PostFinance investment compass June 2021

PostFinance

Editorial

For the sake of our planet

Sustainable investments present big opportunities. But putting such strategies into practice does entail challenges. A long-term approach is likely to pay off here, too.

Daniel Mewes
Chief Investment Officer

The vote last Sunday highlighted just how differently people view climate issues. Some matters have to be decided by the entire population, and this requires coordination from politicians. Other issues may or have to be weighed up individually. These include how much emphasis to place on ESG criteria – which concern environmental, social and governance factors – when investing.

How do I want to generate returns? Not everyone will draw the same conclusions to this issue – which is a good thing. We consciously offer asset management mandates based on different strategies; the portfolios with a sustainable focus specifically take account of ESG criteria.

Big opportunities

My personal view is that the future lies in ESG investments. To put it bluntly: if the planet is to remain a place where people enjoy living, there is no other option but to move further in this direction. Looking back at the past gives me a sense of optimism. New technologies have already enabled us to make huge strides in environmental protection. And technologies that we don't yet know anything about will allow us to make even more progress. These developments provide the opportunity to generate high returns. I want to participate in this growth with my investments.

Easier said than done

But I'm not naive. Implementing this strategy presents certain challenges. What does ESG-compliant mean? The criteria is not as simple as purely financial figures. It's no surprise that experts in these issues have different views on specific questions. There's also the risk that companies may engage in greenwashing by targeting evaluation matrices. However, the ESG market is performing dynamically and developing rapidly. Our team is investing a great deal of time in selecting products to respond to these developments.

«The ESG market is dynamic and developing rapidly.»

A long-term horizon will pay off here, too

In the current year, our portfolios with a sustainable focus are faring very well versus their counterparts with a global or Swiss focus. I'm pleased to say that ESG indexes have also performed strongly during the coronavirus crisis. As with other issues, it's important to remember that, for ESG investments, it's not about the short term. The key thing is that such investments pay off for long-term investors.

Positioning

Calm on the financial markets

High US inflation is not unsettling the markets. The excellent economic outlook looks to be predominant. However, momentum on the equity markets has slowed significantly.

Inflation in the USA climbed to over 5 percent recently. The further rise has failed to unsettle the financial markets. In fact, equity markets are continuing to hit new record highs. At the same time, interest rates in the industrialized countries fell significantly last month. Market players seem to be assuming that inflation will only remain at such a high level temporarily. This looks to be well justified in our view. It is nevertheless remarkable that interest rates adjusted for inflation forecasts remain at an historically low level. The bright economic outlook continues to point to higher interest rates. This is why we are maintaining our underweighted position in bonds.

Equity market with limited upside potential

News is currently being viewed extremely positively by the markets – including the labour market data from the USA, which points to continual but steady recovery. This is reducing the risk of inflation and puts central banks under less pressure to begin the exit from their expansive monetary policies. Monetary policy remaining relaxed in turn supports the financial markets.

However, equity markets seem to have already priced in the economic recovery and the more expansive monetary policy to a large extent. The upturn appears to have waned significantly, in particular in the USA and China. Only the stock markets in Europe and Switzerland still have upside potential, which they took advantage of last month. Switzerland was one of the best-performing equity markets last month, with gains of almost 7 percent. But European equity markets also fared well. This means the closure of our underweighted position in European equities at the expense of US stocks has paid off. However, after recouping lost ground recently, the potential for the equity markets to make further gains seems limited. In light of this, neutral equity market positioning looks to be the best approach.

«The further rise in inflation has failed to unsettle the financial markets.»

Performance of asset classes

Asset class		1M in CHF	YTD[1] in CHF	1M in LCY[2]	YTD[1] in LCY[2]
Currencies	EUR	–0.4%	0.7%	–0.4%	0.7%
	USD	–0.7%	1.1%	–0.7%	1.1%
	JPY	–1.2%	–4.5%	–1.2%	–4.5%
Equities	Switzerland	6.0%	13.7%	6.0%	13.7%
	World	0.8%	13.8%	1.6%	12.6%
	USA	1.0%	13.8%	1.7%	12.6%
	Eurozone	2.1%	16.7%	2.4%	15.9%
	United Kingdom	–0.6%	17.4%	–0.3%	12.0%
	Japan	–0.7%	4.4%	0.5%	9.3%
	Emerging markets	1.9%	8.7%	2.7%	7.6%
Fixed Income	Switzerland	–0.1%	–1.4%	–0.1%	–1.4%
	World	–0.2%	–1.1%	0.5%	–2.1%
	Emerging markets	0.7%	0.3%	1.4%	–0.8%
Alternative Investments	Swiss real estate	3.1%	4.1%	3.1%	4.1%
	Gold	1.9%	1.1%	2.6%	0.1%

