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PostFinance

Editorial Investment isn’t just for millionaires

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Investment isn't just for millionaires

There's been a lot of talk recently about small investors shaking up the financial markets. That's great, but not every strategy will prove successful in the long term.

Daniel Mewes
Chief Investment Officer

PostFinance aims to make investment as simple as possible. Investing money isn't just for millionaires, but is open to everyone. It's great when, as in recent weeks, the stock markets become a part of everyday conversation, and a lot of people decide to start investing their money. I've seldom received as many questions in my personal circle as over the past few weeks.

I'm really pleased – but I also have some concerns. The goal behind their interest is not always clear. Is it the opportunity to make short-term gains, or simply the buzz?

False expectations

I'm not concerned about the fact that people are willing to take risks when investing. It's clear to me why people play the lottery, bet on sporting events or visit casinos – gambling heightens the emotions. I'm concerned because I fear people may have false expectations. There are stories doing the rounds of people who've become millionaires in recent years thanks to Bitcoin, or people who have made huge gains since the start of the year by purchasing certain equities. There's a strong temptation to try to copy them.

Of course there are some people who achieve great wealth rapidly. But can a large number of people achieve this? No, the perpetual motion machine still hasn't been invented, even in the 21st century. Gains can be made on the financial markets only where value is created. Despite the extraordinary measures implemented by central banks and governments, the financial markets cannot operate in a completely different world.

Why am I investing?

Every investor must consider why they want to invest. Do they want to chance their arm and hope for a lucky streak? Or do they want to invest their savings to participate in global economic growth? The answer to this question leads to different conclusions.

> «The perpetual motion machine still hasn't been invented, even in the 21st century.»

Focusing on highly speculative investments is obviously one approach. But people shouldn't expect this to prove successful in the long term. Distributing money across asset classes and regions and over a longer investment horizon is more likely to be successful long-term. This doesn't require a huge amount of savings. E-asset management from PostFinance enables everyone to participate in global economic growth opportunities – even with small investment amounts. It's extremely straightforward and the costs are low.

While this approach is less spectacular than following hyped-up trends, it is usually more successful.

Positioning

US equities well positioned for recovery

In light of higher inflation forecasts, we are closing our position in inflation-protected bonds. We're maintaining our neutral equity allocation and focusing on US equities over European ones.

The financial markets are still focusing on the end of the pandemic – which will hopefully come soon. Equity prices continue to hit new record highs worldwide. The prices of many commodities, which fell sharply during the coronavirus recession, are making a strong recovery. The oil price has reached a level last seen in summer 2019.

Second wave has less impact

Despite ongoing lockdowns, short-time working and unemployment, investor optimism does not seem to be waning. Economic statistics actually indicate that people are coming to terms with coronavirus, or at least adapting to it.

During the first wave of coronavirus in the second quarter of 2020, economic output shrank in industrial countries by between 5 and 15 percent year-on-year. During the fourth quarter of 2020, when many countries were hit by a second wave and had to impose new lockdowns, very few countries and regions recorded negative growth. These included many European countries. The surveys conducted monthly also suggest that European consumers and companies are more restrained overall than their counterparts in Asia and the US.

The US government is providing huge stimulus packages to ward off another recession. Consumption remains strong despite high unemployment. Companies are extremely optimistic, and further fiscal packages are expected. The USA's flexible economy also means it is well positioned for recovery. The US economy seems better placed than Europe's in the short and medium term. As a result, we are positioning our portfolios with greater emphasis on US equity investments, at the expense of European ones.

«Extreme market fluctuations for large caps have not become much more frequent.»

