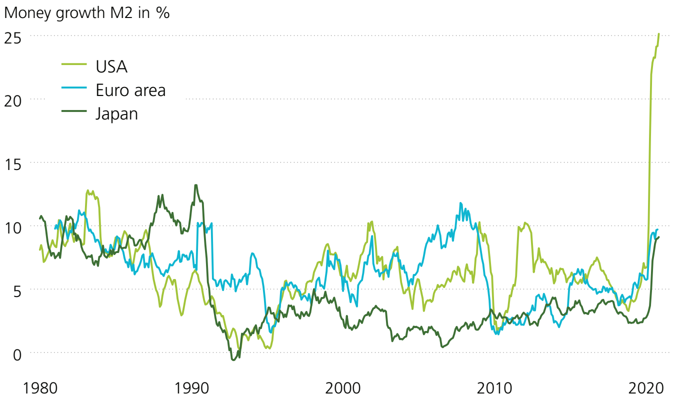
Chancellor Angela Merkel has announced she is stepping down after four terms in office. The election will be closely monitored all over Europe.



Autumn 2021: The European Central Bank reviews its strategy

The European Central Bank (ECB) will review its strategy and publish the results in autumn 2021. As the US Federal Reserve has already done, the ECB may soften its inflation target. It also has to consider how much importance should be attached to climate policy factors.

Sharp rise in monetary supply



The generous fiscal and monetary policy in the major currency areas has seen a sharp increase in the money supply. In the USA in particular, private households and companies hold far more money in their accounts than they did a year ago. There has also been increased monetary growth in the eurozone. The significant reduction in monetary supply after the 2008/2009 financial crisis as part of austerity policies – despite being important to long-term stability – led to short-term economic upheaval. The euro debt crisis in 2011 was one consequence of this. With this in mind, politicians will want to avoid a rapid reversal of the generous policy. A long-lasting expansive policy presents inflation risks.

Source: FED, EZB, BoJ, PostFinance

Valuation of tech firms

The coronavirus pandemic has accelerated structural change towards greater digitization. Tech stocks benefited from this change and have been rewarded with steep price rises. Is a bubble emerging that is similar to what we saw in the dotcom era? At first glance, the price/earnings ratios indicated on tech stocks over the past 12 months is reassuring: their valuations are much lower than at the turn of the millennium. But whether in technology or other sectors: it's always worth looking at individual securities in detail. Tesla's valuation, for example, is 70 times higher than other car manufacturers, such as BMW or General Motors.

Source: Refinitiv, PostFinance

PostFinance stands for competence in the asset management business

PostFinance has been successfully offering investment solutions for personal wealth accumulation for over 20 years. An important tool for this is the in-house opinion, in which our investment committee compiles PostFinance's positioning and assessment of the financial markets and the overall economic situation on a monthly basis. The in-house opinion serves as the basis for our investment decisions and is also freely accessible to you.
postfinance.ch/houseview

Your question
How much further can the gold price rise?

Our answer
Negative interest rates have knock-on effects, as the central banks continually point out. We only expect them to cut rates further into negative territory in extreme circumstances and to resort to alternative measures first if necessary.

This means the European central banks have barely any leeway for further rate cuts. Their US counterparts are in a slightly better position. Bond prices would rise more sharply in the USA than in Europe in the event of another economic downturn.

The world after coronavirus

The coronavirus crisis has raised major questions for society. The focus has shifted towards issues such as solidarity, freedom, mobility and change. Even when the coronavirus pandemic is over, the questions raised will remain relevant. They also concern investors. That's reason enough to take a closer look at these issues.

The question of solidarity remains

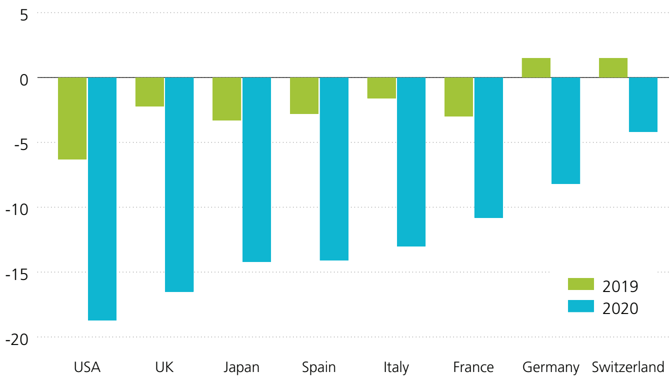
The coronavirus crisis has highlighted the importance of solidarity in a society. Yet, the crisis has also put further strain on solidarity between young and old in relation to retirement provision.