[1] Year-to-date: Since year start
[2] Local currency

Data as of 10.06.2021
Source: Web Financial Group, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

Real estate and oil prices hit record highs

Against a backdrop of falling interest rates, Swiss real estate has become a more attractive investment again. Swiss real estate funds have made gains of over 5 percent since the end of May and currently stand at historically high levels. In view of this overvaluation, we are maintaining our underweighted position. Oil prices have also hit new record highs. Oil is currently trading at over 70 US dollars a barrel. The economic situation looks set to continue supporting these prices for the time being.

Gold is becoming attractive

Gold was also amongst the winners last month and has almost recouped its losses since the start of the year within two months. At the same time, gold adds further diversification to a portfolio. From a tactical perspective, this presents an attractive buying opportunity to hedge against surprises regarding inflation. This is why we recommend buying gold.

Positioning relative to long term strategy: Swiss focus

Asset class		TAA[1] old	TAA[1] new	underweighted[3]		neutral[3]	overweighted[3]	
				––	–		+	++
Liquidity	**Total**	**11.0%**	**9.0%**					
	CHF	10.0%	8.0%					
	JPY	1.0%	1.0%					
Equities	**Total**	**48.0%**	**48.0%**					
	Switzerland	26.0%	26.0%					
	USA	8.0%	8.0%					
	Eurozone	5.0%	5.0%					
	United Kingdom	2.0%	2.0%					
	Japan	2.0%	2.0%					
	Emerging markets	5.0%	5.0%					
Fixed Income	**Total**	**33.0%**	**33.0%**					
	Switzerland	19.0%	19.0%					
	World[2]	8.0%	8.0%					
	Emerging markets[2]	6.0%	6.0%					
Alternative Investments	**Total**	**8.0%**	**10.0%**					
	Swiss real estate	3.0%	3.0%					
	Gold[2]	5.0%	7.0%					

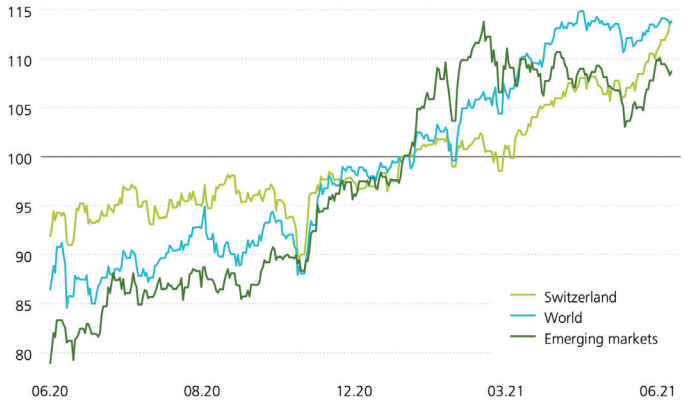
[1] Tactical Asset Allocation: short to mid-term orientation
[2] Currency hedge to CHF
[3] Positioning relative to our long-term asset allocation

☐ Adjustment compared to last month

Market overview
Equities

European equities are benefiting from the strong economic outlook. By contrast, emerging market equities are continuing to decline.