Speculation mainly on small caps

We are monitoring speculative excesses, as observed with equities from US small caps in recent weeks. Price rises of over 100 percent within a few days, followed by equally dramatic losses, remain the exception, however. Even though much more trading is currently

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%	–0.1%	–0.2%	–0.1%
	USD	0.0%	0.6%	0.0%	0.6%
	JPY	–0.5%	–0.8%	–0.5%	–0.8%
Equities	Switzerland	0.5%	1.6%	0.5%	1.6%
	World	3.0%	5.2%	3.0%	4.6%
	USA	3.5%	5.4%	3.5%	4.8%
	Eurozone	1.2%	3.4%	1.4%	3.5%
	United Kingdom	–2.0%	2.6%	–4.1%	1.0%
	Japan	3.7%	6.3%	4.2%	7.2%
	Emerging markets	5.9%	11.3%	5.9%	10.7%
Fixed Income	Switzerland	–0.7%	–0.8%	–0.7%	–0.8%
	World	–0.1%	–0.5%	–0.1%	–1.1%
	Emerging markets	0.4%	–0.4%	0.4%	–0.9%
Alternative Investments	Swiss real estate	–0.3%	–0.9%	–0.3%	–0.9%
	Gold	–0.4%	–2.0%	–0.4%	–2.5%

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

Data as of 11.02.2021
Source: Web Financial Group, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

taking place on equity markets than during normal times, we have not observed significantly more frequent extreme market fluctuations for the equities from large caps that we hold. We are also minimizing risk through the large number of equities that we hold in the portfolios – there are currently around 600 in the USA.

Reducing bond allocations

Economic optimism has in turn resulted in rising interest rates. The price of many bonds has fallen as a consequence. Some inflation-protected, high-quality bonds escaped the decline in prices. Higher inflation forecasts in particular contributed to the rise in interest. By purchasing inflation-protected bonds in April 2020, we positioned our portfolios perfectly for this scenario. We are now closing this position and reducing the allocation of bonds in the portfolios. With gaining economic momentum, it is anticipated that the central banks will provide less support in future, which could put bonds under pressure.

Positioning relative to long term strategy: Swiss focus

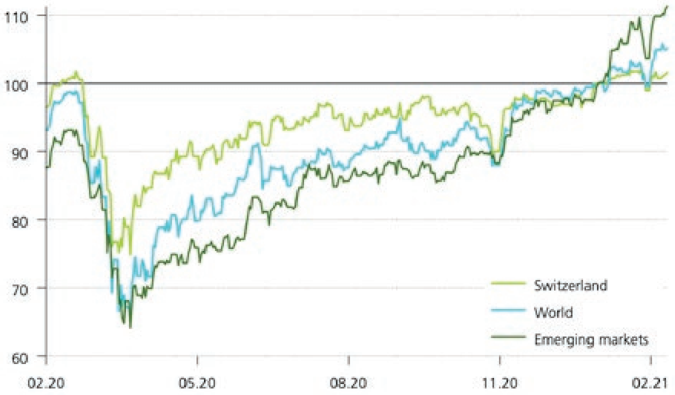
Asset class		TAA[1] old	TAA[1] new	underweighted[3]		neutral[3]	overweighted[3]	
				––	–		+	++
Liquidity	**Total**	**5.0%**	**7.0%**				■	
	CHF	4.0%	6.0%				■	
	JPY	1.0%	1.0%				■	
Equities	**Total**	**48.0%**	**48.0%**			■		
	Switzerland	26.0%	26.0%			■		
	USA	8.0%	10.0%				■	
	Eurozone	5.0%	3.0%		■			
	United Kingdom	2.0%	2.0%			■		
	Japan	2.0%	2.0%			■		
	Emerging markets	5.0%	5.0%			■		
	China	0.0%	0.0%			■		
Fixed Income	**Total**	**37.0%**	**35.0%**		■			
	Switzerland	19.0%	19.0%			■		
	World[2]	10.0%	10.0%		■			
	Emerging markets[2]	6.0%	6.0%			■		
	Inflation-linked bonds[2]	2.0%	0.0%			■		
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

Euphoric global equity markets continued to break records in February. This is enticing many new investors to the market, but is also causing extraordinary price fluctuations on some securities.

