CHECK-UP

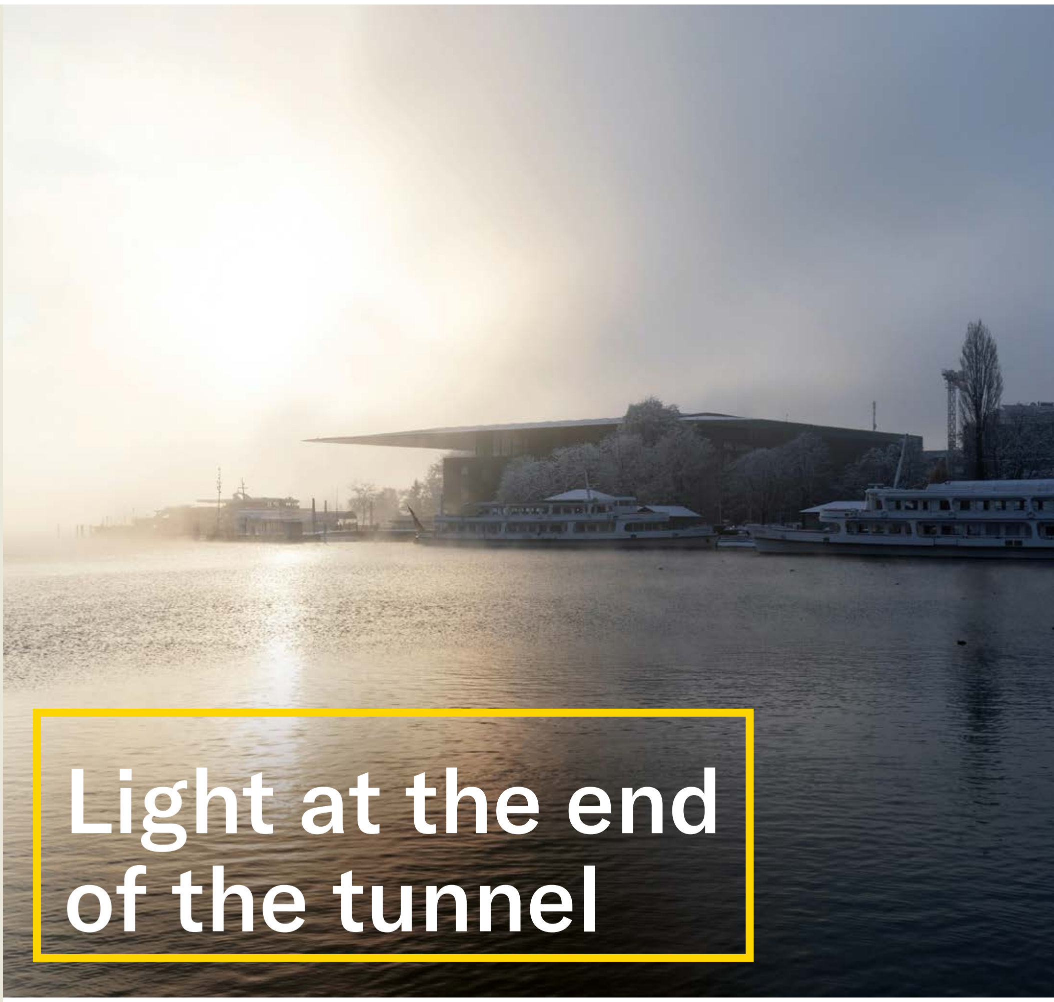
January 2021
Client information
Reichmuth & Co Private Bankers

Hope

We are looking confidently towards the new year. The beginning of this coming year is one marked by hope. Hope for a normal life, hope for an end to the discord between the USA and China, and hope for a resolution between the EU and the UK. We also have hope for a new vision as we move forward, with a fresh start and the motivation to tackle the most pressing problems of our time, such as the fight against climate change.

Positive conclusions can be drawn even from the difficult pandemic year of 2020. The thing that has impressed us most is how quickly science and research were able to respond to this pandemic, developing effective vaccines within a matter of ten months. And this was accomplished in the face of global unrest and discord. Clearly, such life-threatening issues are an increasingly unifying factor for humanity. A hopeful sign for future challenges.