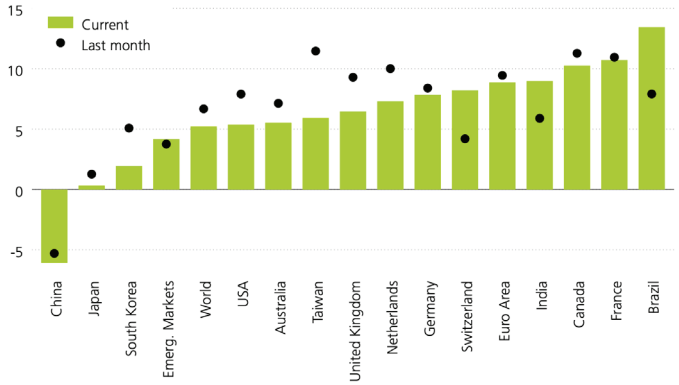
Indexed stock market performance in Swiss francs
100 = 01.01.2021



While the economic recovery in Europe has gained impetus thanks to the relaxation of coronavirus restrictions, investors have also focused more heavily on European equities recently. The stock markets made gains for the second consecutive month. There was particularly strong demand for German, French and Dutch securities. The stock exchanges benefited from the fact that the equity markets were driven by energy and financial stocks – in other words, shares that have benefited strongly from the economic upturn. Tech stocks, which have performed particularly well since the start of the crisis, have seen little momentum of late. This meant US equities stood at just above zero last month, while the Chinese and South Korean markets even posted slight losses. Emerging market equities delivered a mixed performance.

Source: SIX, MSCI

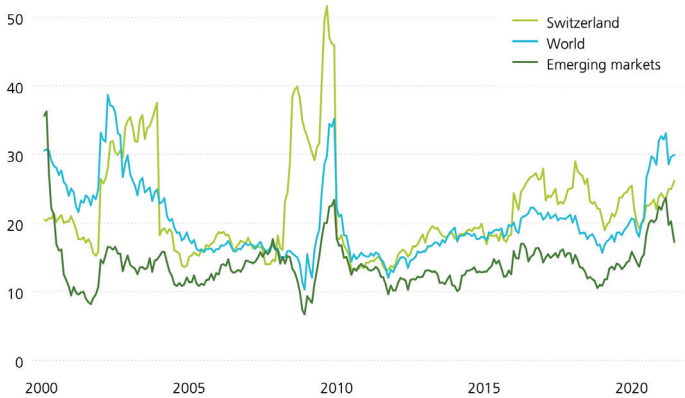
Momentum of individual markets
In percent



While momentum on the global equity markets remains largely positive, there is a more mixed picture compared to last month. The Brazilian equity market made the most ground month-on-month. One of the countries hardest hit by the pandemic, the Brazilian economy returned to its pre-crisis level in the first quarter of 2021, a development which also benefited the equity market. China was once again the only stock market to post negative returns this month as it continues to suffer from the Chinese authorities' decision to tighten the regulatory requirements on tech companies.

Source: MSCI

Price/earnings ratio
P/E ratio



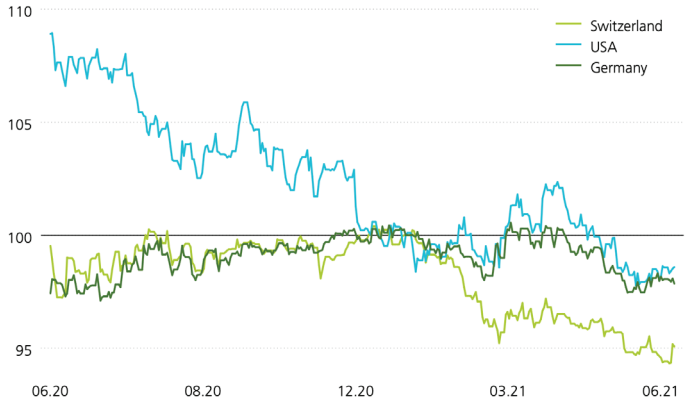
Since the end of the 2009 financial crisis, valuations on global equity markets have mainly moved in parallel. This trend was interrupted recently. Swiss equities recouped ground lost around the turn of the year. By comparison, many emerging markets are still lagging behind the industrial nations in terms of combating coronavirus. This is holding back equity prices and, in turn, the price/earnings ratio. In historical terms, valuations are still above pre-crisis levels.

Source: SIX, MSCI

Market overview
Fixed income

Despite high US inflation rates, the value of US bonds has risen again somewhat recently. There is still downturn potential over the medium term owing to the bright economic outlook.