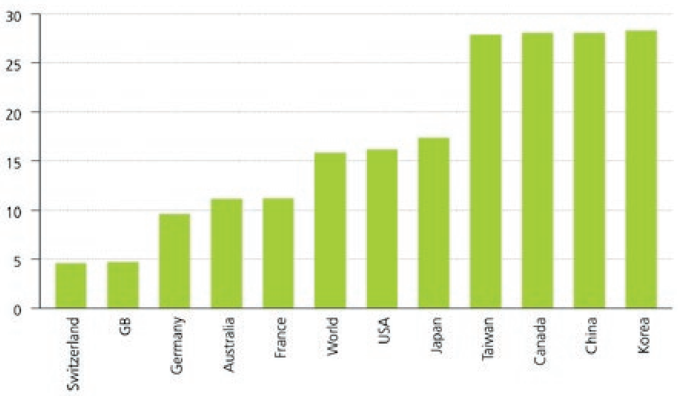
Indexed stock market performance in Swiss francs
100 = 01.01.2021



There's no end in sight for the rally on the equity markets – its pace actually quickened in February. Above all, emerging market equities have skyrocketed since the start of the year, climbing by an impressive 11 percent measured in Swiss francs. The key factor behind this was the strong performance of the Chinese equity market, which hit a new five-year high. But the US equity market also remains buoyant. This is not only highlighted by the new record highs, but also by the remarkable rise in the number of new shareholders entering the market. At times, this has also resulted in extraordinary price fluctuations for some securities, such as GameStop shares, which increased tenfold in value within a few days, before plummeting again in equally dramatic fashion.

Source: SIX, MSCI

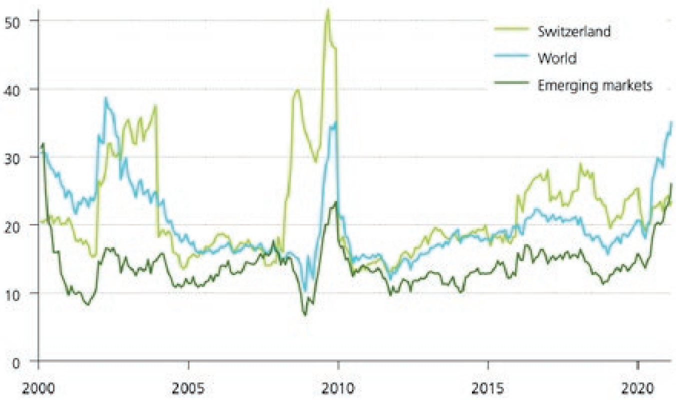
Momentum of individual markets
In percent



The euphoric mood is also indicated by the strength of momentum in individual countries. Four countries – South Korea, Taiwan, China and Canada – currently have a value of over 25. Canada's equity market, which remained below its pre-crisis level for longer than other markets, also enjoyed a rally recently, taking it to a new all-time high. UK and Swiss equities are – once again – lagging behind. The former suffered from the appreciation of pound sterling last month, owing to its focus on exported goods. In the current buoyant mood, there is less demand on the rather conservative Swiss equity market.

Source: MSCI

Price/earnings ratio
P/E ratio



The strong price gains over the first two months of the New Year are continuing to drive up valuations on global equity markets. The global average reached a valuation level last achieved during the 2009 financial crisis. But if the record-low interest rates are factored in, the current valuation levels appear less extreme. Greater risk appetite amongst investors saw emerging market equities post strong price gains. Measured in Swiss francs, they are around 10 percent up on the year-opening level, causing the price/earnings ratio to rise sharply. The valuation of Swiss equities, meanwhile, is attractive in comparative terms, as they failed to keep pace with other markets.

