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SWITZERLAND TOP 50 INDEPENDENT ASSET MANAGERS 2021

Monthly Pulse – Wednesday, 7th April 2021

Economic Outlook

Recovery and reopening paths are diverging across the world: on the one hand, some countries like Australia, New Zealand, China have almost eliminated COVID19 within their borders through strict repeated lockdowns, that prevented the spread of the disease, and others, like Israel, UK, US, are quickly and steadily progressing with vaccination programs and gradually lifting lockdowns. On the other hand, Europe is going through the "third wave", while vaccinations are stalling, and the "back to normal" is not foreseeable within the near future.

So far, among the developed economies, the "winner" of the recovery race appears to be the US with the combination of rapid vaccination program and enormous fiscal stimuli. Checks from the last USD 1.9 trillion bill are still on the way to their recipients, and already another huge USD 2.2 trillion bill has been proposed: this time, the focus is on infrastructure investments and corporate tax hike. This bill has already lifted investors' spirits, even though it is not yet clear to what extend it will be passed, since the US President Biden is looking for a bipartisan support.

Tactical Asset Allocation

Liquidity	Neutral
Bonds	Underweight
Equities	Neutral
Alternative Investments	Overweight

Macroeconomics

Overall, the first quarter of 2021 saw a significant return of economic activity in the world. The pace of recovery so far has been much above expectations. Even in the Eurozone, where major anti-pandemic restrictions remain, composite PMI rose to 52.5 in March, revealing expansion of business activity for the first time this year, driven mostly by manufacturing activity. The global growth, according to the OECD projections is estimated to be 5.6 percent in 2021, which is 1.5 percentage points higher than the December projections, and already by mid-2021 the global output should rise above the pre-pandemic level. Of course, this recovery, will not be uniform across countries and sectors.

The FED raised 2021 average growth forecast from 4.2 percent estimated in December to 6.5 percent. Unemployment in the US is expected to fall below the previous estimate: 4.5 percent, rather than 5 percent, by the end of the year, and the core personal consumption expenditure inflation is projected to rise above the FED's average target of 2 percent to 2.2 percent, compared to 1.8 percent forecasted in December. Similar forecast revisions have been made by major banks as well, since the recovery in the US is moving at a more optimistic pace than was predicted in the end of 2020. However, interest rates are still largely expected to be kept close to zero until at least 2023. In particular, the FED does not appear to worry about the heating up economy, since the spike in inflation is not expected to last: price growth is expected to fall back to 2 percent in 2022 and rise slightly to 2.1 percent in 2023.

The ECB also raised, although less drastically, its growth projection for the EU in 2021 from 3.9 percent estimated in December to 4.0 percent and inflation expectation from 1.0 percent to 1.5 percent. The Central Bank's position towards increasing interest rates and the consequences for the economy is similar to that of the American counterpart: it is not the time yet. In response to rising bond yields, the ECB has accelerated its emergency bond buying program. Moreover, the ECB President Christine Lagarde expressed willingness to continue it further if need be.

Fixed Income

What a start into the new year! It was all about long term US rates and their rise back to pre-COVID levels.

The reflation trade dominated all asset classes, with many investors betting on a strong rebounding economy, supported by a faster than expected vaccine rollout in the US and another huge stimulus package to be implemented.

Although we have been pretty bearish on US rates in our 2021-outlook, the velocity and momentum of the move surprised us.

Market proxies of inflation expectations accelerated to the fastest pace since 2014 and yield curves surpassed their steepest levels in more than five years.

We continue to underweight longer term bonds as the current level (UST 10yr at 1.65 percent) is just the way back to normalization. All eyes will be on the release of economic data (Non-Farm Payrolls, CPI, PPI etc.) and every time the FED is going to speak, their wording will be closely watched.

US 10yr yields are likely to rise further in the coming month but will need confirmation from the data front, in order to pass the 2 percent level. We remain in the bearish camp and keep an underweight on rates, globally.

But where is the place to hide with this interest rate environment?

Although the High Yield market cannot escape, we think, it is the better place to be. BBs (mainly fallen Angels), Hybrids and AT1s still offer some elevated yields with an acceptable credit risk and low duration. Coupon reset levels need to get a special focus at the moment.

For EM names we are more cautious, as they do not offer significant yield pick-up, compared to their DM peers. Most of the recovery in the energy and commodity sector is already priced in. We treat them as a solid supplement to our core holdings.

Diversification and credit selection is key. For the moment, we do not think that an increased risk appetite will pay off. Therefore, we stay with solid names and avoid high beta credits.

Equities

Global economic optimism continued in March, with the result that stock markets rose sharply in some cases. One exception at regional level was the emerging markets. They suffered above all from the appreciation of the USD, higher US yields and hence the deterioration in financing conditions for companies in some countries. Among the sectors, cyclicals performed slightly worse than defensive stocks.

The rise in yields since the beginning of the year is attributed primarily to growing investor confidence in the economic recovery. Although inflation rates may rise in the coming months, analysts do not see a sustained increase in inflation. In such an environment, higher yields are generally not a problem for the equity markets, as corporate profits should also rise at the same time. Already, the earnings outlook has returned to pre-crisis levels. Therefore, we expect that profits still have room to run.