Remy Reichmuth
General Partner



Light at the end of the tunnel

Strong economic growth for 2021 is no surprise. The stock markets reacted extremely positively the moment effective vaccines were in sight. The economy will see postponed projects relaunched as soon as the struggle for survival gives way to forward-looking thinking.

Will 2021 be a good year for the markets?
With an ever-brighter light appearing at the end of the pandemic tunnel, the outlook for the new year is positive, all things considered. Does this also apply to investors? In general, yes – at least for those who are able to rely on a high share of equities thanks to high risk tolerance. The key word to keep in mind is “risk tolerance”. Don’t forget, share prices have already corrected by more than 20% twice in the last two years! European markets today are in the same place they were in one and also three years ago. Only the US and Swiss indices driven by heavyweights – as well as those in China – are higher.

A correction of 20% is therefore possible at any time, while an event like the coronavirus pandemic is unfortunately also possible, but much less likely. Only those who can tolerate such phases while keeping their composure remain capable of acting during such corrections, which have become almost annual by now. A structural bear market, i.e. a prolonged downturn, will only follow if inflation does indeed rise again.

Will inflation rise again?
Yes, it will. But will it rise sharply enough to become a danger? Probably not this year, nor next year either. "Light at the end of the tunnel" means higher inflation for central bankers and their controllers, i.e. state governments. Their monetary interventions have been ineffective since 2008. Without abolishing cash, however, interest rates cannot be lowered any further. The structural break in monetary policy is clearly evident. It happened in 2008 in the wake of the financial crisis, when the only thing left to do was print money by buying bonds. As a result, central bank balance sheets increased sharply. With the measures being undertaken to combat the coronavirus crisis, they have ballooned again. Does anyone today believe that they can ever be reduced back to their former size? Even before the pandemic, the call for a more expansionary fiscal policy was resounding – and with coronavirus wreaking havoc, it has really taken off. After more than a decade of extraordinary zero-interest-rate policies, market players now seem convinced that they can coast along inflation-free with debt-financed spending programmes.

> **"Light at the end of the tunnel means higher inflation for central bankers and state governments."**

Fiscal policy in the driving seat
In the USA, this policy approach is represented by "Modern Monetary Theory" (MMT). Fortunately, with Joe Biden, a moderate Democrat will now be moving into the White House. Treasury Secretary-to-be Janet Yellen is an accommodating but proven monetary expert. As a result, we should be prepared for a type of neo-Keynesian economics. The government's intention is to once again intervene more strongly in the demand cycle. We will see whether it does so only during the expansion phase – which would be acceptable from an investor's point of view – and withdraws again when the economy is healthy again. The US Federal Reserve has already adjusted its targets as a precaution. These are on the whole more ambiguous than before, but clearer with regard to soaring inflation. The latter will be permitted in the future but following an averaging target, and price stability will be ensured with full employment.

Where, then, is inflation supposed to come from?
A great deal of new money has already been printed since the financial crisis and – (we admit) contrary to our expectations as well– it did not have any effect on demand in the real economy. Rather, it remained trapped in financial markets. Similar to a dam, it has caused the reservoir behind it, i.e. the investment markets, to increase in size. Real estate, bonds and equities have become more expensive. The traditional conveyance channel into the real economy (known as a "transmission mechanism") has not been working well. This task is now to be accomplished through fiscal policy. The ever more widely discussed rich/poor issue is also ratcheting up political pressure. Are these imbalances not rather the result of monetary policy? The causes appear to be of little interest.

Equality of outcome or prosperity gains?
Equality of outcome is again high on the agenda in the West. Not so in Asia, however, where the course is still set for wealth creation, as the recently announced RCEP free-trade agreement makes clear. In Asia, they want to cooperate to increase the overall size of the pie instead of just fighting over how it is shared. Furthermore, Asia did not have to resort to the same type of extraordinary monetary policy measures witnessed in the West.

Higher taxes, higher wages
For the time being, the more expansionary fiscal policy has been financed with new debt. Nevertheless, a point will be reached when new or higher taxes will be brought in. Wages in the general population should also rise, given the current inequality. Taken all together and adding to it the rising "dependency ratio", i.e. number of children and pensioners in relation to the labour force, we should see additional impetus given to a reawakened threat of inflation.