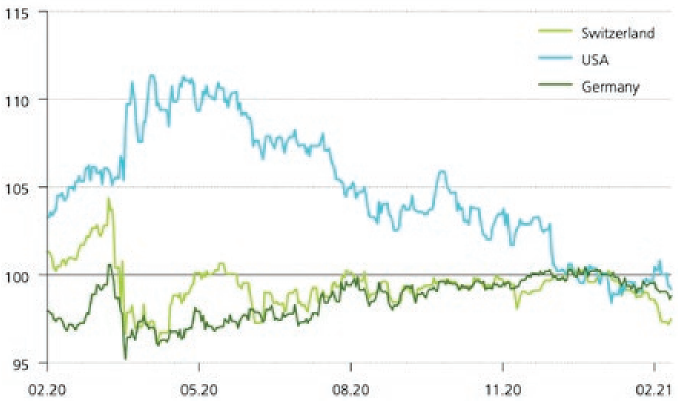
Source: SIX, MSCI

Market overview

Fixed income

An increase in inflation forecasts has seen interest rates rise in the USA.
The credit spreads on corporate bonds remain remarkably low at the start of the year.

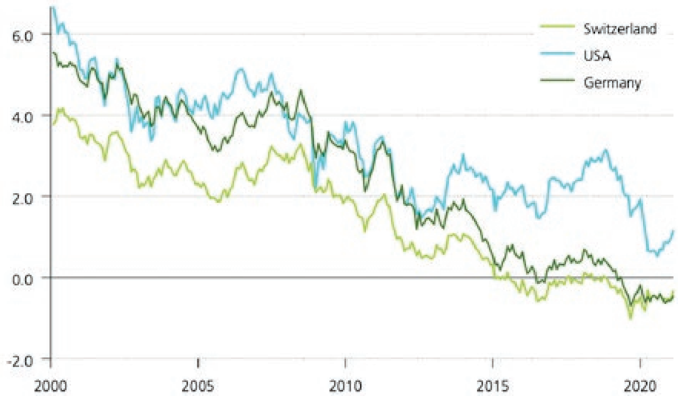
Indexed performance of government bonds in Swiss francs
100 = 01.01.2021



Joe Biden's plans for a third stimulus package worth 1.9 billion US dollars are giving investors hope of further upward impetus for US economic growth. As a result, the implicit inflation forecasts on the bond market recently climbed well above the five-year average of 1.8 percent, and a slight rise in interest rates could not be prevented, despite further strong interventions from the US Federal Reserve. From a Swiss investor's perspective, this led to a yield loss of just under 2 percent on 10-year US bonds. Losses were also recorded on Swiss and German bonds, falling 2 and 1.5 percent respectively since the start of the year.

Source: SIX, Bloomberg Barclays

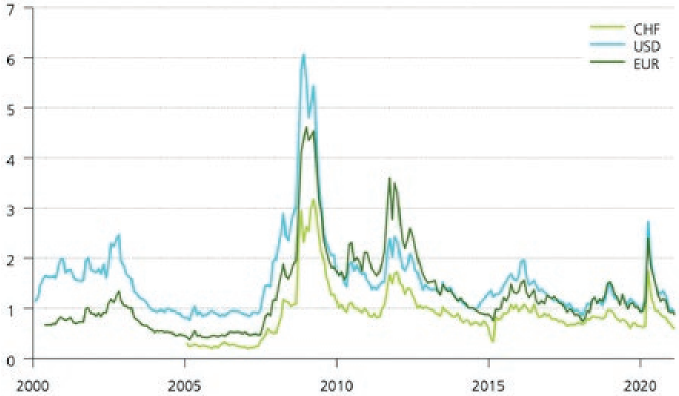
Trend in 10-year yields to maturity
In percent