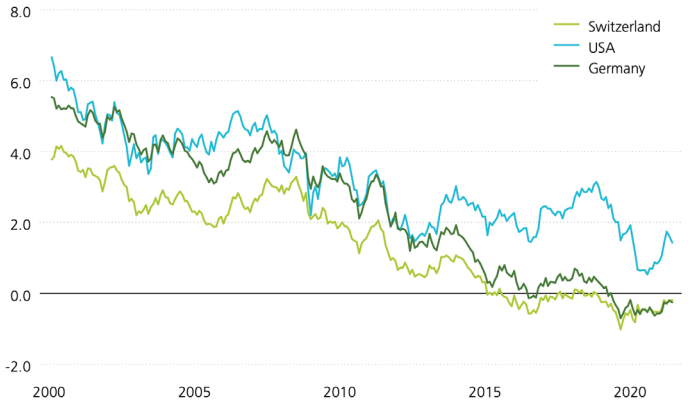
Indexed performance of government bonds in Swiss francs
100 = 01.01.2021



Optimism returned to the markets after the second wave of coronavirus was brought under control and an impressive pick-up in the global economic recovery. It has also exerted downward pressure on the performance of secure government bonds over recent months. But this trend now looks to have been interrupted: European bonds mainly moved sideways last month. US bonds hit a low point in April but have actually gained in value slightly since then – despite the fact that US consumer price inflation was very high for the months of April and May at 4.2 and 5 percent respectively. The financial markets look to have faith in the US Federal Reserve's view that high inflation rates are just a temporary phenomenon.

Source: SIX, Bloomberg Barclays

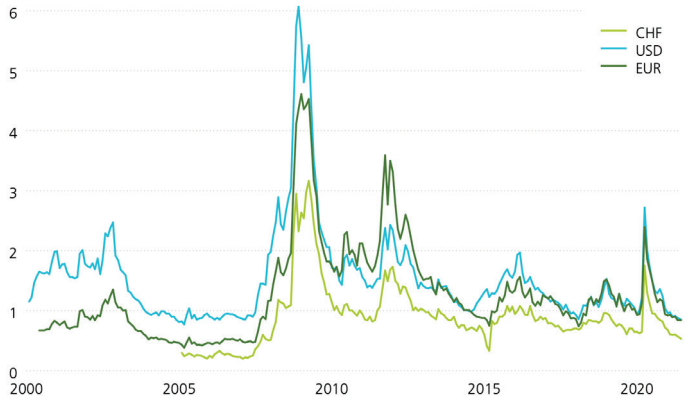
Trend in 10-year yields to maturity
In percent



After a sharp rise up to 1.7 percent, US government bonds initially stabilized at a high level before falling again since early June. Real interest rates, in particular, remain at a remarkably low level. Normalization does not yet appear to have been priced in despite the US Federal Reserve providing initial indications that it is at least starting to plan withdrawal from its ultra-expansive monetary policy. There has been a recent trend reversal in yields to maturity on German and Swiss bonds: after climbing at the beginning of May, they fell again equally sharply in the second half of the month. The European Central Bank confirmed the continuation of its support policy and announced that it would continue to purchase bonds at an increased rate.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



Credit spreads on corporate bonds narrowed again last month and now lie below their pre-crisis level. Risk premiums of less than 1 percent are currently being demanded on the market for US and European corporate bonds. Investors see investments in Swiss corporate bonds as having even less risk. Besides the bright economic outlook, the government support measures for companies in the wake of the coronavirus crisis are also playing a key role in this trend. This protection is benefiting corporate bonds in the form of low spreads.

Source: Bloomberg Barclays

Market overview

Swiss real estate investments

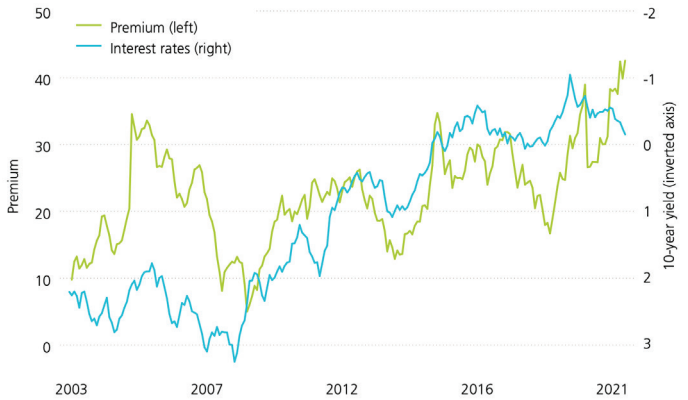
The correction on the Swiss real estate market lasted for a short time. The prices of indexed Swiss real estate investments are now returning to their record levels of early April.

