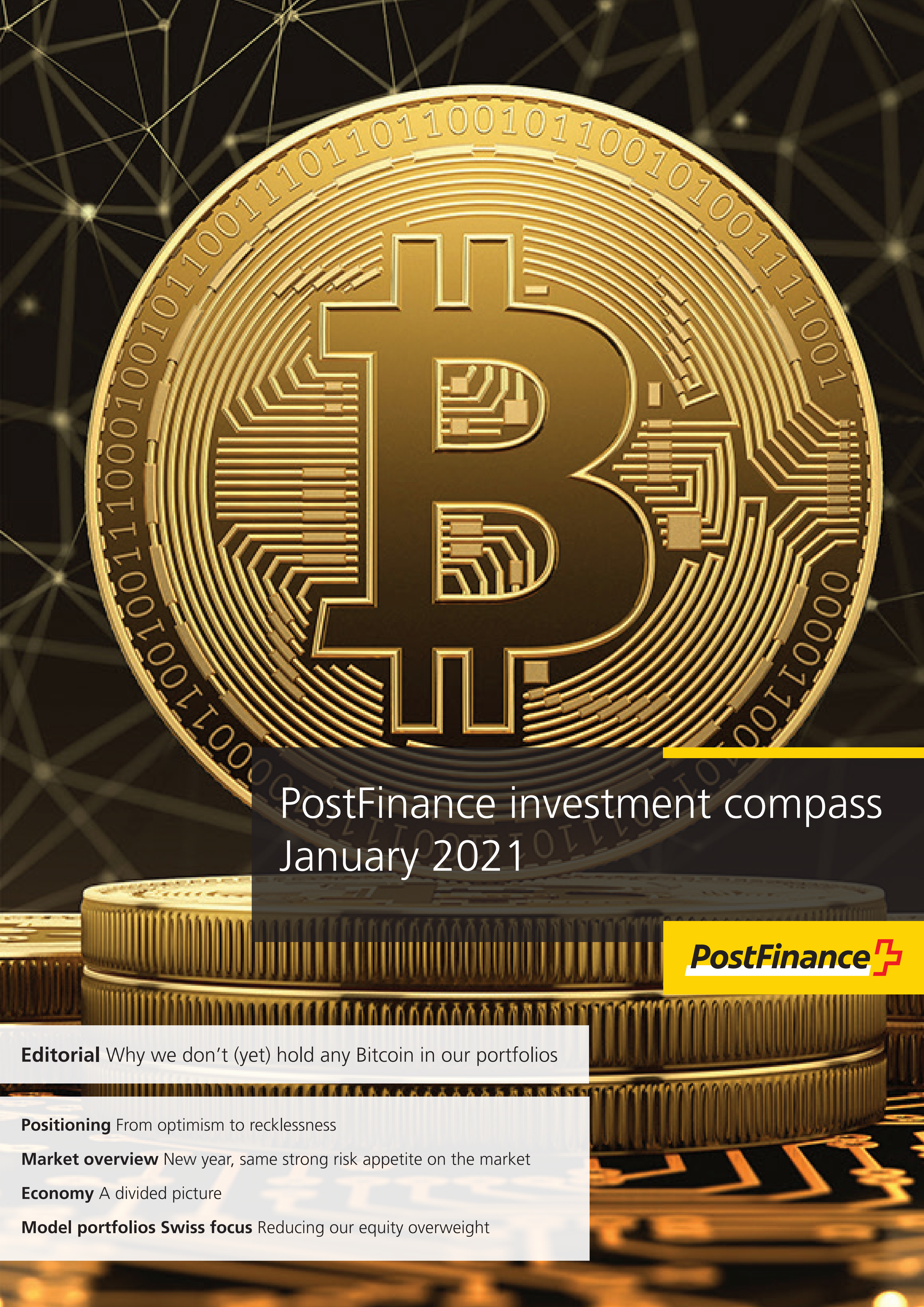

PostFinance investment compass January 2021

PostFinance

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Editorial

Why we don't (yet) hold any Bitcoin in our portfolios

Bitcoin continues to soar in value. It's a fascinating phenomenon, but its fluctuations and uncertain future prospects mean that investment is still very speculative.

Daniel Mewes
Chief Investment Officer

Bitcoin was the hot topic on the financial markets at the start of the year. While its price stood at below 10,000 francs in October, it surged to almost 40,000 francs recently. 10 years ago, you couldn't buy a pizza with a Bitcoin. Against the price gains of Bitcoin, returns on equities pale into insignificance, despite having performed well over the past decade and enjoying an extraordinary past few months.