Higher inflation forecasts resulted in greater yields on government bonds, particularly in the USA and UK. While yields to maturity on 10-year US bonds remain at just above 1.1 percent, long-term bonds with a 30-year term generated a yield of 2 percent once again. There was also a sharp upturn in yield on UK bonds, which have risen by almost 40 basis points since the start of the year, to just under 0.5 percent. Italy is bucking this trend. After a government crisis in January, it seems to have found a solution – at least for the time being – with a unity government led by the former ECB President Mario Draghi. The yield to maturity on Italian 10-year bonds quickly fell to below 0.5 percent.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



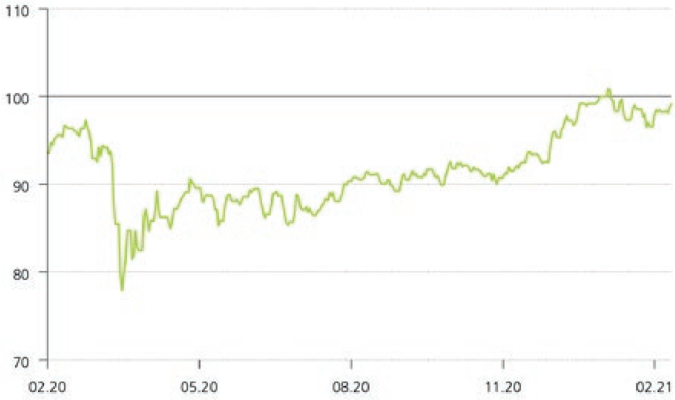
The positive mood on the market is clearly reflected by the credit spreads on corporate bonds. These spreads narrowed further in February, as investors seeking returns are differentiating less and less based on the risk profile of investments. A spread of less than 1 percent is currently being demanded on the market for US and German corporate bonds. The risk is deemed even lower for Swiss companies. The decisive factor behind this is the pledge to continue pursuing expansive monetary and fiscal policies.

Source: Bloomberg Barclays

Market overview
Swiss real estate investments

After a slight correction in January, the performance of Swiss real estate investments has stabilized again. However, the asset class remains overvalued.

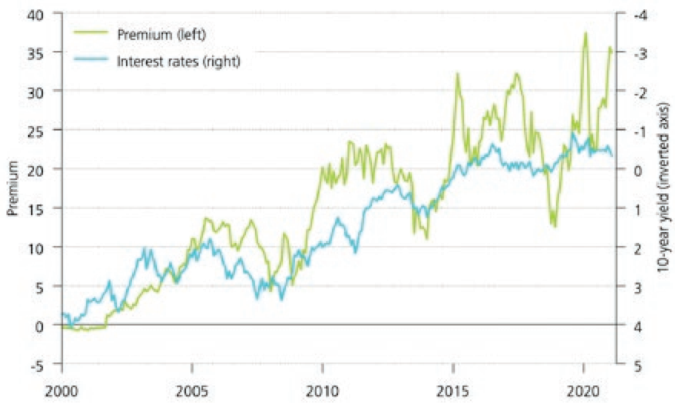
Indexed performance of Swiss real estate funds
100 = 01.01.2021



After a very strong 2020 with an impressive year-end rally, there was a turn in momentum in January and an initial correction in indexed Swiss real estate investments. Prices briefly fell by 2 percent, but have since stabilized again and are currently standing at slightly below their year-opening level. The ongoing lockdown in Switzerland and related uncertainty over the future outlook may have been a factor in the minor correction.

Source: SIX

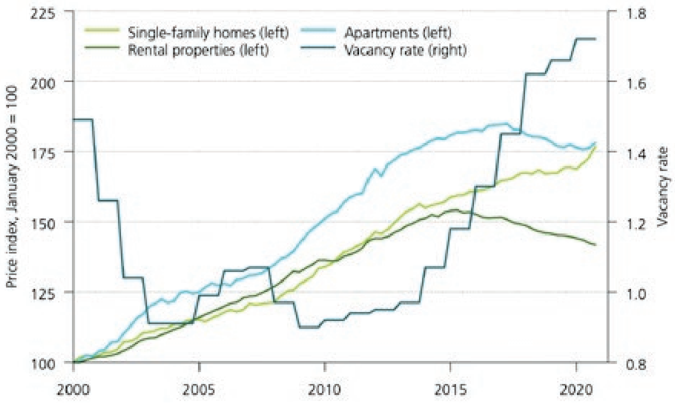
Premium on Swiss real estate funds and 10-year yields to maturity
In percent