Indexed performance of Swiss real estate funds
100 = 01.01.2021

After their correction in early May, indexed Swiss real estate funds have recouped just under 5 percent of their value, reaching the previous month's record levels. These price gains were also reflected in valuations, which climbed again despite the slight increase in interest rates.

Source: SIX

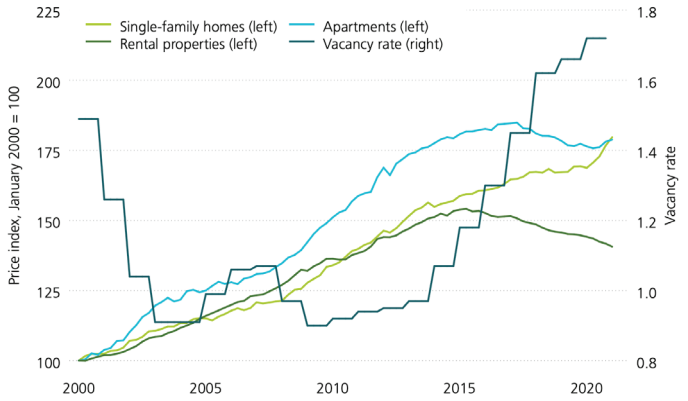
Premium on Swiss real estate funds and 10-year yields to maturity
In percent



The average premiums achieved on indexed Swiss real estate investments only suffered a brief setback after the market correction in May. They have now returned to their record highs of 43 percent on average again. This means investors are willing to pay an average premium of 43 percent above the value of the properties contained in the funds. These premiums are still very high, given the fact that interest rates remain very low.

Source: SIX

Vacancy rate and real estate prices
100 = January 2000 (left) and in percent (right)



The coronavirus crisis and the stringent containment measures, in particular, have sparked a sharp upturn in demand for living space. Another factor is the continuing low interest rate environment, which is making investment in real estate more attractive. As a result, living space in Switzerland was in increasingly short supply last year, whereas prices continued to climb. According to the residential property price index published by the Swiss Federal Statistical Office, only a slight decline was observed in the first quarter of 2021. This indicates that prices for living space have fallen by 0.1 percent compared to the prior quarter. Year-on-year, the increase in prices stood at 3.9 percent.

Source: SNB, BfS

Market overview

Currencies

The value of commodity currencies declined recently despite rising commodity prices. The US dollar has stabilized, but remains overvalued.

After considerable losses in April, the US dollar stabilized at the year-opening level last month. However, there is still downturn potential as the US dollar remains overvalued despite its recent depreciation. The commodity currencies such as the Australian dollar and Norwegian krone also suffered losses despite further increases in the oil price. Recently, the losers have also included the Asian currencies, such as the Japanese yen, whose economy is currently contending with another wave of coronavirus.

Currency pair	Price	PPP[1]	Neutral area[2]	Valuation
EUR/CHF	1.09	1.13	1.05–1.21	Euro neutral
USD/CHF	0.89	0.87	0.76–0.97	USD neutral
GBP/CHF	1.27	1.40	1.21–1.59	Pound neutral
JPY/CHF[3]	0.82	1.03	0.87–1.19	Yen undervalued
SEK/CHF[3]	10.84	11.24	10.15–12.34	Krona neutral
NOK/CHF[3]	10.81	12.44	11.10–13.77	Krona undervalued
EUR/USD	1.22	1.31	1.14–1.48	Euro neutral
USD/JPY	109.36	84.17	69.07–99.28	Yen undervalued
USD/CNY	6.39	6.37	6.12–6.62	Renminbi neutral

[1] Purchasing power parity. This metric calculates an exchange rate using relative inflation rates.
[2] Range of historically normal fluctuations.
[3] Francs per 100 Yen or Krona.

Source: Web Financial Group

Gold

With higher inflation figures and interest rates remaining low, gold made gains for the second consecutive month.