Bitcoin – an investment that's not included in our portfolios – seems to be on the up and up. Why is that? Is PostFinance, as a leading digital bank, lagging behind when it comes to this trend?

Bitcoin is fascinating...

I find the blockchain technology behind Bitcoin highly impressive. Blockchain is the future, and it's an ingenious idea to apply this technology to currencies, combined with cryptographic elements, to restrict their supply. Cryptocurrencies may well be the future. Central banks – which are taking ever greater steps into the digital world after initial scepticism and hesitation – also seem increasingly aware of this potential.

... but Bitcoin investments remain very speculative

Unfortunately, Bitcoin is not yet ready to be used as a currency or included as an asset in an investment portfolio. Its price fluctuates too dramatically. From a currency perspective, these fluctuations mean that the prices of goods and services cannot be given in Bitcoin, making it unsuitable as a payment method.

In terms of investment, Bitcoin adds high risks to a portfolio in the short term. To avoid changing the overall risk measured in terms of volatility, we would have to reduce the equity component by over 25 percentage points in a portfolio with 3.5 percent Bitcoin. In light of its current susceptibility to crashes (Bitcoin suffers a price crash of over 60 percent every 2.5 years on average), a balanced portfolio should not contain more than 3 or 4 percent of the cryptocurrency.

«Cryptocurrencies may well be the future.»

Bitcoin's longer-term risks are also a cause for concern. Nobody knows what the future holds. It's impossible to predict what role Bitcoin will play ten years from now. In contrast to equities, a total loss cannot be dismissed, either. It's easy to envisage a scenario in which Bitcoin one day loses its appeal – for example, if it is displaced by better technology or government alternatives.

Not yet mature enough

Bitcoin can be a bit of fun, but it's not currently mature enough for a serious investment strategy. Traditional, established investments – such as equities, real estate and gold – are better alternatives. However, it's worth continuing to monitor Bitcoin and the development of the technologies behind it.

Positioning

From optimism to recklessness

After sharp price rises, we are realizing gains and reducing our overweighted equity position.

Since the end of October, the prices of exchange-listed companies worldwide have soared by 15 percent, measured in Swiss francs. In just two and a half months, investors generated returns for which they normally have to wait a year and a half on average. Over the past 50 years, prices have risen by an average of around 10 percent a year. This means that records have been broken and new highs reached on leading indices in many countries.

The fact that the stock markets have not been perturbed by the pandemic as they were in spring 2020 is down to generous support from monetary and fiscal policy. Interest rates remain at a low point worldwide. The central banks are buying government bonds in the hope of keeping capital costs down for the economy. Governments worldwide are also supporting consumers and companies with direct payments and loans on an unprecedented scale.

Coronavirus impedes upturn

The economic situation provided little reason for optimism amongst investors. Public life is still dominated by coronavirus, its new mutations and the measures imposed to contain the spread of the pandemic. After the economic recovery last summer, output has stagnated again in many places. Despite the vaccines, it is clear that the virus will still have the upper hand over the coming months.

«The value of Chinese equities has climbed by over 40 percent since our purchase in May 2020»

Performance of asset classes

Asset class		**1M in CHF**	**YTD[1] in CHF**	**1M in LCY[2]**	**YTD[1] in LCY[2]**
Currencies	EUR	0.2%	–0.2%	0.2%	–0.2%
	USD	0.2%	0.3%	0.2%	0.3%
	JPY	0.4%	–0.2%	0.4%	–0.2%
Equities	Switzerland	4.5%	1.2%	4.5%	1.2%
	World	4.8%	2.2%	4.6%	1.9%
	USA	4.5%	1.6%	4.3%	1.2%
	Eurozone	4.7%	2.7%	4.5%	2.8%
	United Kingdom	7.2%	6.0%	4.2%	5.5%
	Japan	5.8%	3.9%	5.4%	4.0%
	Emerging markets	10.0%	6.5%	9.8%	6.2%
Fixed Income	Switzerland	–0.2%	–0.1%	–0.2%	–0.1%
	World	0.2%	–0.3%	0.0%	–0.7%
	Emerging markets	–0.5%	–1.3%	–0.7%	–1.6%
Alternative Investments	Swiss real estate	0.8%	–2.5%	0.8%	–2.5%
	Gold	0.7%	–2.1%	0.6%	–2.4%

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

Data as of 14.01.2021
Source: Web Financial Group, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

Investors increasingly ignoring downturn potential on equity markets

The generous support means that risks are increasingly being overlooked on the stock markets. It's not just the pandemic and faltering economy that are being ignored, but political upheaval, too. The storming of the US Capitol was met by investors with a new high on the leading American index, the Dow Jones. The fact that investors are barely hedging against falling prices on the options market is a tell-tale sign of the reckless mood.