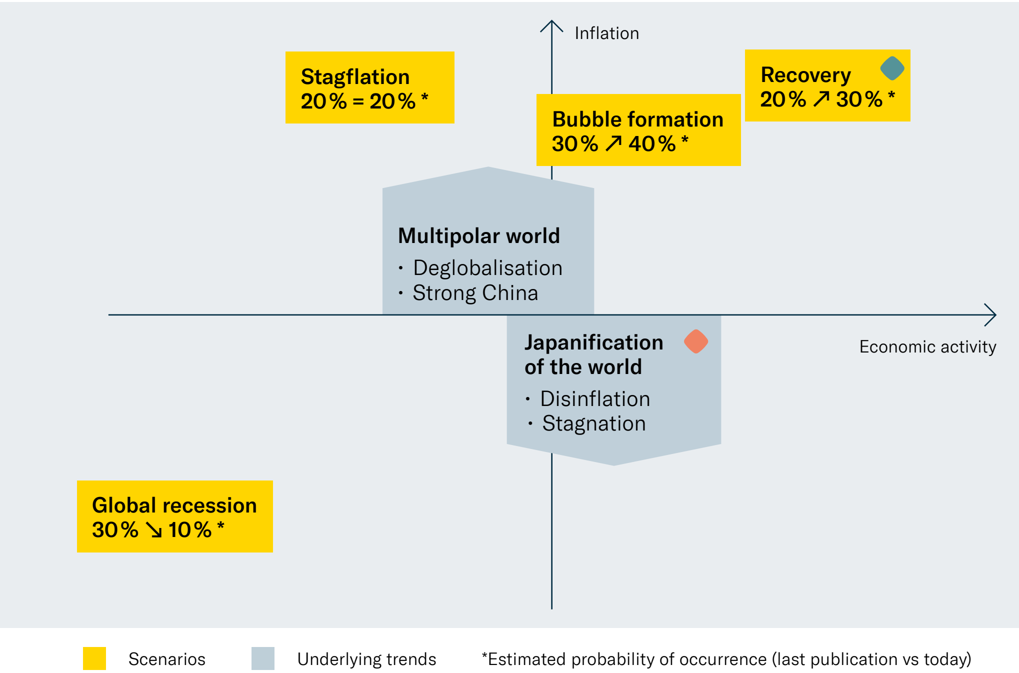
What should we be paying attention to?
As mentioned previously, the forecast for 2021 looks favourable. There is still no bear market in sight due to rising inflation. However, it is important to keep an eye on long-term interest rates as an indication of increased inflation expectations, as well as on the gold price as a warning sign of a loss of confidence in central banks. Among other things, these signs should indicate when it is time to take a more cautious approach on the stock market.

View "Perturbatio – Market outlook 2021" here:

Christof Reichmuth
General Partner

Our considered scenarios

Will reality match the optimism?



SUMMARY

- Time-delayed economic recovery due to varying effects from the pandemic
- Expansionary monetary policy to tackle the crisis fuels inflation concerns
- Western monetary policy adopts Japanese approach
- Ultra-expansionary fiscal policy fuels investment boom

Recovery – lower risks and vaccine approvals paving the way

With the "new guy" moving into the White House, political risks are diminishing and confidence is returning among businesses and investors. Due to the divided Congress, the tax cuts introduced by Trump cannot be reversed for the time being and regulatory risks are decreasing, all of which gives American companies a certain degree of planning security. In addition, the good news from the vaccine front is boosting consumer sentiment in general. Massive infrastructure programmes coupled with ultra-expansionary monetary and fiscal policy are helping national economies to return to growth trajectories. A common financing platform is being created in Europe to facilitate large-scale investment programmes within the EU. Confidence that major issues such as the fight against climate change are being addressed effectively is growing.

Japanification of the world – no turning back for the central banks

The crisis management playbook for the financial crisis more than 10 years ago – provide too much liquidity in case of doubt – has since become routine. This has sent the Federal Reserve down a one-way street towards a steadily increasing role in the economy and also in government responsibilities. The same applies to the ECB and other central banks. For more than a decade, many market participants believed that the Bank of Japan would be a special case and that Japan's policy choice would not be imitated by developed countries in the West. The fear of ever-increasing national debt, below-average growth and the creation of numerous zombie companies due to a lack of structural adjustment was too great. The Japanese playbook for crisis management has now become the archetype, including for Western directors.

