PostFinance investment compass May 2021

PostFinance

Editorial

How trust reaps rewards

No investments are made without trust. Does placing your trust in the financial markets pay off? It certainly does with the right approach.

Daniel Mewes
Chief Investment Officer

A year ago, PostFinance began providing easy access to the professional management of large and small amounts of assets. Our customers have already entrusted over half a billion francs to us. We're delighted by this vote of confidence – and are working hard every day to repay this trust.

Investors don't just place their trust in us, but of course in the financial markets too. Is this trust justified? After all, you often see headlines about bubbles and crashes on the business pages.

History tells us that even though trust in individual asset classes and securities can fluctuate greatly, investment is definitely worthwhile. But two key principles apply to successful investment: diversification and perseverance.

Trust in diversification and the future

That is why it doesn't really surprise me that the majority of the assets entrusted to us are invested in balanced strategies. A balanced portfolio provides a good mix of stability and yield relying on a broad-based selection of asset classes. The qualities of this diversification strategy have shone through during the coronavirus crisis.

I'm also delighted that lots of young people have gained the confidence to come on board with somewhat smaller amounts and invest their savings. A long-term horizon is really important. Anyone who began investing last year may have gained a slightly misleading impression. Continually upward – and also relatively steep – trends do not exist on the financial markets. However, investors can have every confidence in benefiting from long-term global economic growth, even if greater persistence may well be required in future than recently – staying power will pay off.

Trust in your homeland

Currencies also depend heavily on the trust of economic players. The Swiss franc's high value can be explained by the trust placed in it. It is interesting to note that our portfolios with a Swiss focus are the least sensitive to currency fluctuations.

> «Even though investors will have to show greater staying power in future than recently, sticking it out for the long haul will reap rewards.»

This home bias can sometimes come at the expense of returns. This year, the Switzerland strategies – driven by the underwhelming development of the Swiss equity market – have performed less well than the strategies of the global portfolios. But in the past the strong franc has also often seen a portfolio with a Swiss focus outperforming a globally positioned one. How high a portfolio's Swiss allocation should be depends on what you think about the long-term future of Switzerland and the Swiss franc. We deliberately leave this decision to our customers by providing strategies with a Swiss and a global focus.

Positioning

Perfect conditions for rising interest rates

A bright economic outlook and further potential inflation surprises are creating the perfect conditions for rising interest rates. The equity markets are not immune to these developments, but remain on an upward trajectory for the time being.

Inflation has risen worldwide over recent months. With the annual rate of consumer price inflation standing at 4.3 percent, the rate of inflation in the USA reached its highest level since 2008 in April. But the less volatile core inflation has also climbed steeply in the USA. Rising inflation figures cause anxiety amongst investors and on the financial markets – especially when they are surprisingly high. A sustained increase in inflation would force the central banks to abandon their extremely expansive monetary policies sooner than expected.

Higher capital market interest rates

The bright economic outlook and rising inflation forecasts mean that central bank may soon have to consider scaling back their bond-buying programmes. This means there is still potential for interest rate hikes. With this in mind, we are extending our underweight position in global bonds.

Rising inflation does not appear to be a major concern for the equity markets – at least for the time being. Capital market interest rates have actually increased over recent months – and it was low interest rates that caused the prices of many financial investments and tangible assets to rise sharply – but as monetary and fiscal policy remains very expansive globally, this has not led to lower equity prices in Europe and the USA, although momentum has tailed off. The strong progress being made with vaccination campaigns also means hopes are rising that economies will return to normal after coronavirus. Equities still have attractive price potential in this environment. This is why we are maintaining our neutral equity market positioning.

«Rising inflation does not appear to be a major concern for the equity markets – at least for the time being.»

Performance of asset classes

Asset class		1M in CHF	YTD[1] in CHF	1M in LCY[2]	YTD[1] in LCY[2]
Currencies	EUR	–0.5%	1.2%	–0.5%	1.2%
	USD	–1.6%	2.4%	–1.6%	2.4%
	JPY	–2.0%	–3.4%	–2.0%	–3.4%
Equities	Switzerland	–0.5%	6.1%	–0.5%	6.1%
	World	–2.3%	10.9%	–0.8%	8.4%
	USA	–2.8%	11.3%	–1.3%	8.7%
	Eurozone	0.1%	12.6%	0.6%	11.2%
	United Kingdom	2.5%	15.8%	1.9%	10.0%
	Japan	–7.5%	–0.5%	–5.6%	3.0%
	Emerging markets	–3.7%	3.0%	–2.2%	0.6%
Fixed Income	Switzerland	–0.5%	–1.7%	–0.5%	–1.7%
	World	–1.4%	–1.1%	0.2%	–3.4%
	Emerging markets	–0.6%	–0.6%	1.0%	–3.0%
Alternative Investments	Swiss real estate	–2.6%	1.5%	–2.6%	1.5%
	Gold	2.6%	–1.2%	4.2%	–3.5%