Neutral equity allocation

In our view, this nonchalance is reason enough to adopt slightly more cautious positioning. As a result, we are reducing equity positions in the portfolios entrusted to us and realigning with the neutral allocation of our investment strategy. We are realizing gains, particularly on Chinese equities. Their value has skyrocketed by over 40 percent since our purchase in May 2020. We are also cashing in on gains made on European equities over recent weeks. We will use the freed-up capital to buy UK equities, as we regard Brexit as less of a major threat to the UK equity market in the short term, following the conclusion of a trade deal with the EU at the end of 2020. The relatively high weighting of commodity and energy companies means that UK equities provide the portfolio with substantial diversification potential.

Positioning relative to long term strategy: Swiss focus

Asset class		TAA[1] old	TAA[1] new	underweighted[3]		neutral[3]	overweighted[3]	
				−−	−		+	++
Liquidity	**Total**	**3.0%**	**5.0%**			■		
	CHF	1.0%	4.0%		■			
	JPY	2.0%	1.0%				■	
Equities	**Total**	**50.0%**	**48.0%**			■		
	Switzerland	26.0%	26.0%			■		
	USA	8.0%	8.0%			■		
	Eurozone	7.0%	5.0%			■		
	United Kingdom	0.0%	2.0%			■		
	Japan	2.0%	2.0%			■		
	Emerging markets	5.0%	5.0%			■		
	China	2.0%	0.0%			■		
Fixed Income	**Total**	**37.0%**	**37.0%**			■		
	Switzerland	19.0%	19.0%			■		
	World[2]	10.0%	10.0%		■			
	Emerging markets[2]	6.0%	6.0%			■		
	Inflation-linked bonds[2]	2.0%	2.0%				■	
Alternative Investments	**Total**	**10.0%**	**10.0%**			■		
	Swiss real estate	5.0%	5.0%			■		
	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

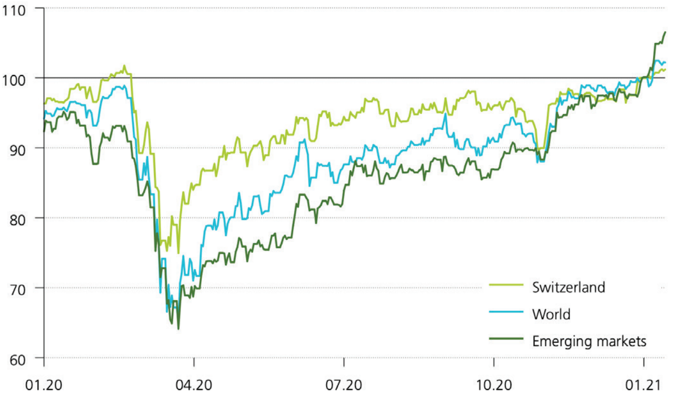
Market overview

Equities

In January, the global equity markets continued their rally of last year. This is underpinned by hopes of further stimulus packages under the new US President Biden and progress with the vaccination campaigns against coronavirus.

Indexed stock market performance in Swiss francs

100 = 01.01.2021

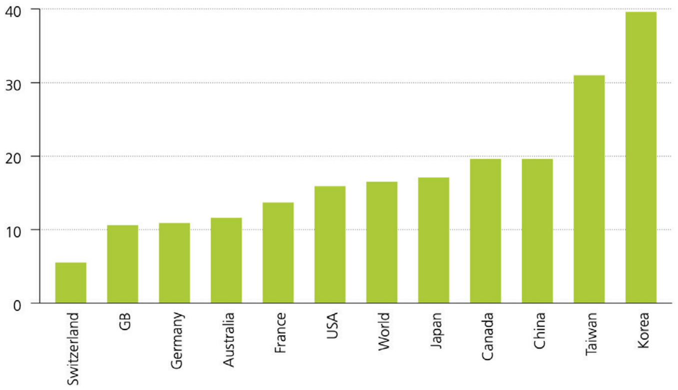


After a remarkable 2020 in which the US equity index S&P500 achieved overall returns of more than 18 percent despite a slump and the Swiss Market Index was up by over 4 percent, the global equity markets continued their sharp upturn at the start of the year. After faltering briefly, lost ground was quickly made up at the start of the year. The stock exchanges were boosted by news of more stimulus packages worth billions under new US President Joe Biden. The markets were unperturbed by the political and social instability in the USA.