Cajetan Bilgischer and Silvan Betschart

Investment ideas
- Overweight equities and prefer cyclicals
- Favour real assets (real estate, infrastructure)
- Overweight commodities (especially industrial metals)

Investment ideas
- Avoid bank shares
- Prefer defensive dividend stocks
- Asian shares (with a focus on China)
- Fixed-income quality bonds

Recovery potential

Recovery of the real economy in 2021 favours cyclically sensitive equities.

Economic and social life should begin returning to normal in 2021. Although temporary dampening effects from the second lockdown will be felt mainly in Europe, the global economy should pick up speed over the course of the year and give cyclical equities a tailwind.

2021 – Recovery for the real economy

This means that in the first half of the year, the European economy will bring up the rear in terms of growth rates. The US economy has been relatively robust so far. If president-elect Joe Biden succeeds in putting together a sufficiently comprehensive fiscal package, the US economy should continue to report positive growth figures in the first half of 2021. China will underpin the global economy in the coming months. Japan, in particular, could benefit from China's economic growth and surprise to the upside thanks to its geographical proximity and role as a key supplier. Over the remainder of 2021, the economy should pick up noticeably, and pent-up demand should be reflected in high growth figures. We consider Japan and certain emerging markets to possess the greatest potential for a surprise.

Hardly any opportunities left for returns on quality bonds

Cyclical forces have become increasingly negative for quality bonds. Expansionary monetary and fiscal policy is increasing medium- to longer-term inflation uncertainties, which points to a somewhat steeper yield curve in the US, but also in Europe. This means that government bonds in USD or EUR are hardly to be recommended. Quality bonds in CHF can at least help to even out fluctuations in your portfolio, although at the expense of returns. In this case it is important to weigh the individual fluctuation risks against the potential returns. As the economy recovers, we expect the best fixed-income return opportunities to come from selected emerging market bonds.

Alternatives in fixed-income business – RMB bonds

Chinese government bonds offer an alternative for those who are only able to invest in investment-grade quality. The interest rate premium for five-year Chinese bonds is around 3% against the USD and around 4% against Swiss government bonds. These spreads are worlds apart in the current low interest-rate environment and compensate for the currency risk. Moreover, since Chinese bonds are playing an increasingly important role in international benchmarks, we expect money flows to China to expand.

Gold for a financially strained environment

The battle against the pandemic has led to a sharp increase in debt, not only for governments but also for many companies. Budget deficits will remain high for some time, forcing central banks to keep key interest rates low for years to come. The US is pursuing this strategy particularly aggressively, meaning that the real interest rate on the US currency is likely to remain below most major currencies for the foreseeable future. The weak phase of the USD should continue in 2021. This is a case for a high domestic currency component supplemented with some Asian currencies, which have an interest rate advantage. We recommend continuing to hold gold in portfolios to protect against an increasingly stressed financial market environment with a further decline in real interest rates.