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

Data as of 13.05.2021
Source: Web Financial Group, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

Sector rotation boosts cyclical securities

Rising interest rates and the sustained bright economic outlook have not gone unheeded on the equity markets. Indeed, these developments have favoured a sector rotation towards cyclical securities. Tech stocks in particular were adversely affected, slowing momentum on the US equity market. By contrast, cyclical sectors were favoured, which is reflected on the European equity market. In particular, this boosted the UK equity market which has a bias towards financial and energy securities. However, the Japanese equity market performed poorly as the weak yen provided little support for this export-oriented nation. This means our regional positionings realized their earnings potential. We are selling UK equities in favour of Japanese equities and are also closing the underweighted position in European equities at the expense of their US counterparts.

Commodities hit record highs

Higher commodity prices have already contributed to a rise in inflation. Commodities made further significant gains last month. The Bloomberg Commodity Index has climbed by almost 9 percent since mid-April and oil prices have reached their highest levels since mid-2015. Higher expected inflation may also have caused the price of gold to rise. Unlike last year, gold has been a less lucrative investment so far and has performed negatively since the start of the year. Continued negative momentum means increasing the gold position is not advisable.

Positioning relative to long term strategy: Swiss focus

Asset class		TAA[1] old	TAA[1] new	underweighted[3]		neutral[3]	overweighted[3]	
				––	–		+	++
Liquidity	**Total**	**9.0%**	**11.0%**					
	CHF	7.0%	10.0%					
	JPY	2.0%	1.0%					
Equities	**Total**	**48.0%**	**48.0%**					
	Switzerland	26.0%	26.0%					
	USA	10.0%	8.0%					
	Eurozone	3.0%	5.0%					
	United Kingdom	4.0%	2.0%					
	Japan	0.0%	2.0%					
	Emerging markets	5.0%	5.0%					
Fixed Income	**Total**	**35.0%**	**33.0%**					
	Switzerland	19.0%	19.0%					
	World[2]	10.0%	8.0%					
	Emerging markets[2]	6.0%	6.0%					
Alternative Investments	**Total**	**8.0%**	**8.0%**					
	Swiss real estate	3.0%	3.0%					
	Gold[2]	5.0%	5.0%					

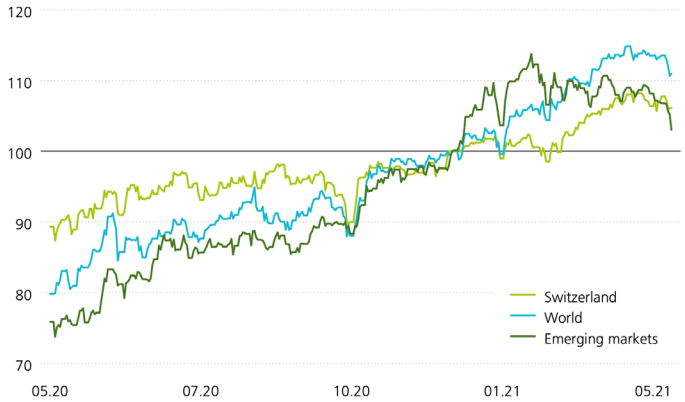
[1] Tactical Asset Allocation: short to mid-term orientation
[2] Currency hedge to CHF
[3] Positioning relative to our long-term asset allocation

☐ Adjustment compared to last month

Market overview
Equities

A rotation has taken place on the global equity markets recently: while momentum on the US equity market has tailed off sharply, its European counterparts have benefited from the improved economic outlook. Commodity-oriented equity markets, such as the UK, have also performed strongly.