Looking at the emerging markets, the Chinese stock market has lost significant ground since the New Year. Since the all-time high of the MSCI China on February 17, it has declined by more than 15 percent. The main reasons include, firstly, the government's rather restrained new growth target of "6 percent or more". Admittedly, it can be assumed that this target was set so low so that it can be easily exceeded. However, if 6 percent were actually targeted, this would presumably have to be accompanied by monetary and fiscal policy measures to slow down the economy. Secondly, corporate financing conditions have deteriorated. Although analysts do not expect more restrictive monetary policy measures from the central bank until the summer. However, interest rates have already risen on the money and capital markets. In this context, the government has been urging companies to improve their balance sheets for some time. And lastly, the government is trying to limit the power of large companies with regulatory measures. This has clouded the climate for equity investors in the largest emerging market. A similar development can be seen in other heavyweight countries such as Brazil or Russia. There, the turnaround in monetary policy has already begun. Overall, analysts expect the emerging markets to continue to grow more strongly than the industrialized countries, although the lead is diminishing. If this relationship continues, then emerging market equities should become less attractive. But time will tell.

Equity Indicators

Valuation	Neutral
Momentum	Neutral
Seasonality	Neutral
Macro-Economics	Positive

In general, we are sticking to our assessment that the equity markets continue to favor cyclically sensitive sectors and a tilt to growth style. Value style has its “raison d'être” but has lost the momentum a bit in the meantime. In Europe in particular, the COVID19-tunnel has been prolonged once again. However, analysts still expect the economic recovery to be strong thereafter. In addition, the FED and the ECB have made it clear that they consider the current rise in inflation rates to be temporary and will stick to their current monetary policy. An exception might be the Canadian central bank which eventually will adopt a more restrictive course soon. We therefore overweight the US equity market. As far as the Pacific region is concerned, growth momentum in Australia has slowed down significantly relative to the other economies. In such a market constellation we have a preference for the Japanese market. In addition, Japanese companies are somewhat less dependent on the Chinese market, i.e., they are somewhat more diversified internationally.

The last 10 years have shown that the Nikkei 225, which is dominated by large-cap companies, has performed better than the Topix, which comprises over 2000 stocks. One of the reasons for this is that the BoJ also began to steer its monetary policy by purchases of index funds on the Nikkei. Most recently, however, it decided to switch to the Topix. Therefore, the relative strength of the Nikkei is likely to decrease significantly, if not reverse. However, the BoJ has additionally decided to stop buying regularly, and it has set an annual cap of JPY 12 trillion rather than a regular target amount to invest.

Alternative Investments

Since the beginning of the year, the Anglo-Saxon currencies have clearly won the race against the CHF, JPY and EUR. The CAD in particular gained significantly last month. In the wake of the strong US economy, the Loonie is likely to remain supported for the time being, in view of the reduction in the BoC's bond purchases and the constructive short-term outlook for crude oil prices. In general, demand for risky assets and thus also for procyclical currencies should continue for a while. For the time being, also further potential for the GBP is given. The immediate economic opening in the United Kingdom will give the pound another boost before the challenges surrounding the Brexit come back into the spotlight. For a renewed recovery of the EURUSD, the economic opening in continental Europe must become even more tangible. Analysts have pushed their expectations for this further back into the summer. The yield difference, however, speaks for the USD for the time being but we expect a catch-up potential for the EUR this quarter accompanied by the progressive vaccinations in the Eurozone.

Gold is stabilizing above USD 1,700 an ounce after posting the first quarterly loss since 2018 as traders weigh the outlook for the global economy amid vaccine rollouts and stimulus measures. Investor interest in the safe haven asset has waned, with holdings in gold-backed exchange-traded funds dropping to the lowest since May. Gold will stay sensitive to USD yields as well as inflation fears. And we see slightly more downside than upside.

A further supply deficit is emerging on the crude oil market over the next few months, leading to falling inventories and further boosting prices. As mobility increases, demand for crude oil will increase, while supply will not be able to keep pace with this development. Rather, supply is kept artificially low by production agreements of the oil cartel OPEC+. Analysts expect the association to continue to maintain its production cuts and only gradually reduce them as long as crude oil demand has not returned to pre-crisis levels.