Indexed performance of gold in Swiss francs
100 = 01.01.2021

Gold suffered significant losses after weak demand in the first quarter, but the trend reversed from April. This saw the price per troy ounce briefly rise from just under USD 1,700 to above USD 1,900. In view of the temporary rise in consumer price inflation globally – which is attributable to a statistical effect after the recovery of the oil price – and the continuing low interest rate environment, stronger demand for the precious metal does not come as a surprise.

Source: Web Financial Group

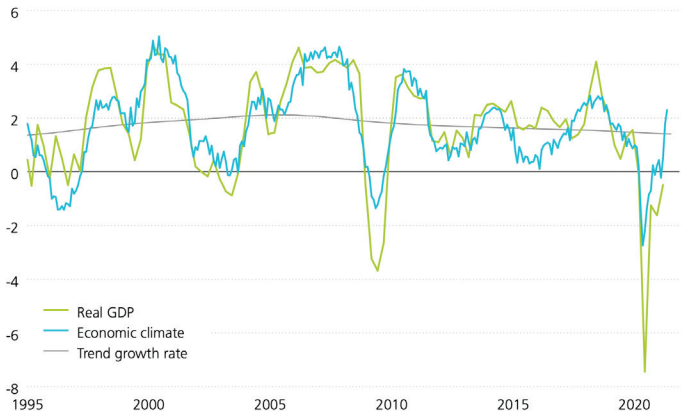
Economy

Inflation temporarily high

Concerns over the coronavirus-related recession are fading thanks to the strong economic situation, whereas fears of the economy overheating are coming to the fore. But the current high rates of inflation are simply the result of one-off effects – this means inflation may have peaked for the time being.

Switzerland

Growth, sentiment and trend
In percent



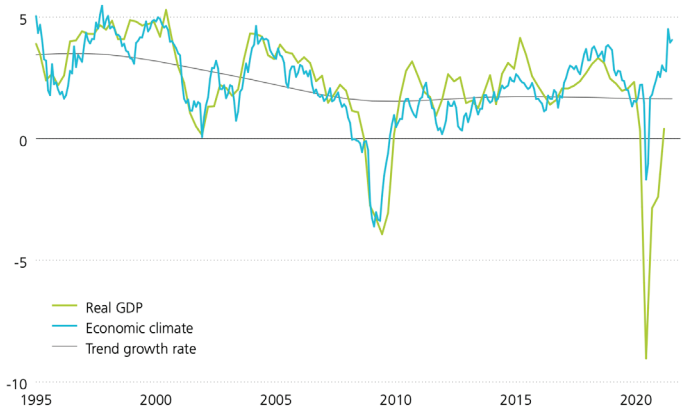
Source: Bloomberg

Swiss economic output fell by –0.5 percent in the first quarter. This was due to the renewed closure of parts of the retail and food services sectors. By contrast, industry performed very strongly. During the first quarter, value added stood at 3 percent above the pre-crisis level, avoiding a steeper decline in GDP.

In the current second quarter, some sectors are still operating with the handbrake applied. Revenue from foreign guests in the tourism sector currently only stands at 50
percent of the level in 2019. But overall, economic momentum has picked up strongly since March. According to SECO's real-time indicator, economic output has been at around the pre-crisis level again since April. Despite the strong economy, Swiss inflation has been very low by international standards so far, reaching 0.6 percent recently.

USA

Growth, sentiment and trend
In percemt



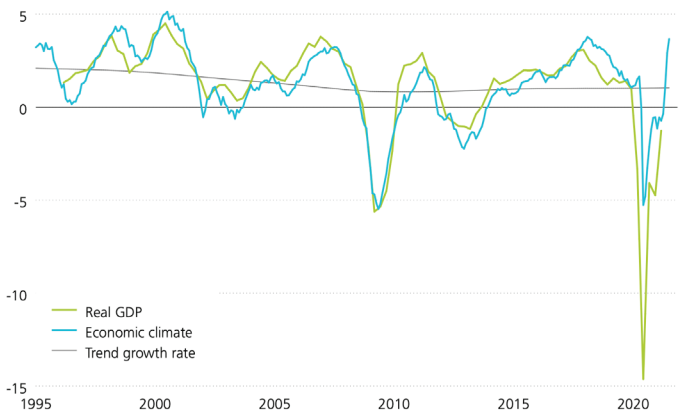
Source: Bloomberg

The coronavirus-related economic slump has already largely been overcome in the USA. Economic momentum still remains strong, increasingly giving rise to fears about the economy overheating. In May, inflation stood at 5 percent – its highest level since 2008. A rise in oil and commodity prices has contributed to high inflation, but so too have supply bottlenecks, for motor vehicles for example. But inflation may have peaked for the time being as price increases only cause higher rates of inflation on a one-off basis. The tight situation on the employment market – there are currently more vacancies than ever before – should ease when more people return to the labour market after economic stimulus programmes come to an end.