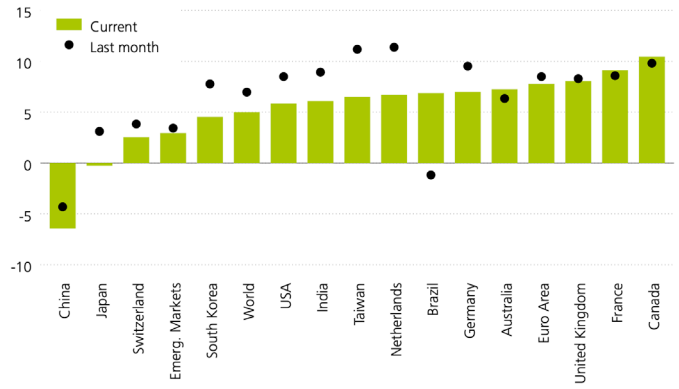
Indexed stock market performance in Swiss francs
100 = 01.01.2021



Momentum on the equity markets remains strong. Equity markets globally have posted an impressive 14 percent gain since the year began, and have not been thrown off their upward trajectory by events with downside potential. After achieving the strongest upturn in recent months, the pace has slowed somewhat recently on the US equity market. Instead a rotation has taken place with the improved economic situation in Europe – equities from the euro zone gained by over 3 percent last month, as did Swiss equities.

Source: SIX, MSCI

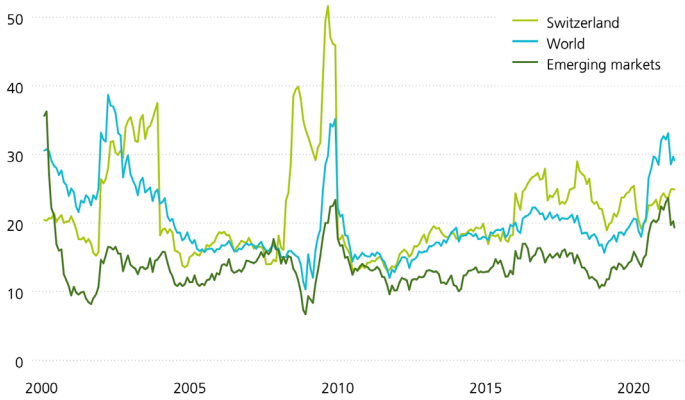
Momentum of individual markets
In percent



The Chinese equity market has lost a great deal of momentum recently. Continued regulatory pressure from the government is causing anxiety amongst investors – at least in the short term. Equities from Japan, South Korea, India and Taiwan also dipped. Meanwhile, the pace slowed last month in the USA, which had been the driving force. By contrast, commodities-oriented equity markets have benefited from a spike in demand for commodities, and experienced an upturn in momentum last month. They include Australia and Brazil, as well as the UK and Canada.

Source: MSCI

Price/earnings ratio
P/E ratio



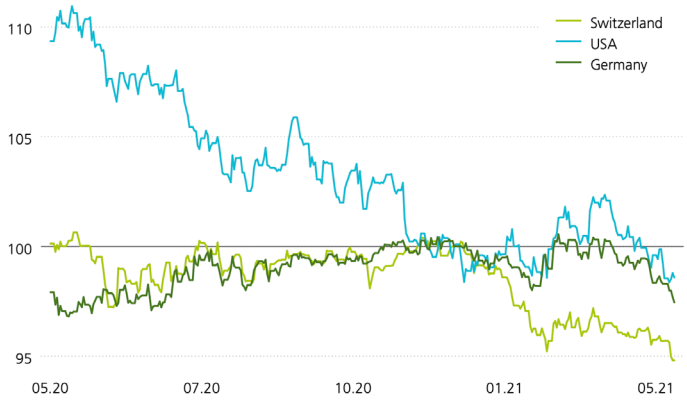
Corrections in emerging market equities also led their valuations to decline significantly. The level is still high in historical terms though – around 50 percent higher than before the start of the coronavirus crisis. With a price/earnings ratio of 20 for emerging market equities, this has only ever been higher briefly in 2000 and 2010 over the past 20 years. The global trend in terms of valuations is similar. Swiss equity valuations have benefited from the rotation to Europe recently, and climbed again.

Source: SIX, MSCI

Market overview
Fixed income

The pace of the sell-off on the bond markets slowed last month. But the bright economic outlook means there is further downside potential.