> **"Fall in interest rates makes equities more attractive than bonds."**

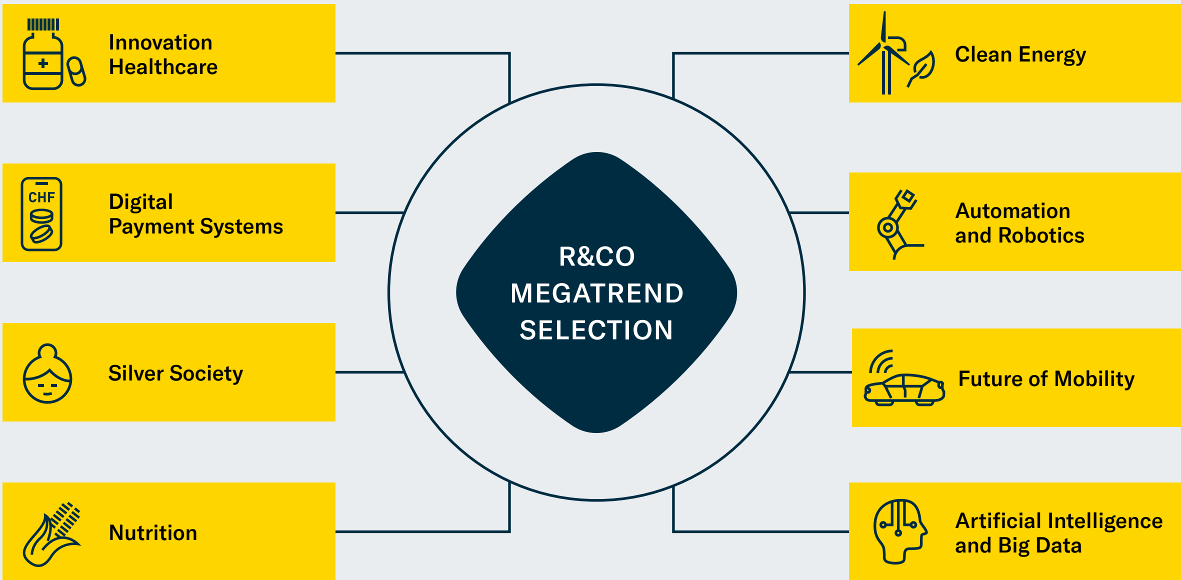
Equity-friendly environment

The relative attractiveness of equities compared to bonds has risen with the decline in yields during the past year. With the awaited cyclical upswing, we expect increased shifts from quality bonds with negative real yields to equities. This continues to benefit high-dividend stocks, particularly in Switzerland. Certain factors suggest a somewhat more cyclical orientation for your portfolio would be beneficial. In Switzerland and Europe, these are mainly found in the industrial (e.g. SGS and Siemens), raw materials (e.g. Lafarge and BHP), financial (e.g. Helvetia) and energy (e.g. Royal Dutch) sectors. Smaller capitalised companies in the small-cap segment should also benefit from the cyclical upswing. For those able to invest more speculatively, some focused ETFs would be of interest, such as a global airline basket, European banks or even the Russian stock market. In a recovery scenario, we see above-average return potential in this "value" segment when complemented with alternative strategies that specialise in restructuring over-indebted companies.

Megatrends for the coming years

Megatrends are sustainable, often disruptive in nature, and result in above-average growth. Shares of companies operating within megatrends have good prospects of stronger growth than the market. This should enable them to ride out temporary valuation corrections comfortably and achieve above-average investment returns over the long term. The ideal strategy would be to diversify across several securities, e.g. in an ETF or actively managed fund. Would you like to learn more about our megatrend options? We would be more than happy to have a chat with you.

You can also find more information here:



Banking on structural megatrends

Growth companies in structural megatrends remain a key element in your portfolio (see box). Unlisted companies in the venture or private equity sector are also an option for particularly risk-tolerant investors who are also able to invest in illiquid assets. Certain disruptive technologies will find widespread acceptance in the coming years. The winners of the future will not necessarily be the inventors of these technologies but much more likely the companies able to implement them efficiently. For 2021, it will be crucial to have a balanced mix of cyclically sensitive and structural growth stocks in your portfolio.

Far East with a tailwind

Regionally, we particularly favour the Asian markets, including Japan. Asia contained the pandemic more quickly than the West, and the situation has already largely returned to normal in many regions. Additionally, a weaker USD is bolstering the local economy because many companies took on debt in USD. Japan's geographic proximity to Asia's growth markets, its focus on cyclical sectors, and the progress made in corporate governance are all points in its favour. Taken as a whole, Japan should attract increased interest from foreign investors who have been net sellers in recent years.

Patrick Erne
Head of Research

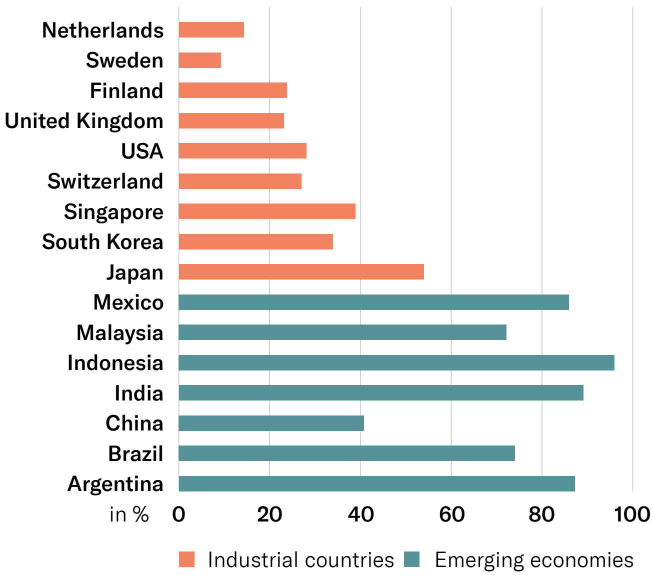
Digital payments gaining momentum

How to skip five years ahead.