Source: SIX, MSCI

Momentum of individual markets

In percent

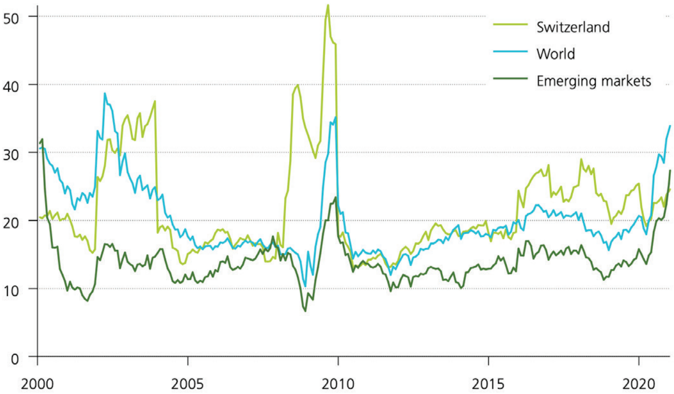


Momentum on the global equity markets remains remarkably strong into the new year. South Korea remains in top spot with a level of 40. Its industry, as in other south-east Asian countries, is benefiting from strong global demand for goods. The South Korean KOSPI has recorded a phenomenal upsurge of around 30 percent since early November. Momentum is similarly strong in Taiwan, followed by the USA. The UK finally left the EU at the end of the year, but the UK equity market has mainly benefited from higher energy prices. Lagging behind is the Swiss equity market, which, despite also seeing momentum in the positive range, has made less ground recently.

Source: MSCI

Price/earnings ratio

P/E ratio



Valuations on the global equity markets soared again at the turn of the year owing to price gains. This trend was particularly evident in emerging markets, supported by a weakening US dollar. Emerging market equities, which were severely hit by the downturn last March, completely recouped these losses in recent weeks. Last month alone, they posted an increase of around 7 percent. US equities with a P/E ratio of over 30 currently have very high valuations, whereas Swiss equities would seem relatively "inexpensive". UK equities with a P/E ratio of just 10 also have upwards potential.

Source: SIX, MSCI

Market overview
Fixed income

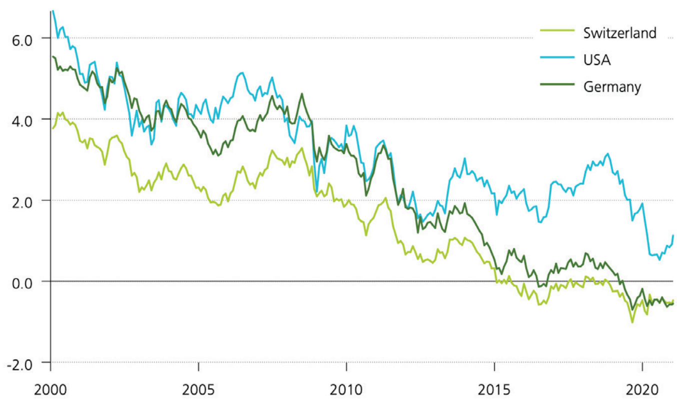
Higher inflation forecasts have seen yields in the USA reach their highest level since last March. The credit spreads on corporate bonds also remained remarkably low at the start of the year.

Indexed performance of government bonds in Swiss francs
100 = 01.01.2021

While the equity markets made further gains recently, there was less movement on the bond markets. Many European government bonds remain at historic record highs – with welcome support from the European Central Bank's purchasing programmes. In contrast, the value of US securities fell slightly over the turn of the year.

Source: SIX, Bloomberg Barclays

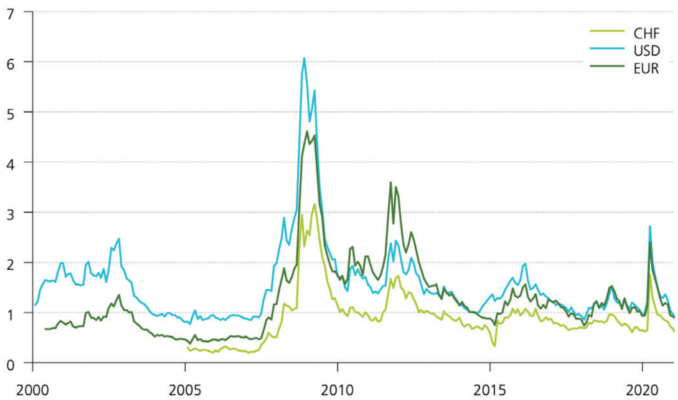
Trend in 10-year yields to maturity
In percent