Solidarity between the generations lies at the heart of the coronavirus crisis. The older sections of the population are more severely affected by the health risks of coronavirus and therefore benefit from more stringent protective measures. Such measures usually go hand in hand with tougher economic restrictions. These costs must be borne by the younger and future generations – but they can only shoulder them thanks to the level of prosperity created by the older generations.

Solidarity after coronavirus

Solidarity will remain an issue for societies, even after the health risks of the coronavirus pandemic have subsided. On one hand, the increased level of government debt will have to be paid for. The figure shows that Switzerland has come off lightly compared with other countries. But future generations will have to bring down a greater pile of debt in Switzerland too.

Fiscal deficit in % of gross domestic product



Source: IMF

«This means investors will have to scale back their expected returns.»

On the other hand, the measures implemented during the coronavirus crisis have also led to lower expected returns on financial market investments, particularly in the bond market. Falling interest rates were a major driving force behind strong performance figures in recent years as they led to valuation gains for various assets over a long period. But what would happen if this driving force were taken away? With low interest rates now seemingly permanent, valuation gains will increasingly fail to materialize. Meanwhile, the ongoing returns are also low. This means all investors will have to scale back their expected returns.

This is a major issue for retirement provision in particular, which again raises the question of solidarity. Even before the pandemic struck it was clearly evident that retirement provision was not on a solid foundation. Until now solidarity between young and old has received strong support in the second pillar from the 'third contributor' – the returns generated on the financial market. The outlook for this contributor has now become even gloomier due to coronavirus. As a result, retirement provision faces even greater issues than before the coronavirus crisis. Converting these lower expected returns into lower benefits is not politically straightforward. This will be paid for by the younger generations, which may give rise to tensions. It's also an issue for which there are no simple solutions and that several generations will be faced with. That's why it's so important to sort our your own retirement provision in good time.

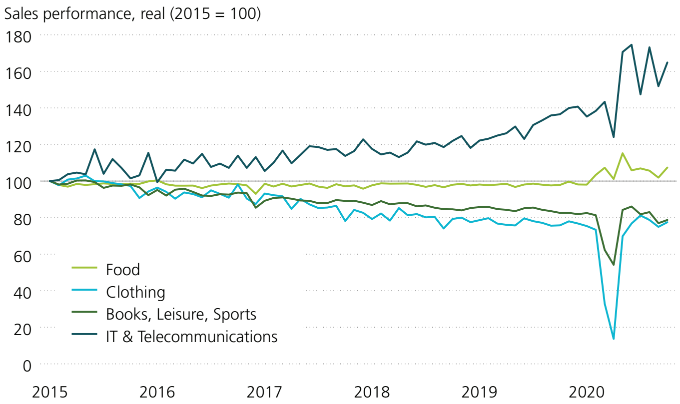
Structural change in time-lapse

The coronavirus pandemic has shifted our professional and private lives into the virtual world. The crisis accelerated the process of structural change that has been under way for some time. Politics won't be able to stand in the way of this change either.

Digitization was one of the century's megatrends well before this year. Young people today – known as Generation Z – are digital natives. They grew up in a digital world, whereas older generations only got to grips with this later in life, which is why they are called digital immigrants. The coronavirus pandemic has lent huge impetus to this trend towards the digital world.

Working and social lives move online

When the pandemic prompted governments to recommend working from home last March, the working landscape changed for many employees. Home offices had to be set up. Unsurprisingly, this triggered a spike in demand for IT products, as the figure shows.



Source: FSO

But shopping habits also changed. Online shopping sales soared by around 15 percent this year, leaving high street retailers beleaguered. Both factors have seen sales at high street clothing and book stores decline further, accelerating structural change that was already under way.

But our private lives have also moved into the virtual world. Social media platforms, such as Facebook, Instagram and TikTok, have proved extremely popular. TikTok, for example, was downloaded 315 million times worldwide in the first quarter. Streaming services like Netflix and Disney Plus fared extremely well. Netflix acquired almost 26 million new customers in the first half-year. And eating out has been replaced by home food delivery. Delivery services are enjoying huge demand. UberEats, for example, generated almost as much revenue in the first half of 2020 as in the whole of 2019.

Tech sectors – winners in accelerated structural change

These coronavirus-related changes in our working and social lives also had an impact on the financial markets. The rapid recovery on the equity market was driven by tech giants such as Facebook, Amazon and Netflix. One milestone after another was reached in the quarterly figures. Amazon, for example, increased its earnings in the third quarter to a record USD 6.3 billion. Thanks to huge price gains, Apple achieved a record market capitalization of USD 2 trillion in August. No US company has ever been traded at such a high level. The tech companies emerged as winners from the coronavirus pandemic.