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Market Overview as of Wednesday, 7 April 2021, 3:44 PM

Fixed Income

	Rate	Δ 1m	Δ 3m	Δ ytd
USD Overnight	0.07	0.00	0.00	0.00
USD 1y Swap	0.21	0.02	0.02	0.02
USD 3y Swap	0.50	0.04	0.21	0.25
USD 5y Swap	0.99	0.06	0.47	0.56
USD 10y Swap	1.69	0.07	0.62	0.77
EUR Overnight	-0.48	0.00	0.02	0.02
EUR 1y Swap	-0.52	-0.02	0.01	0.01
EUR 3y Swap	-0.47	-0.04	0.04	0.04
EUR 5y Swap	-0.34	-0.04	0.11	0.11
EUR 10y Swap	0.03	-0.02	0.26	0.29
CDX Xover 5y	2.93%	-0.19%	-0.01%	0.00%
iTraxx Xover 5y	2.47%	-0.10%	-0.02%	0.04%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Deposit 1m	0.2%	0.5%	0.9%	0.9%
USD Aggregate 1-3y	0.0%	-0.1%	0.2%	-0.1%
USD Aggregate 3-5y	-0.1%	-0.7%	-0.4%	-0.8%
USD Aggregate 5-7y	-0.3%	-2.2%	-1.9%	-2.6%
USD Aggregate 7-10y	-0.3%	-3.2%	-3.1%	-4.3%
EUR Overnight	0.0%	-0.1%	-0.2%	-0.1%
EUR Aggregate 1-3y	0.0%	-0.1%	0.0%	-0.1%
EUR Aggregate 3-5y	0.2%	-0.2%	0.3%	-0.2%
EUR Aggregate 5-7y	0.3%	-0.6%	0.3%	-0.6%
EUR Aggregate 7-10y	0.3%	-1.4%	-0.2%	-1.5%
US Corp. HY	0.9%	§	6.9%	1.4%
EUR HY	0.7%	1.4%	5.9%	1.7%

Equity

	Price	P/E	D. Yield	FCF yield
MSCI World	8,597	21.2	1.9%	5.7%
S&P 500	4,074	23.4	1.5%	3.2%
NASDAQ	13,578	29.6	0.7%	2.9%
Euro Stoxx 50	3,953	19.1	2.7%	15.0%
SMI	11,113	18.0	3.0%	5.3%
FTSE 100	6,871	14.4	3.8%	17.1%
DAX	15,166	16.7	2.6%	9.6%
MSCI Asia Pacific	207	17.2	2.2%	4.9%
FTSE China A50	17,310	14.4	2.3%	13.5%
MSCI Emerging Market	1,347	15.5	2.3%	5.2%
PH Semiconductor	3,266	24.8	1.1%	3.2%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	5.6%	5.6%	20.2%	7.4%
S&P 500	6.0%	7.1%	19.1%	8.5%
NASDAQ	7.2%	4.9%	18.0%	5.4%
Euro Stoxx 50	7.7%	9.1%	22.2%	11.3%
SMI	4.8%	3.1%	9.1%	3.8%
FTSE 100	3.6%	0.2%	15.6%	6.4%
DAX	8.9%	8.6%	17.3%	10.5%
MSCI Asia Pacific	0.6%	1.7%	19.2%	3.7%
FTSE China A50	0.3%	-6.9%	13.8%	-2.2%
MSCI Emerging Market	0.6%	1.9%	21.6%	4.3%
PH Semiconductor	11.8%	11.2%	40.2%	16.8%

Commodity

	Price	FCST 21	FCST 22	Δ Future
Gold	1,736	1788	1706.25	1.9%
Silver	25.11	25.52	23.7	0.4%
Platinum	1,249	1175	1250	-4.3%
Palladium	2,627	2483.75	2512.5	-5.6%
Crude Oil	59.90	59.14	59	0.6%
Brent Oil	63.31	62.04	61.87	0.6%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	2.2%	-9.3%	-7.9%	-8.4%
Silver	-0.7%	-8.1%	3.9%	-5.1%
Platinum	10.2%	10.7%	42.0%	15.3%
Palladium	12.8%	7.7%	10.2%	6.8%
Crude Oil	-9.1%	18.1%	43.2%	23.0%
Brent Oil	-7.8%	17.5%	43.4%	22.6%

Foreign Exchange

	Price	FCST 21	FCST 22	Δ Spot
EUR/USD	1.1886	1.23	1.22	2.6%
GBP/USD	1.3758	1.4	1.43	3.9%
USD/CHF	0.9289	0.92	0.92	-1.0%
USD/JPY	109.86	107	109	-0.8%
EUR/CHF	1.1041	1.12	1.14	3.2%
USD/RUB	77.91	70.13	70	-10.7%
EUR/RUB	92.60	84.8	83.57	-10.3%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	0.2%	-3.1%	1.0%	-2.8%
GBP/USD	-0.6%	1.6%	6.5%	0.8%
USD/CHF	0.7%	-4.7%	-1.3%	-4.7%
USD/JPY	-0.9%	-5.4%	-3.6%	-6.0%
EUR/CHF	0.5%	-1.7%	-2.3%	-2.0%
USD/RUB	-4.7%	-5.1%	0.1%	-4.5%
EUR/RUB	-4.7%	-1.0%	-0.6%	-2.0%

Source: Clarus Capital Group, Bloomberg

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Published by Clarus Capital Group AG, Gutenbergstrasse 10, CH-8002 Zurich,
research@claruscapital.ch, www.claruscapital.ch

Editors Roger Ganz, Head Asset Management, Dejan Ristic, Head Equity & FX,
Markus Mettier, Head Fixed Income, Olga Karpova, Junior Portfolio Manager