Higher oil prices and hopes of further aid packages worth billions under the Biden/Harris Administration have seen inflation forecasts rise recently. As a result, yields on ten-year US government bonds rose to their highest level since the start of the coronavirus crisis, at just under 1.20 percent. The yield trend withstood the Federal Reserve's announcement of plans to continue its bond-buying scheme until "significant progress towards achieving its objectives" has been made. Yields on Italian government bonds also rose again. They had fallen continually since last May. The recent government crisis brought this trend to a halt.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



Credit spreads on corporate bonds remain very low at the start of the year. The risk of companies going bankrupt has actually risen, as so many have lost out due to the structural change caused by the pandemic. But the spreads have now returned to pre-crisis levels. The credit spread stands at 1 percent for US and European bonds, and at 0.6 percent for their Swiss counterparts. This points to greater risk appetite amongst investors and confidence that governments will continue to provide support.

Source: Bloomberg Barclays

Market overview

Swiss real estate investments

Swiss real estate proved a solid asset class in 2020. It yielded a return of 10 percent over the year and is now valued highly.

Indexed performance of Swiss real estate funds

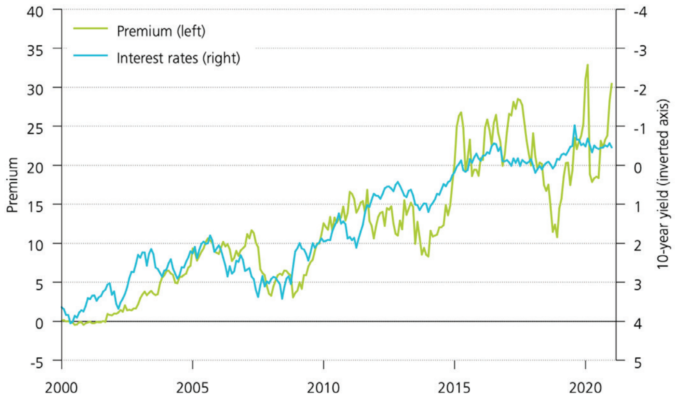
100 = 01.01.2021

Thanks to the strong performance by indexed Swiss real estate investments at the end of the year, this asset class achieved solid returns of almost 11 percent last year. Prices also continued to climb in the first trading days of the new year. Momentum has since turned, and prices have slipped back slightly. One reason for this may be the continuation of the second wave of coronavirus, which is resulting in an uncertain outlook for demand trends on the commercial real estate market. The record high prices have also led investors to realize gains.

Source: SIX

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

In percent

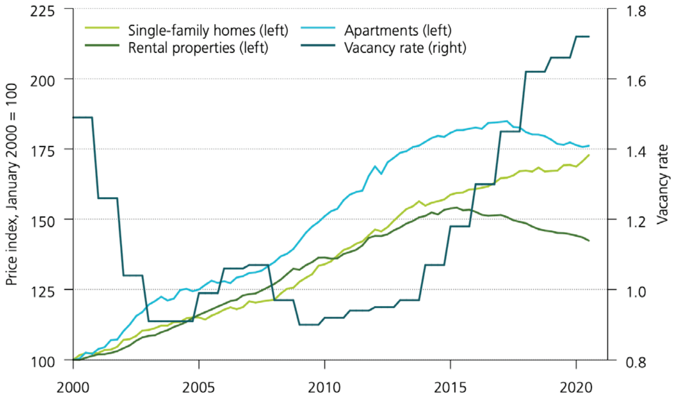


The strong rise in demand for Swiss real estate funds at the end of the year pushed premiums to record levels. Premiums recently reached an average of 30 percent of underlying property values. The premiums demanded have only ever been higher in early 2020. In light of the current record-low interest rate of –0.5 percent, these premiums are very high. The valuation models point to significant overvaluation. In the past, prices have fallen sooner or later when premiums have exceeded the fair valuation level to such an extent.

Source: SIX

Vacancy rate and real estate prices

100 = January 2000 (left) and in percent (right)



The persistence of the second wave of coronavirus and the subsequent tightening of restrictions mean that the real estate market will not emerge unscathed. The recent decision to shut down the retail sector again will take a heavy toll on many businesses. However, the Swiss government has also approved the extension of the hardship fund designed to enable rental payments. In the longer term, the coronavirus crisis will also accelerate changes in shopping habits, particularly a shift towards online retail, and structural change in the retail sector.

Source: SNB, BfS

Market overview

Currencies

The devaluation of the US dollar has now come to a halt. Otherwise, currencies are not currently the focus of developments on the financial markets.