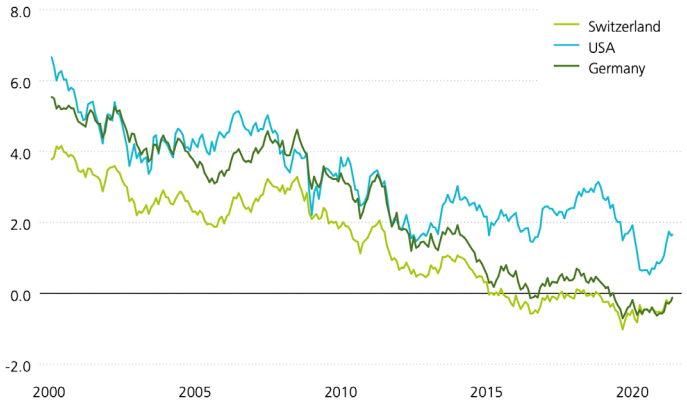
Indexed performance of government bonds in Swiss francs
100 = 01.01.2021



The economy is currently running at full tilt and the end of the second wave of coronavirus is in sight. Business sentiment is at record-high levels. But this is also piling pressure on secure government bonds. While the first-quarter sell-off did not continue last month, there is still downside potential. In addition to the strong economic outlook, there has also been pressure from rising inflation forecasts. Central banks are additionally expected to scale back their bond-buying activities. The value of Swiss and German government bonds has fallen by 3 and 5 percent respectively since the start of the year.

Source: SIX, Bloomberg Barclays

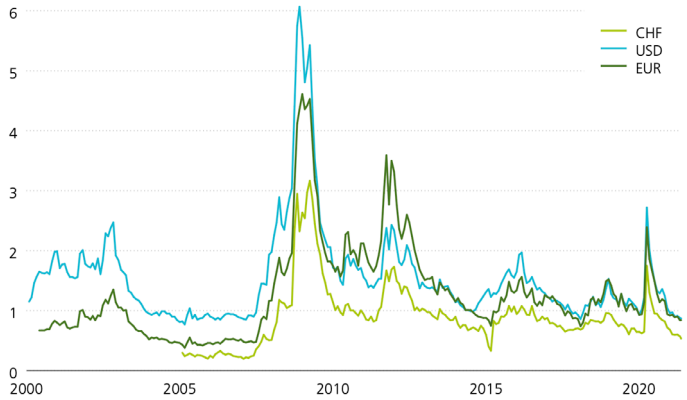
Trend in 10-year yields to maturity
In percent



Economic recovery in the USA is well advanced. This is also reflected in the interest-rate trend: after impressive upward momentum from 0.5 to 1.75 percent over the past eight months, yields to maturity on 10-year US government bonds fell again slightly recently and have stabilized at 1.6 percent. By comparison, Europe has been lagging behind for some time in terms of economic recovery. With the gradual return to normality, there has been an uptick in yields to maturity on Swiss and German government bonds. Both climbed to over –0.2 percent.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



The economic optimism is clearly reflected in investors' risk appetite. Credit spreads on corporate bonds have already returned to normal and even dropped below pre-crisis levels. They narrowed further again last month. This means investors are increasingly differentiating less between secure government bonds and higher-risk corporate bonds. On average, credit spreads of less than 1 percent are being demanded for US and European corporate bonds. The market deems the risk on Swiss corporate bonds to be even lower.

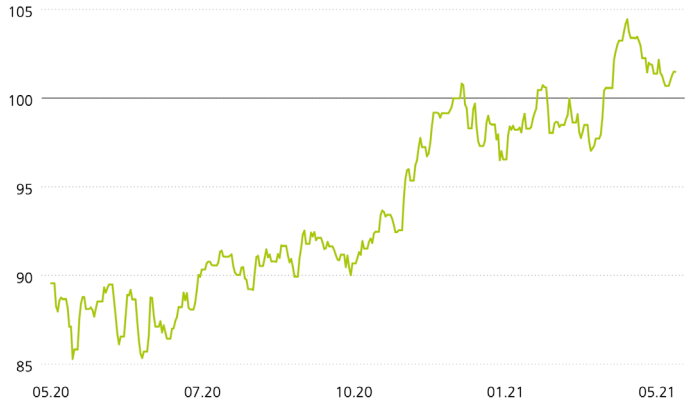
Source: Bloomberg Barclays

Market overview

Swiss real estate investments

There was a major correction on the Swiss real estate market last month. However, valuations remain very high.