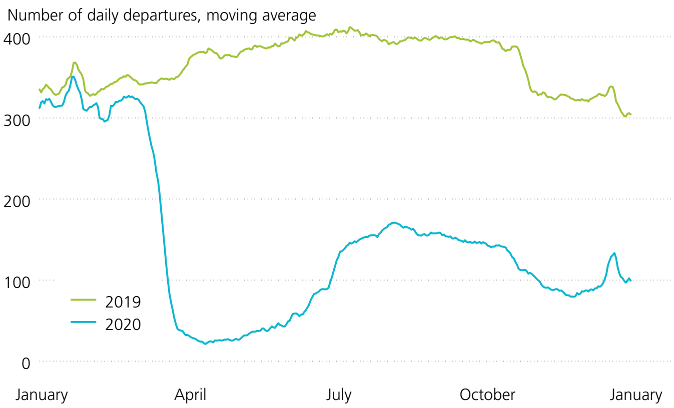
> «These changes in our working and social lives also had an impact on the financial markets.»

The impact of the structural change is clearly being felt in the real economy too. This has presented problems for losers, such as some high street retailers. Economic policy measures, such as short-time working and liquidity support, may temporarily slow this change down, but it cannot be stopped. As a result, the labour market faces enormous challenges too. Workers with new or different skills will be required.

Mobility: Setback, but no trend reversal

Despite environmental concerns, population mobility was only heading in one direction – more and more. The pandemic brought this trend to an abrupt halt – but for how long? Experience from the past year shows that a return to normality can be quickly achieved. Resource-saving innovations are required.

Many societies in industrialized countries were living a contradiction before the coronavirus crisis. On one hand, environmental issues were becoming increasingly important. Governments implemented various measures to cut energy consumption. However, populations seemed to strongly resist these intentions in one sector – mobility. Regardless of the environmental impact, the commuter routes covered rose, leisure travel increased, flights for business and city trips boomed and long-haul air travel became affordable to ever wider sections of the population due to attractive pricing. The Swiss spend 90 minutes a day travelling in total.



Source: Zurich Airport, KOF

«Leisure travel will make a speedy recovery.»

As the figure based on passenger numbers at Zurich airport illustrates, coronavirus has now led to an abrupt change in behaviour. Entry restrictions make international air travel unappealing. Meetings with business partners shifted online and people opted for staycations during holidays. But mobility within Switzerland has also been affected with home office workers commuting far less than before the crisis.

Temporary versus long-term changes in behaviour

But how permanent are these changes? The following conclusions can be drawn from the experiences of the past year. Firstly, leisure travel will make a speedy recovery. Mobility data from Switzerland shows how quickly the population began travelling again as soon as lockdown measures were lifted. There is little to suggest that leisure travel will be impacted long-term by the pandemic. The same goes for international tourism, which has hardly recovered so far due to the restrictive measures.

Secondly, everyday business life will also return to normal. But the new daily routine will not be like the old one. That's why the recovery after the lifting of lockdown measures was slower. Employers have come to appreciate the benefits of working from home. Virtual meetings can save time and cut costs, especially in international business. Profit-optimizing companies will look to capitalize on these saving opportunities. But employees value the newly accepted flexibility over place of work too.

Environmental challenges remain

The impact of the pandemic will be felt long-term. A fall in business travel will hit the aviation industry. The importance of residential space will increase, while the benefits of office facilities will decline. The change in requirements for living and office space will also have an impact on the real estate sector.

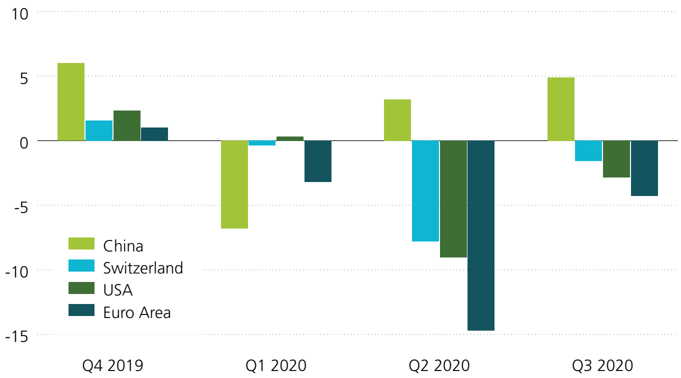
However, the coronavirus pandemic will not resolve environmental challenges. There has only been a rethink over mobility to a small degree. The desire for mobility continues to conflict with an environmental outlook. This means resource-saving innovations are required to reconcile both standpoints – but which create opportunities and exciting investment options.

Freedom under threat

Freedom can conflict with health and safety. The coronavirus crisis has also raised difficult questions for western societies in this respect. China, with its emphasis on health and safety, seems to have emerged as a winner from the coronavirus crisis. Global diversification in a portfolio remains crucial..