Last year was marked by the continued weakness of the US dollar. The US currency fell by just under 9 percent against the Swiss franc. This trend does not look set to continue at the start of the new year – despite political turmoil in the USA. With a weakening dollar, the value of the Chinese renminbi rose by just under 10 percent in the second half of last year. The Swiss franc remains strong: against a basket of currencies weighted by respective foreign trade, the Swiss franc is now once again the most overvalued currency in the world.

Currency pair	**Price**	**PPP[1]**	**Neutral area[2]**	**Valuation**
EUR/CHF	1.08	1.18	1.10–1.27	Euro undervalued
USD/CHF	0.89	0.93	0.81–1.04	USD neutral
GBP/CHF	1.22	1.43	1.23–1.63	Pound undervalued
JPY/CHF[3]	0.86	1.06	0.89–1.22	Yen undervalued
SEK/CHF[3]	10.69	12.37	11.16–13.59	Krona undervalued
NOK/CHF[3]	10.49	12.87	11.50–14.25	Krona undervalued
EUR/USD	1.22	1.28	1.11–1.44	Euro neutral
USD/JPY	103.82	87.52	71.96–103.08	Yen undervalued
USD/CNY	6.47	6.41	6.16–6.67	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

After a highly successful 2020, gold is currently relatively stable, at 1,850 US dollars per troy ounce.

Indexed performance of gold in Swiss francs
100 = 01.01.2021

Gold enjoyed a highly profitable year. Yielding a return of 25 percent over the year, the precious metal was the strongest asset class and once again proved its worth as a crisis-proof investment. After the euphoria on the equity markets at the end of the year, demand fell steeply and the price is now moving in a narrow range, at around 1,850 US dollars per troy ounce.

Source: Web Financial Group

Economy

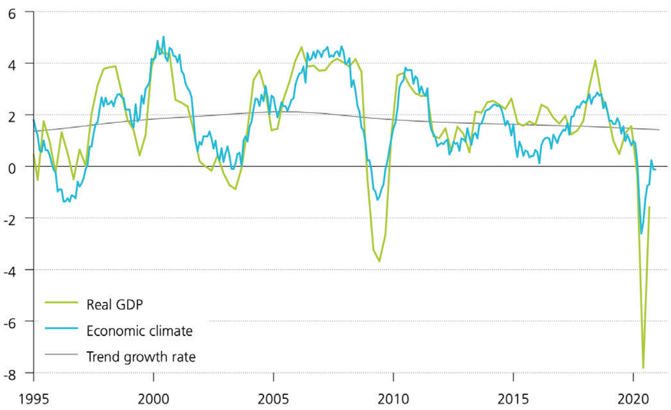
A divided picture

While industry and the construction sector are showing increasing signs of recovery from the slump in spring 2020, new coronavirus measures have now plunged parts of the services sector into another crisis. East Asia and the USA are currently faring better than Europe.

Switzerland

Growth, sentiment and trend

In percent



Source: Bloomberg

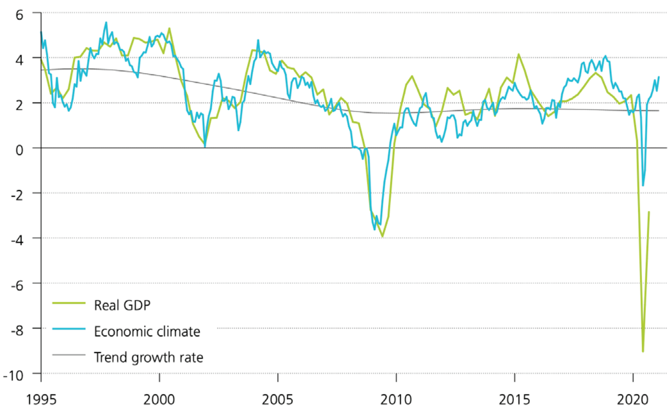
Growth in the fourth quarter of 2020 looks set to be negative, as coronavirus measures were also tightened in Switzerland from November. Despite this, Switzerland will emerge relatively unscathed compared to neighbouring countries. While retail sector revenues, for example, were up again in November, at +1.7 year-on-year, there were downturns in Austria, France and Italy on a similar scale to spring 2020. In the current first quarter, however, the gaps with neighbouring countries will narrow considerably, as Switzerland also imposed much tighter measures on 18 January.

Yet there is also encouraging news: the sentiment indicator for industry has reached its highest level in more than two years. Exports and imports have also returned to almost pre-crisis levels.