After the year-end rally pushed premiums on indexed Swiss real estate funds to new record levels of 35 percent on average, this trend came to an end in January. However, premiums still remain high. Only in March last year were they higher for a short time. As the ten-year yield is up slightly since the start of the year, the premiums being demanded still lie above the fair value. With this valuation level, a fall in prices would not be a surprise.

Source: SIX

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



Switzerland entered the New Year in an ongoing lockdown. To cushion financial losses in business, the city of Zurich has agreed support worth 20 million Swiss francs to help with rental payments. Based on the city of Basel's three thirds model, the city of Zurich is paying a third of the rent of businesses affected, provided a reduction in rent of at least two thirds has been agreed with the landlord. This aims to prevent businesses, which have been forced to close due to coronavirus restrictions or have suffered significant declines in revenue, from going bankrupt.

Source: SNB, BfS

Market overview
Currencies

The US dollar's downward trend has come to a halt for the time being, and the currency has even gained slightly since the start of the year. However, exchange rates are stable overall.

The US dollar's downward trend has come to a halt since the start of the year, and it has even made slight gains. The losers include emerging market currencies. For example, the Brazilian real and South Korean won recorded losses of 3 and 2 percent respectively against the US dollar. The highly encouraging economic recovery in China has seen the value of the renminbi appreciate. This is trading at just under 6.5 against the US dollar. Pound sterling also rose in value, but is at the bottom end of the neutral range against the Swiss franc. Valuations on the currency market have recently been subdued overall.

Currency pair	Price	PPP[1]	Neutral area[2]	Valuation
EUR/CHF	1.08	1.18	1.09–1.26	Euro undervalued
USD/CHF	0.89	0.92	0.80–1.03	USD neutral
GBP/CHF	1.23	1.43	1.23–1.63	Pound undervalued
JPY/CHF[3]	0.85	1.06	0.89–1.22	Yen undervalued
SEK/CHF[3]	10.70	12.32	11.11–13.53	Krona undervalued
NOK/CHF[3]	10.50	12.85	11.47–14.23	Krona undervalued
EUR/USD	1.21	1.28	1.11–1.45	Euro neutral
USD/JPY	104.76	86.72	71.29–102.15	Yen undervalued
USD/CNY	6.46	6.38	6.13–6.63	Renminbi neutral

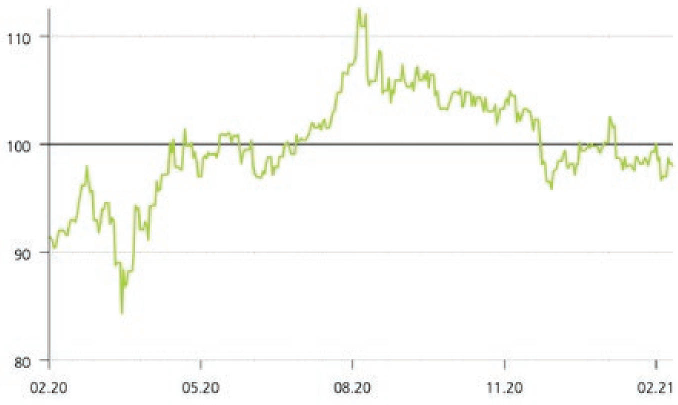
1 Purchasing power parity. This metric calculates an exchange rate using relative inflation rates.
2 Range of historically normal fluctuations.
3 Francs per 100 Yen or Krona.

Source: Web Financial Group

Gold

There is little demand for gold, due to the greater risk appetite amongst investors at the moment. The precious metal's value fell again.