What is the price of freedom? This rather academic-sounding question suddenly became very relevant again last year after the coronavirus outbreak. How much harm to health – or in other words coronavirus cases – can a society accept to allow it to place fewer restrictions on the freedom of its people? Unsurprisingly, the response to this question differs greatly from country to country, but also within a society.

Annual growth rate of gross domestic product in percent



Source: Bloomberg

China, and to a lesser extent Taiwan and South Korea too, have led the way: an extremely well-developed monitoring system combined with proactive restrictions on freedom can minimize health risks if required – enabling a more rapid economic recovery, as the figure shows. Western industrial countries also went further on restrictions based on China's model than was conceivable pre-crisis. Overall, their approach permitted greater freedom but they had to pay the price with much higher case numbers and still beleaguered economies.

China at an advantage

Even without the coronavirus pandemic, it was clear that China's economic ascent was virtually unstoppable. The pandemic has further underpinned this trend. Not only does China seem to have survived coronavirus better, but western countries are also taking measures to tackle the costs of the crisis, which will have a long-term impact.

«Such zombie firms hold back long-term growth.»

To cushion the economic impact of the pandemic, governments partly bore the costs suffered by companies and employees. This means the state is increasingly being left to cover risks. This state support clearly also benefits the economy short-term – the measures have also been seen as positive on the financial markets. However, from a macroeconomic perspective it isn't wise over the medium and long-term to leave resources in companies that can only survive because of state aid. Such zombie firms hold back long-term growth.

Global diversification key

From an investment perspective, it seems obvious where the potential lies: in East Asia, especially in China. That's certainly true. Concerns nevertheless remain over China. The current political stability isn't set in stone. There are doubts over how long the Communist Party can continue to defend its claim to power based on repressive measures. Geopolitical conflicts also seem inevitable. So focusing solely on China or East Asia is not an advisable option. Global diversification is and will remain a key element in a portfolio.

Legal information

This document and the information and statements it contains are for information purposes only and do not constitute either an invitation to tender, a solicitation, an offer or a recommendation to buy, sell or conclude transactions for any securities, other financial instruments or services or to perform other transactions or to conclude any kind of legal transaction.

This document and the information it contains is intended solely for persons domiciled in Switzerland.

The investment analyses from Investment Research are produced and published by PostFinance. PostFinance selects the information and opinions published in this document carefully and includes sources deemed reliable and credible. However, PostFinance cannot guarantee that this information is accurate, reliable, current or complete and, to the extent permitted by law, does not assume any liability for it. In particular, PostFinance rejects any liability for losses resulting from investment performance based on information contained in this document. The content of this document is based on various assumptions. Differing assumptions can result in significantly different outcomes. The opinions expressed in this document may differ from or contradict the views of other PostFinance business units, as they are based on the use of different assumptions and/or criteria. The content of this document is specific to a particular date. This means that it is only current at the time of creation and may change at any time. Past performance is not a reliable indicator of future results. The price, value and return of investments may fluctuate. Investment in financial instruments is subject to certain risks and does not guarantee the retention of the capital invested or an increase in value. The analyst or group of analysts who produced this report may interact with employees from marketing and sales or other groups for the purposes of collecting, compiling and interpreting market information. PostFinance has no obligation to update information or opinions, to specify that information is no longer up to date, or to remove such information.

No advice (investment, legal or tax advice, etc.) is provided through this document. This information does not take into consideration the specific or future investment objectives, financial or tax situation or particular needs of any specific recipient. This means the information and opinions are not a suitable basis for investment decisions. We recommend that you consult your financial or tax advisor before every investment. Downloading, copying or printing this information is permitted for private use only, provided that the copyright notice or other legally protected names or symbols are not removed. Complete or partial reproduction, communication (electronic or otherwise), modification, linking or use of the newsletter for public or commercial purposes and non-commercial distribution to third parties is prohibited without prior written consent from PostFinance. PostFinance accepts no liability for claims or legal action by third parties based on the use of this information. Further information is available on request.

Important information on sustainable investment strategies
PostFinance may include sustainable investments when selecting instruments for the model portfolio. This means that environmental, social and governance (ESG) criteria are taken into account in investment decisions. If ESG criteria are implemented, certain investment opportunities may not be pursued which would otherwise be compatible with the investment goal and other general investment strategies. Taking account of sustainability criteria can result in the exclusion of certain investments. As a result, investors may not pursue the same opportunities or market trends as investors who do not apply such criteria.

PostFinance Ltd
Mingerstrasse 20
3030 Berne

Phone +41 848 888 900

www.postfinance.ch

01.2021 PF | Advertising from PostFinance Ltd

PostFinance

Data as of 31 December 2020
Editorial deadline: 6 January 2021