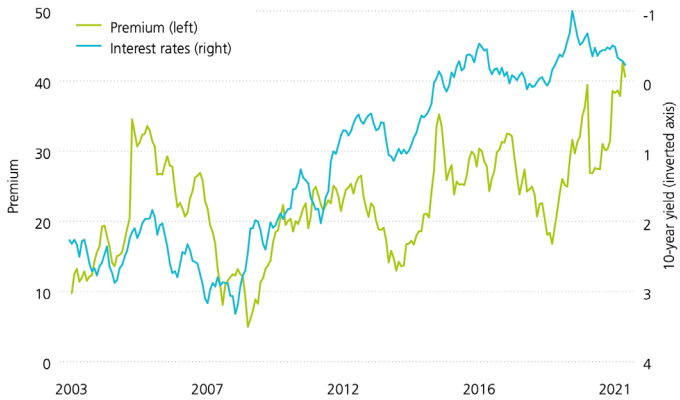
Indexed performance of Swiss real estate funds
100 = 01.01.2021



Indexed Swiss real estate funds reached new record-high levels in early April, after predominantly trending sideways during the first quarter. This prompted valuations to rise further. A major correction took place in early May with prices tumbling by almost 3 percent. But this was only the case in Switzerland. Real estate markets globally made further strong gains last month. This asset class has performed very well overall since the start of the year – and has benefited from stronger demand for living space since the start of the pandemic.

Source: SIX

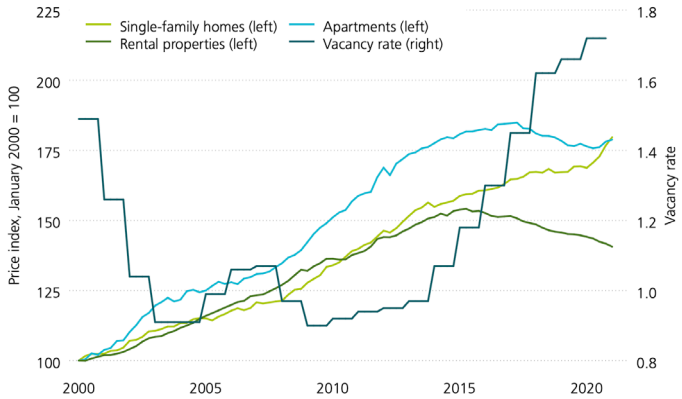
Premium on Swiss real estate funds and 10-year yields to maturity
In percent



A jump in the prices of indexed Swiss real estate investments has pushed the average premiums achieved to new record highs. At times the average premium achieved was up to 43 percent higher than the value of the properties contained in the real estate funds. This trend was slowed by the price correction in early-May. The upward pressure on interest rates seen over recent weeks has also been a contributing factor. The premiums of over 40 percent being demanded by investors are still above fair levels in view of long-term interest rates.

Source: SIX

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



The coronavirus crisis – in combination with interest rates remaining low – has further intensified the situation on the Swiss real estate market. Demand for single-family homes in particular has soared. For the price of single-family homes, this meant inflation during the first quarter of 2021 of around 4.4 percent year-on-year. There was also a sharp increase in mortgage loans. The imbalance between real estate prices and rents is currently continuing to widen: the deviation is currently just under 30 percent above the long-term average.

Source: SNB, BfS

Market overview

Currencies

Commodity currencies were among the winners last month. They benefited from the global rally on the commodity market. The Swiss franc also gained in value.

Commodity currencies benefited greatly from the latest rally on the commodity markets – prices increased by around 10 percent last month. They included the Norwegian krone as well as the New Zealand and Canadian dollars. However, the US dollar weakened again recently. With a slowdown in the economic recovery and poorer than expected labour market figures, it suffered losses of over 3 percent recently. The Japanese yen remains weak – and is significantly undervalued according to our calculations, which means it offers upside potential. In contrast to the yen, the Swiss franc, another safe-haven currency, was in demand again last month, reversing its downward trend.

Currency pair	Price	PPP[1]	Neutral area[2]	Valuation
EUR/CHF	1.09	1.14	1.06–1.22	Euro neutral
USD/CHF	0.91	0.87	0.77–0.98	USD neutral
GBP/CHF	1.27	1.40	1.21–1.60	Pound neutral
JPY/CHF[3]	0.83	1.04	0.88–1.20	Yen undervalued
SEK/CHF[3]	10.78	12.01	10.81–13.21	Krona undervalued
NOK/CHF[3]	10.85	12.46	11.12–13.79	Krona undervalued
EUR/USD	1.21	1.30	1.13–1.47	Euro neutral
USD/JPY	109.44	83.99	68.94–99.04	Yen undervalued
USD/CNY	6.45	6.34	6.09–6.59	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

Gold performed surprisingly well last month. After a disappointing start to the new year, the precious metal gained by over 2 percent last month.