USA

Growth, sentiment and trend

In percemt



Source: Bloomberg

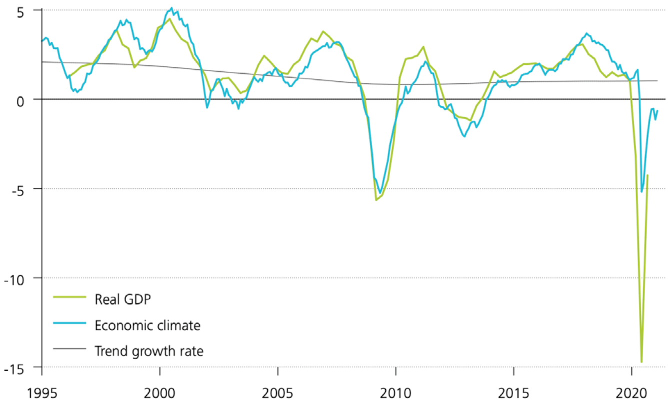
Industry in the US has been slightly weaker than in Europe thus far. Production was still 5.5 percent below the previous year's level in November. The services sector, which is a key part of the US economy, is in remarkably robust shape. Despite high case numbers, there has so far been no decline in consumer spending comparable with that in Europe.

The picture on the labour market is much gloomier. For the first time since May, more jobs were lost than created in December – despite the fact that there are still around 10 million more unemployed people than before the current crisis. In the USA, it was mainly people in low-paid work who lost their jobs last year.

Eurozone

Growth, sentiment and trend

In percemt



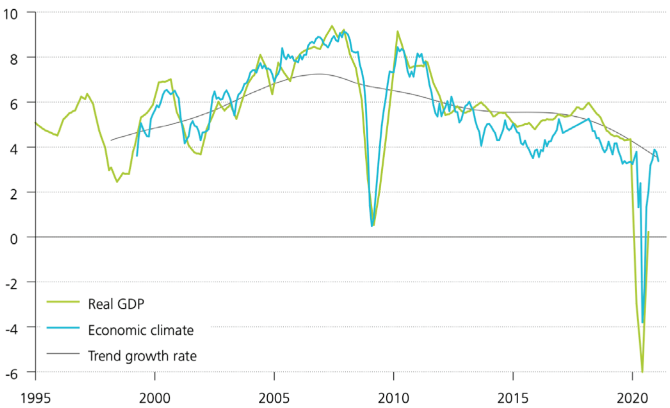
Source: Bloomberg

The Austrian central bank's latest GDP indicator shows there has been another slump in economic output since October. Our neighbouring country's economy is currently operating at only 90 percent of its pre-crisis level – and other European countries face a similar situation. The good news: the slump is only half as severe as in spring 2020. It is almost entirely due to a fall-off in consumption and a struggling tourism sector. Meanwhile, industry and construction are performing well this time around. This is also reflected in European industrial production which has almost clawed its way back to pre-crisis levels, at –0.6 percent year on year. Buoyant industry holds out hope of a rapid upturn once coronavirus measures are lifted again.

Emerging markets

Growth, sentiment and trend

In percemt



Source: Bloomberg

From an economic perspective, emerging markets in East Asia have come through the crisis strongly. The region is benefiting from a shift in consumption from services to products during the current crisis. China, Taiwan and Vietnam are currently enjoying new record highs in goods export. However, fresh outbreaks of the virus in China, South Korea and Malaysia highlight that the situation has still not completely returned to normal. Many countries in East Asia have imposed a strict regime to contain the virus, despite low case numbers.

The situation in Latin America is much more challenging. The International Monetary Fund forecasts that this region will suffer the steepest decline in economic output in 2020 (–8.1 percent), along with the eurozone (–8.3 percent). Another uptick in case numbers indicates that the danger presented by the pandemic is not over.

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y[1] 2020Q2	–1.6%	–2.8%	–4.3%	–8.6%	–5.8%	–7.5%	–3.9%	4.9%
GDP Y/Y[1] 2020Q3	n. a	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	6.5%
Economic climate[2]	↘	↘	↘	↘	→	↗	↗	↗
Trend growth[3]	1.4%	1.6%	0.8%	1.6%	1.0%	5.0%	1.0%	4.3%
Inflation	–0.8%	1.4%	–0.3%	0.3%	–0.9%	4.6%	4.5%	0.2%
Key rates	–0.75%	0.25%	0.00%	0.10%	–0.10%	4.00%	2.00%	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.