The coronavirus crisis resulted in a temporary tailwind affecting certain segments such as "stay-at-home" shares. In the case of digital payments, however, it may have actually brought lasting changes.

While the share of digital payment transactions as part of the total transaction volume was already on a steady upward trajectory, this trend has now gained even more strength. According to a study by McKinsey, the annualised growth of digital payment methods quintupled compared to pre-coronavirus times. Despite this growth spurt, the global share of digital payments is still only 35%, meaning it continues to promise attractive growth potential. From a Swiss perspective, it may come as a surprise that the share of digital payments here is still relatively low compared with global rates; in most industrialised countries the share is somewhat higher on average. The front-runner Sweden, for example, this share already exceeds 90%. As seen in the chart below, the greatest growth potential for digital payment methods lies in developing countries.

DIGITAL PAYMENT SYSTEMS DISPLACING CASH



Share of cash transactions by country in % (estimates for 2020)
Source: McKinsey, Swiss Payment Monitor, October 2020

High growth potential – payment processors in standby mode

Despite this positive tone in general, the lockdown measures have not left transaction settlements unscathed either. Travel bans in particular and the associated slump in cross-border transactions have had a negative effect on revenues. Despite this, the increased use of digital payment options during the pandemic will strengthen the sector overall. It is estimated that in the USA alone, the volume of digitally processed payments will double to around USD 10 trillion by 2026. Growth should be even stronger in Asia. For payment processors, this should mean growth rates of between 10% and 15% p.a. over the next decade, which is well above the market's expected profit growth.

Banks' outsourcing trend as growth driver

The banks also have a keen interest in the transformation of this ecosystem, since having fewer cash machines and bank branches translates into lower fixed costs. However, it is often more lucrative for banks to outsource the setting up and operation of essential digital platforms to experienced technology companies in order to avoid having to bear the operational risk themselves. The main beneficiaries of this trend are the payment processors, as they profit from the banks' outsourcing.

Data – the new oil

The banks, as well as the recipients of digital payments, rely on well-connected partners that control the interfaces of the payment ecosystem. Those with international networks can also offer merchants additional online transactions. At the same time, a high volume of data from (previous) transactions ensures that the authenticity of a transaction can be verified efficiently. This means that the payment processors' scope of usefulness is dominated by economies of scale. Once someone reaches a critical size, it becomes difficult to displace them. Apart from digital payment solutions, the next stage of growth for well-positioned companies is likely to be in cross-selling other digital offerings such as business software or financial services. Cultivating additional business areas such as these not only brings higher growth rates, but also higher margins, which is why we are convinced that the area of digital payment methods represents a structural megatrend.

Tommaso Operto
Research Analyst

25th anniversary makeover

The new look of our private banking group combines our traditional values with entrepreneurial dynamism.

Our private bank is celebrating its 25th anniversary in 2021. We would like to take the occasion of this anniversary to express our sincere gratitude to you – our clients – for your trust and the many fascinating years we have shared together. Just as we did five years ago, we look forward to inviting you to an anniversary celebration, but the coming weeks will show whether this will be possible given the current environment.

Innovation as a fundamental pillar

During the past 25 years, we have always striven to improve and expand our offering through innovation. This ambition is evidenced by the establishment of Mobimo, the flexible pension solutions of PensExpert, and our infrastructure investments. Our ongoing focus is on developing new offers tailored to client requirements and improving existing solutions. While continuous innovation has always been key to our instruments and services, we still maintained a more traditional corporate image.

New image brings contemporary benefits

Looking ahead to the next few years, our modernised image will open up more future-oriented opportunities. What makes our new image stand apart?

- It is emphatic. It incorporates and highlights our own vision and stresses our core statements.
- It is dynamic. Many elements have been scaled back and simplified. Embellishments were replaced with clear and defined shapes.
- It is digital and analogue. All the elements of personalised communication have been retained but have also been enhanced in the digital domain.

We hope that you like the look of our new image.