Indexed performance of gold in Swiss francs
100 = 01.01.2021



The value of gold has fallen again slightly since the start of the year. In light of the euphoric mood on the markets, this comes as little surprise, as the precious metal is seen as a safe-haven investment during crises. The price per troy ounce currently stands at around 1,820 US dollars. In contrast, silver has been making headlines recently, briefly climbing to 29 US dollars per troy ounce after being targeted speculatively by retail investors.

Source: Web Financial Group

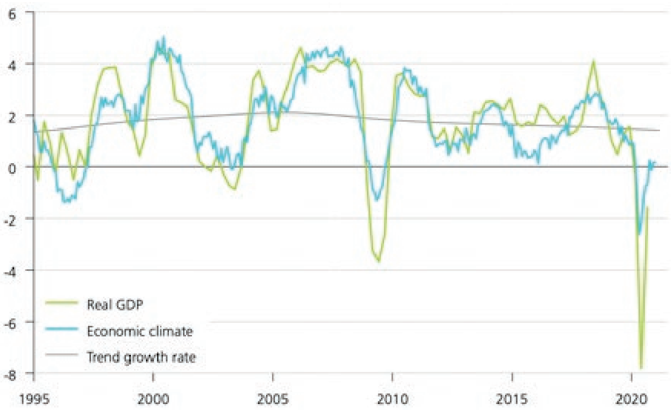
Economy

Shift in consumption, rather than abstention from consumption

The current growth figures are surprisingly robust. In contrast to the first lockdown, consumers are not putting aside any money not spent due to restrictions, but are spending it in areas where they still can. This is benefiting economic development.

Switzerland

Growth, sentiment and trend
In percent



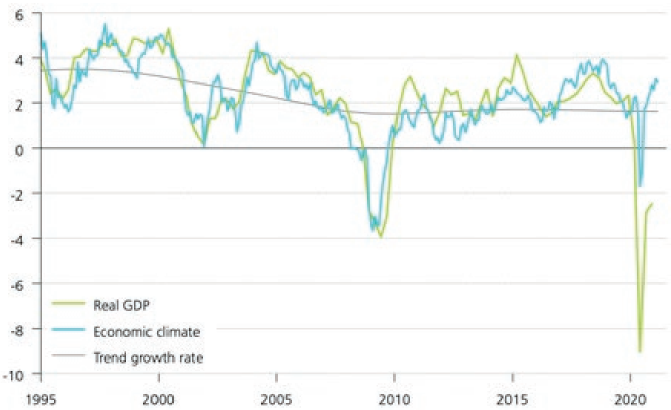
Source: Bloomberg

Last March, few people would have predicted that 2020 would be a successful financial year for Swiss retail. However, revenues have constantly exceeded the previous year's level since May 2020, more than offsetting the slump during the first lockdown across all sectors. Business over the festive period was also brisk – revenues in December were up by almost 5 percent on 2019 figures. As industry is also on the path to recovery and is barely affected by the new restrictions, the economic downturn in 2020 is less drastic than originally feared, at around –3 percent.

The services sector is currently being hit by the new restrictions. In light of last year's figures, however, there is a good chance of strong catch-up effects this year, once the restrictive measures have been lifted.