Indexed performance of gold in Swiss francs
100 = 01.01.2021

Gold performed surprisingly well last month. Demand for the precious metal increased again despite the bright economic outlook and positive risk sentiment. This saw the price of 1,750 US dollars per troy ounce climb by around 100 US dollars. The growing debate over how inflation will develop is likely to have been a factor. Yields on the safe haven investment have remained just inside negative territory so far since the start of the year.

Source: Web Financial Group

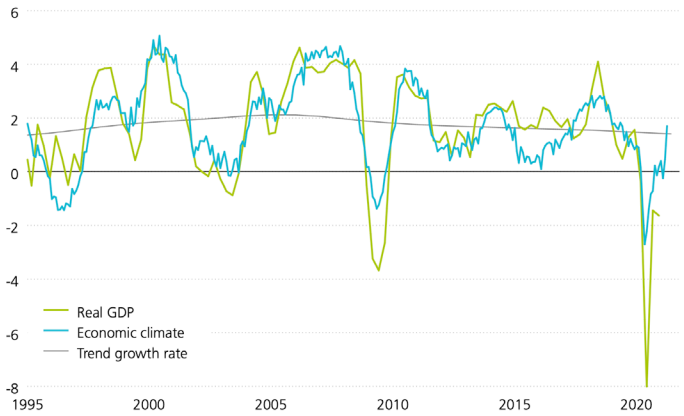
Economy

Recovery in full swing

Leading sentiment indicators are currently hitting record-high levels both in the USA and Europe. While the US economy surpassed its pre-crisis level during the first quarter, patience is needed in Europe. Inflation rates are rising sharply due to one-off effects.

Switzerland

Growth, sentiment and trend
In percent

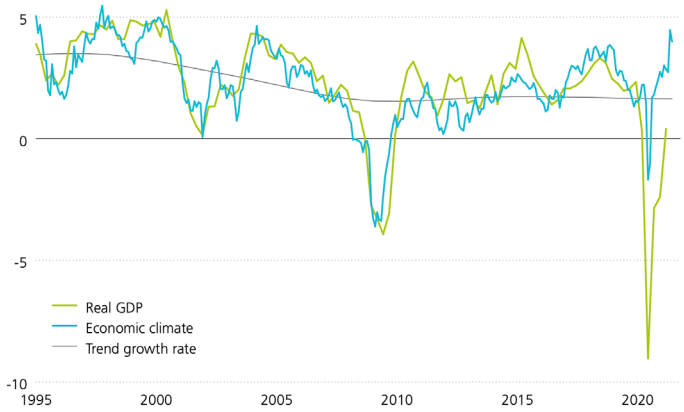


Source: Bloomberg

There has been an upturn in the key economic figures since the reopening measures began in March. Retail sales soared by over 22 percent compared to February. The opening of outdoor terraces saw revenue double in the food services sector in April, according to short-term indicators. As a result of the reopening measures, the economy returned to its pre-crisis level in early April for the first time since the coronavirus outbreak began. Leading sentiment indicators provide hope that the upward trend will continue. Consumer confidence reached its highest level since 2018. The purchasing managers' index for industry hit an all-time high in April, standing at a level of 69.5.