Eurozone

Growth, sentiment and trend

In percemt



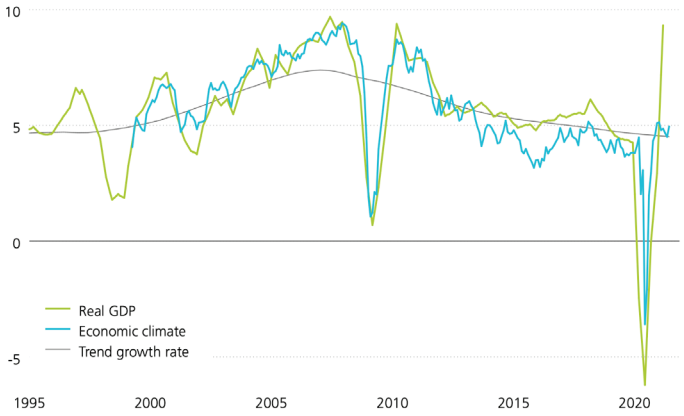
Source: Bloomberg

Lagging behind the USA slightly, the eurozone is now experiencing a strong upturn. The European Commission's sentiment indicators, which show economic development in the near term, have risen sharply in recent months. The indicator for industry points to the highest level of optimism since recording of this data began in 1985. Households in the eurozone accumulated excess savings of around 400 billion euros during the last lockdown. Further relaxation of measures means some of this money can now be spent, boosting consumption. The economies of most eurozone countries look set to return to their pre-crisis levels by the autumn at the earliest.

Emerging markets

Growth, sentiment and trend

In percemt



Source: Bloomberg

During the pandemic, various Latin American countries have recorded high case numbers and have struggled to cope with the crisis. That's why it's especially pleasing that these countries have also posted high growth rates recently. Brazil and Chile have already climbed back to their pre-crisis levels. Mexico also looks set to recover quickly. The countries mentioned are also currently benefiting from strong demand for commodities and food.

China achieved new record figures in goods exports in recent months. Strong global demand for electronic devices and medical goods made a significant contribution to these numbers. However, it seems unlikely that exports will remain at this high level. With the relaxation of measures, consumer spending in western countries has again shifted away from products towards services. The trade dispute with the USA also intensified again recently.

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y[1] 2020Q4	–1.6%	–2.4%	–4.7%	–7.3%	–1.1%	0.5%	–1.1%	6.5%
GDP Y/Y[1] 2021Q1	–0.5%	0.4%	–1.3%	–6.1%	–1.6%	1.6%	1.0%	18.3%
Economic climate[2]	→	↗	↗	↗	→	↗	↘	↗
Trend growth[3]	1.4%	1.6%	0.9%	1.6%	1.0%	5.0%	1.1%	4.2%
Inflation	0.6%	5.0%	2.0%	1.5%	–0.4%	6.3%	8.1%	1.3%
Key rates	–0.75%	0.25%	0.00%	0.10%	–0.10%	4.00%	3.50%	3.85%