Nadine Vonwyl and Dionys Berwert

Asset statements now feature sustainability rating

Not only the layout but also the content of our asset statements is changing. The ESG rating of the portfolio positions is now displayed. Based on these environment, social and governance criteria, your future investments can be even better aligned with your needs and wishes in this area. Sustainable thinking has been a key topic in our owner-managed family business since its founding. For 20 years, we have been emphasising this issue thanks to the Rütli Foundation, which enables clients to exert direct influence within the framework of a charitable status and thereby support projects close to their hearts. Sustainability has also come up more and more often in recent years during discussions with clients, emerging as topical and necessary for investors. As a result, for years now we have been able to implement clients' personal requests in this area via individual restrictions or general ESG approaches. Today, our guiding principle of sustainability sets the framework for our company and is exemplified at the various corporate levels. Along with additional sustainability expertise, the investment process has also been gradually expanded to include ESG aspects. Consequently, our investment company has signed on to the UN Principles for Responsible Investment (UN PRI). We have used the redesign of our asset statements to create the appropriate transparency in this area as well – and for as many other items as possible.

Interested in becoming involved in charitable activities?

The Rütli Foundation offers legal, organisational and tax services to individuals who wish to engage in charitable endeavours. Since its inception, it has been supporting charitable institutions active on behalf of the environment, education, art, etc. This is accomplished by setting up a sub-foundation, through the Rendite für Gemeinnützigkeit® concept, or by establishing one's own foundation.

Find out more at: www.ruetli-stiftung.ch

Nicole Brast
Client Relationship Manager

Re-allocating responsibilities

An interview with the general partners.

Jürg Staub, Christof and Remy Reichmuth (left to right)

Before we look ahead, should we take a brief look back at 2020?
Jürg Staub: It's been a year that no one will ever forget. Onerous in many respects, but it also created opportunities. We seized many of them, which I am pleased about, and we are all very satisfied.

2020 was a year of pleasing growth. Who are now among your clients?
Christof Reichmuth: What pleases me most is the broad growth we experienced this year. In addition to new private individuals and families, more and more executives are also taking advantage of our tax-optimised pension solutions, in particular. And our more illiquid niche offerings such as infrastructure, agribusiness, start-ups and distressed investments are of interest to increasing numbers of clients.

As of 1 January 2021, Remy Reichmuth will be taking over from Jürg Staub as CEO. Why?
Jürg Staub: Generational change is a constant topic of discussion both for our clients and for us. We have been planning and carefully preparing for this transition for years. I will remain on the Board of Directors, as will our COO, Dionys Berwert. We are a well-oiled team, but it is also important that we continue to move with the times. At 45 years of age and as a proven client relationship expert, Remy is the right choice for the next phase.

Remy Reichmuth, what will change from your point of view?
Remy Reichmuth: Continuity is important to me, and I have been a member of the Board of Directors for several years now, as well as a general partner with unlimited liability since 2017, so I have already had a chance to get involved and play an active role. We have had a very successful run over the last few years and especially in 2020. It is a matter of capitalising on this momentum and consistently pursuing our strategy. Even as CEO, I want to spend as much time with our clients as I can and solve operational issues with as decentralised an approach as possible.

> **"Unlimited liability is and remains a strong signal."**

Will you be sticking with the bank's current legal form of unlimited liability?
Christof Reichmuth: Yes, that is not something that is up for discussion. After all, it represents to no small degree our understanding of risk. We do not undertake any ill-considered risks, and certainly not at the expense of our clients. This sends a very clear signal, especially in the current climate where no one wants to take decisions any more, and everyone tries to shift responsibility. That is why our balance sheet is rock solid, as is our high level of equity. Partners with unlimited liability like to sleep well at night, too.

And how will you allocate the responsibilities?
Jürg Staub: Remy is taking over as CEO, and I can once again focus more on expanding our business with entrepreneurs and in Germany. Christof will remain President of the Board and lead the Group. In addition to the bank, this also includes the growing infrastructure business and our sister company, PensExpert. And all three of us are, of course, heavily involved with our client relationships. Many clients appreciate the direct accessibility we offer.

All the best for 2021 and especially to you, Remy Reichmuth, may you enjoy your new role to the fullest.
Remy Reichmuth: Thank you. I'm looking forward to it and can count on an excellent team around me. I would like to wish all of our clients a most happy, enjoyable and healthy 2021.