USA

Growth, sentiment and trend
In percemt



Source: Bloomberg

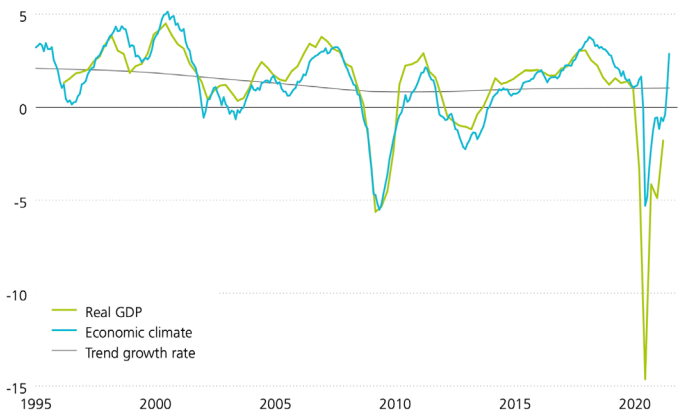
The USA is ahead of Europe in terms of economic recovery. After achieving strong quarterly growth of 1.6 percent, the USA reached its pre-crisis level during the first quarter. At first glance, it seems surprising that companies are currently having difficulty recruiting staff when 8 million fewer US citizens are in employment than when the crisis began. This may be explained by the fact that unemployment benefits are currently higher than usual on account of the economic stimulus programme. This makes accepting a job unattractive, especially for workers in the low-wage sector. It means companies are having to attract employees with higher wages, which tends to push inflation up.

In April, inflation reached 4.2 percent, its highest level since 2008. If inflation remains high for a protracted period, the US Federal Reserve will be forced to consider tightening monetary policy earlier than previously indicated.

Eurozone

Growth, sentiment and trend

In percemt



Source: Bloomberg

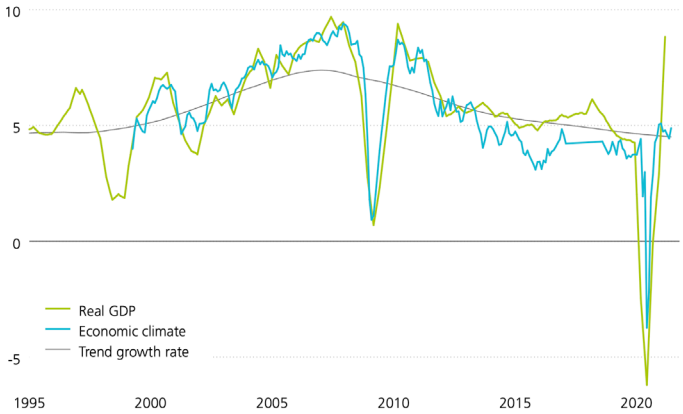
In contrast to the USA, GDP growth in the eurozone was in negative territory in the first quarter at –0.6 percent. This is mainly due to strong negative growth in Germany (–1.6 percent), while France, the second biggest economy, posted positive growth of +0.4 percent. These latest figures mean the gap to the pre-crisis level is now greater in Germany than in France, which was initially hit much harder economically by the coronavirus crisis.

However, there are also signs of recovery in the eurozone. In April, the European Commission's economic sentiment indicator climbed to its highest level since 2018. Industry sentiment actually recorded an all-time high.

Emerging markets

Growth, sentiment and trend

In percemt



Source: Bloomberg

The picture in the emerging markets is currently mixed. Brazil and India are contending with high infection rates, which has caused the leading sentiment indicators to fall sharply in both countries recently. The sentiment indicators in Turkey have also fallen. The Turkish central bank has so far failed to bring inflation under control despite raising its key rates to 19 percent. In April, the rate of inflation stood at over 17 percent, and the exchange rate between the lira and US dollar was close to an all-time low.

On the other side, the winners include South Korea and Mexico. Mexico, initially hard hit by the pandemic, has now posted positive quarterly growth for the third consecutive time. Rapid progress is being made with vaccinations and there was a big improvement in industry sentiment in April. South Korea's economic output is now well above the pre-crisis level after strong quarterly growth of 1.6 percent.

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y[1] 2020Q4	–1.6%	–2.4%	–4.9%	–7.3%	–1.4%	0.4%	–1.1%	6.5%
GDP Y/Y[1] 2021Q1	n.a.	0.4%	–1.8%	–6.1%	n.a.	n.a.	n.a.	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	0.3%	4.2%	1.6%	0.7%	–0.2%	4.3%	6.8%	0.9%
Key rates	–0.75%	0.25%	0.00%	0.10%	–0.10%	4.00%	3.50%	3.85%