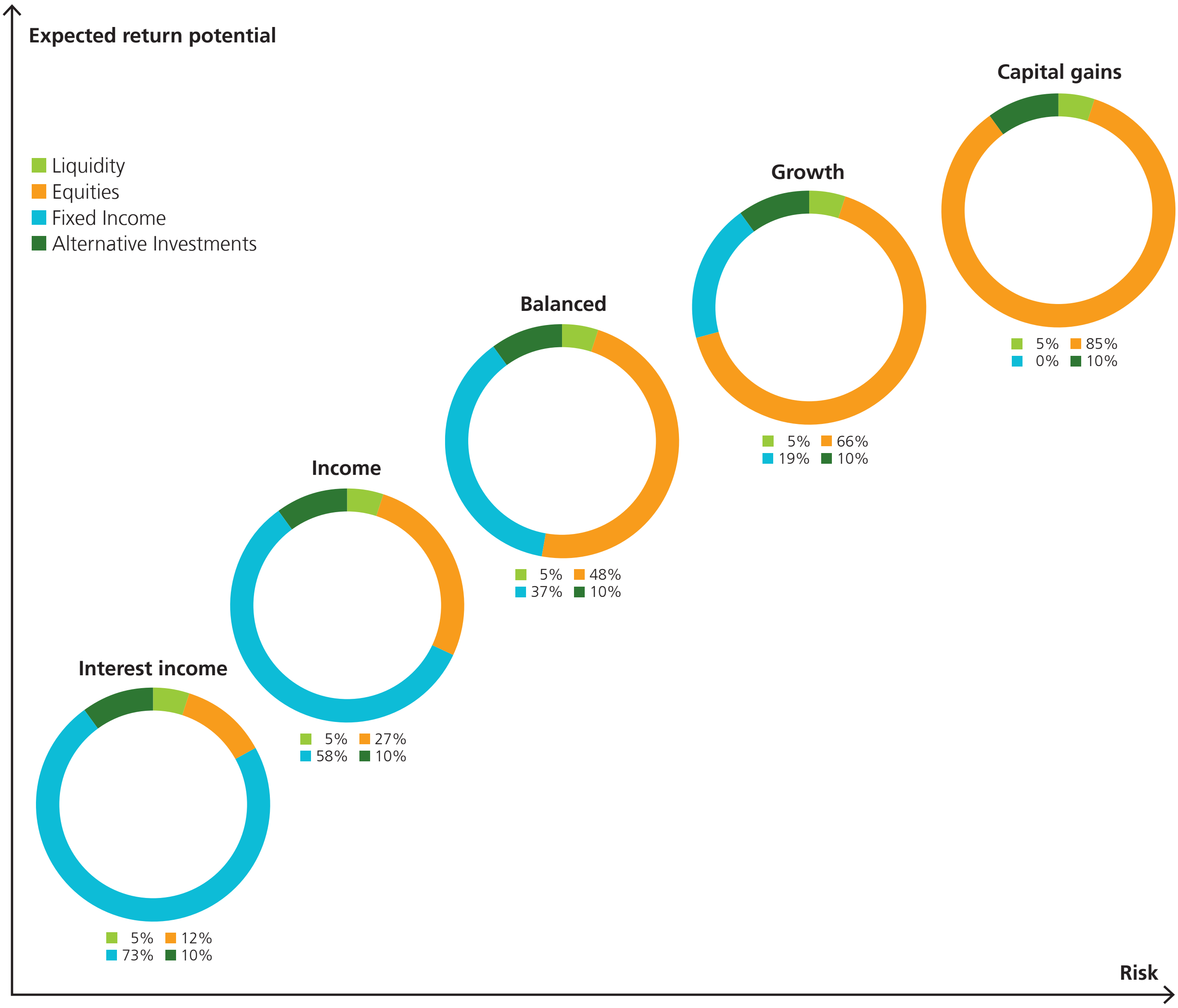
Source: Bloomberg

Model portfolios Swiss focus

Reducing our equity overweight

The global stock markets continued their impressive highs in the new year. The economic recovery is currently stagnating again in many places due to the second round of the lockdown. But share prices are not letting this stop them from soaring. Support from monetary and fiscal policy continues to provide optimism and risk appetite.

However, there are increasing signs that optimism is being replaced by carelessness. This is reason enough to adjust our positioning somewhat more cautiously and return to a neutral tactical equity ratio. We are thus cancelling the gains made in Chinese and European equities and are putting some of the money we have freed up into British equities, where we see less risk now that the trade agreement between the UK and the EU has been concluded, and are therefore lifting our underweight.



Source: PostFinance Ltd

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PostFinance Ltd
Mingerstrasse 20
3030 Berne

Phone +41 848 888 900

www.postfinance.ch

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