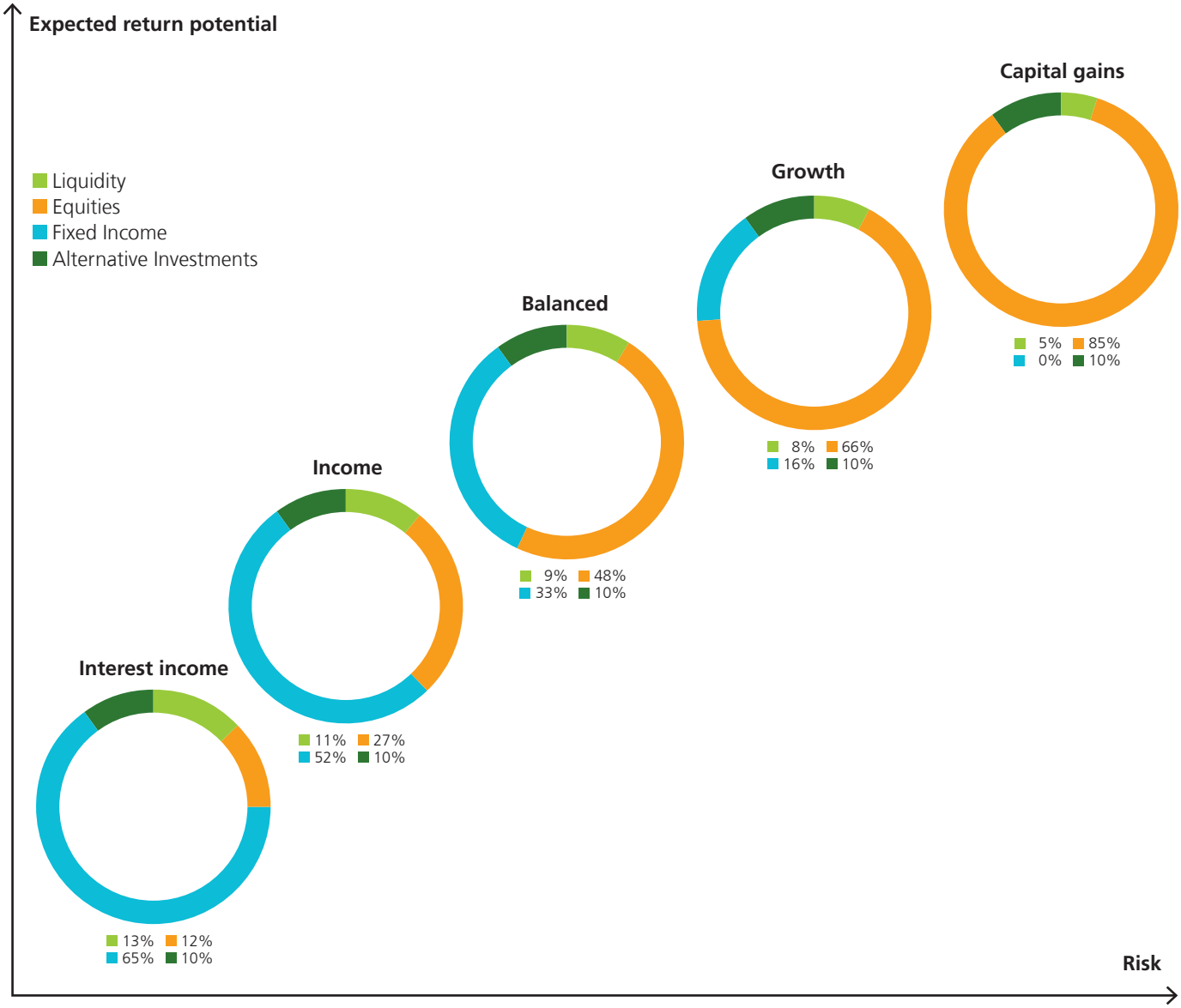
[1] Growth compared to year-ago quarter.
[2] Indicator, measuring the overall sentiment and typically leading 1 to 2 quarters in advance of GDP. A green arrow indicates accelerating economic growth, a red arrow indicates a slowing down.
[3] Potential growth. Long-term change in Gross domestic product with sustainable capacity utilization.

Source: Bloomberg

Model portfolios Swiss focus

Diversification with gold

The economic outlook remains very good and the recent rise in inflation is not worrying the markets, as it is mainly due to temporary one-off factors. All the more surprising is the persistently low level of interest rates adjusted for inflation expectations – these actually rise in such an economic environment. We are therefore maintaining our underweight in bonds. However, the good economic outlook is already priced into the equity markets. The potential for a further increase is accordingly low. This argues for a neutral equity market positioning. However, we see a tactical buying opportunity in gold. The precious metal has recently recovered its losses from the first quarter and currently offers increased diversification potential for the portfolio – and at the same time provides insurance against inflation surprises.



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