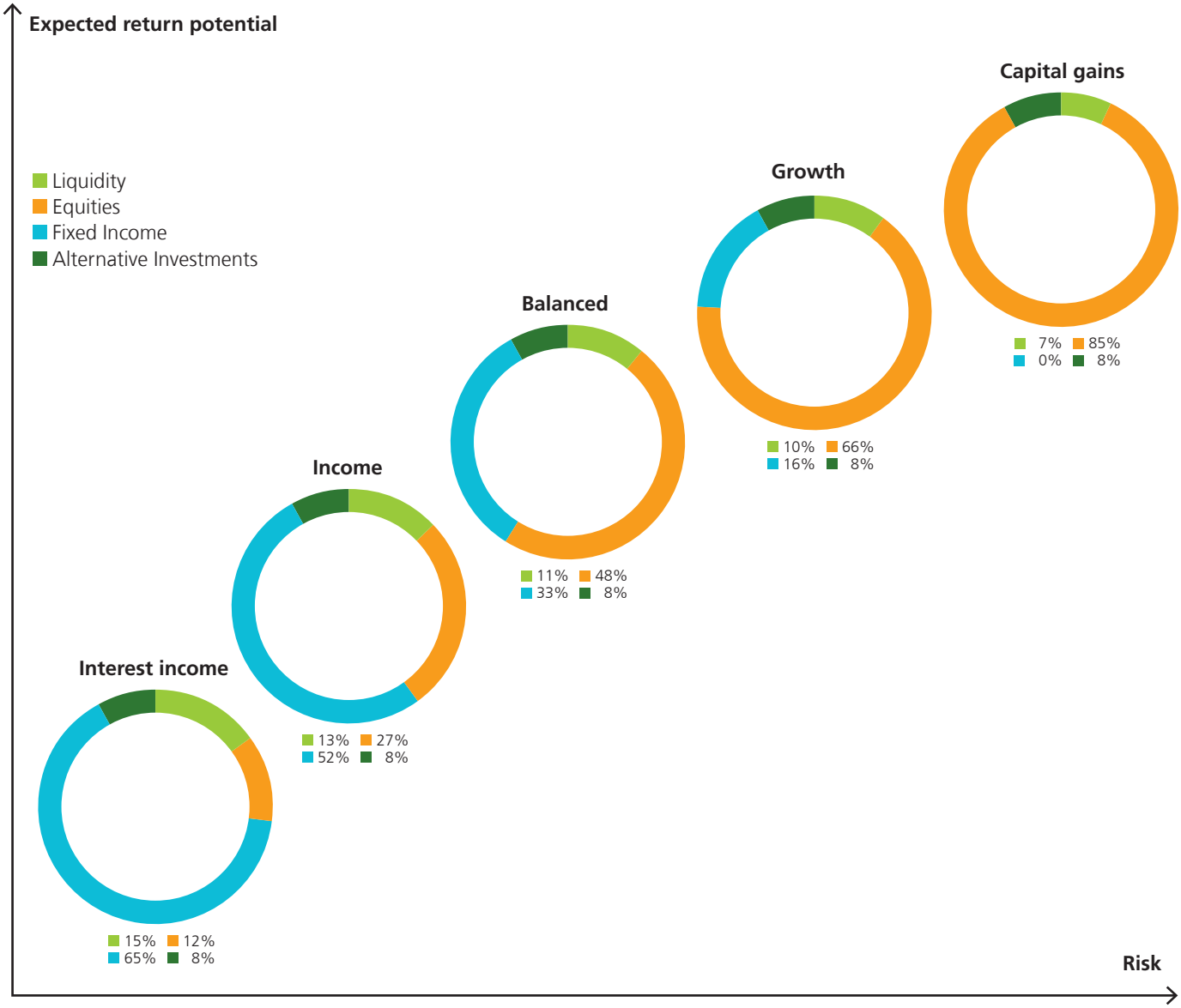
[1] Growth compared to year-ago quarter.
[2] Indicator, measuring the overall sentiment and typically leading 1 to 2 quarters in advance of GDP. A green arrow indicates accelerating economic growth, a red arrow indicates a slowing down.
[3] Potential growth. Long-term change in Gross domestic product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

Source: Bloomberg

Model portfolios Swiss focus

Defensive in the bond market

The end of the Corona crisis – and with it the return to normality – is in sight. The economy is running at full speed. At the same time, inflation has surprised recently. This means that sooner or later the central banks will have to ask themselves about the end of the ultra-expansive monetary policy. This means that there is further potential for a rise in yields to maturity. For this reason, we recommend an expansion of the underweight on bonds. On the equity markets, however, there is still little nervousness due to inflation rates. We are maintaining our neutral position, but are selling British equities in favour of Japanese equities and closing the underweight in European equities at the expense of American equities.



Source: PostFinance Ltd

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Data as of 14 May 2021
Editorial deadline: 18 May 2021

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