USA

Growth, sentiment and trend
In percemt



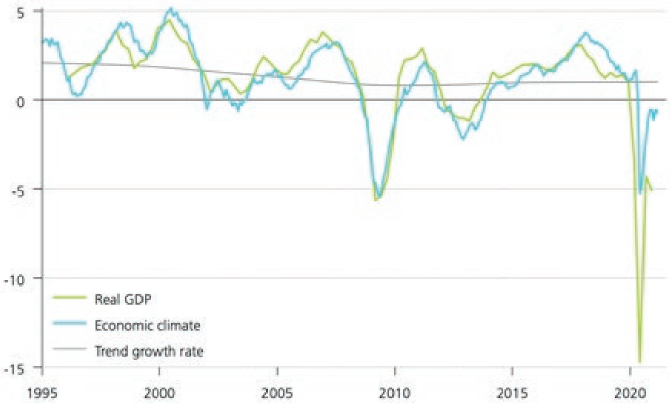
Source: Bloomberg

From an economic perspective, the USA fared much better than the eurozone in 2020 (–3.5 percent vs –7.2 percent). No new lockdown was imposed towards the end of the year, allowing the economic recovery to continue. The situation on the labour market is less encouraging. Around 10 million people remain unemployed – particularly in the low-wage sector. There is currently no rapid improvement in sight on the labour market.

However, the economic recovery looks set to continue for the time being. President Biden is planning another large-scale stimulus package worth 1.9 billion US dollars, including direct payments of up to 1,400 US dollars per person. The package would provide the third direct payment since the start of the crisis and may lend fresh impetus to consumption, despite the challenging situation on the labour market.

Eurozone

Growth, sentiment and trend
In percemt



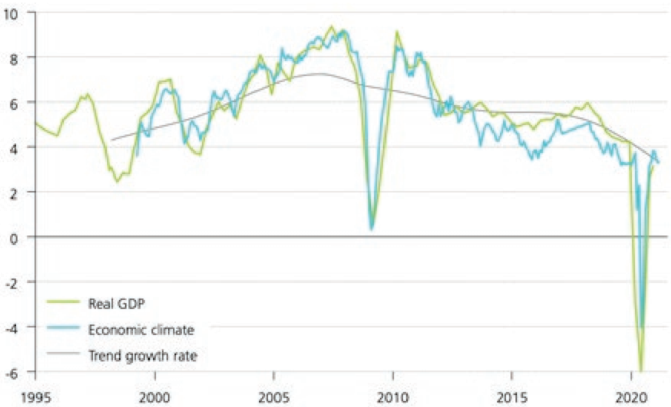
Source: Bloomberg

Across the eurozone as a whole, economic output fell by 0.7 percent in the fourth quarter 2020. The steepest downturn was recorded in Austria (–4.7 percent), where the absence of winter tourism had a major impact. The large nations of Italy (–2 percent), France (–1.3 percent) and Germany (+0.1 percent) fared better than expected in light of the circumstances.

In contrast to the USA, further decline in economic output is anticipated in the eurozone in the first quarter before the recovery can continue. This is due to ongoing strict coronavirus measures. The mood in industry is more upbeat. Markit's sentiment indicator is close to a three-year high, at 54.8 points. Industrial production and exports returned almost to the previous year's level, coming in at –0.1 percent and –1 percent respectively.

Emerging markets

Growth, sentiment and trend
In percemt



Source: Bloomberg

China achieved impressive growth rates last year in spite of coronavirus. In the fourth quarter, growth stood at 6.5 percent year-on-year – according to official figures, at least. Containment measures in response to local virus outbreaks saw the leading indicators for both industry and the services sector fall quite sharply over the past two months. The Chinese New Year celebrations were also held under very different conditions from usual – Beijing discouraged citizens from travelling home to see family. This illustrates that the situation has not completely returned to normal, even in China.

India, meanwhile, can expect a strong recovery this year. After being severely hit by coronavirus last year, this year's growth forecasts for India are higher than in most other industrial countries and emerging markets. Central government announced generous fiscal measures, and sentiment in industry is optimistic.

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y[1] 2020Q2	–1.6%	–2.8%	–4.3%	–8.7%	–5.8%	–7.5%	–3.9%	4.9%
GDP Y/Y[1] 2020Q3	n. a.	–2.5%	–5.1%	–7.8%	–1.2%	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%	4.2%
Inflation	–0.5%	1.4%	0.9%	0.6%	–1.2%	4.1%	4.6%	–0.3%
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

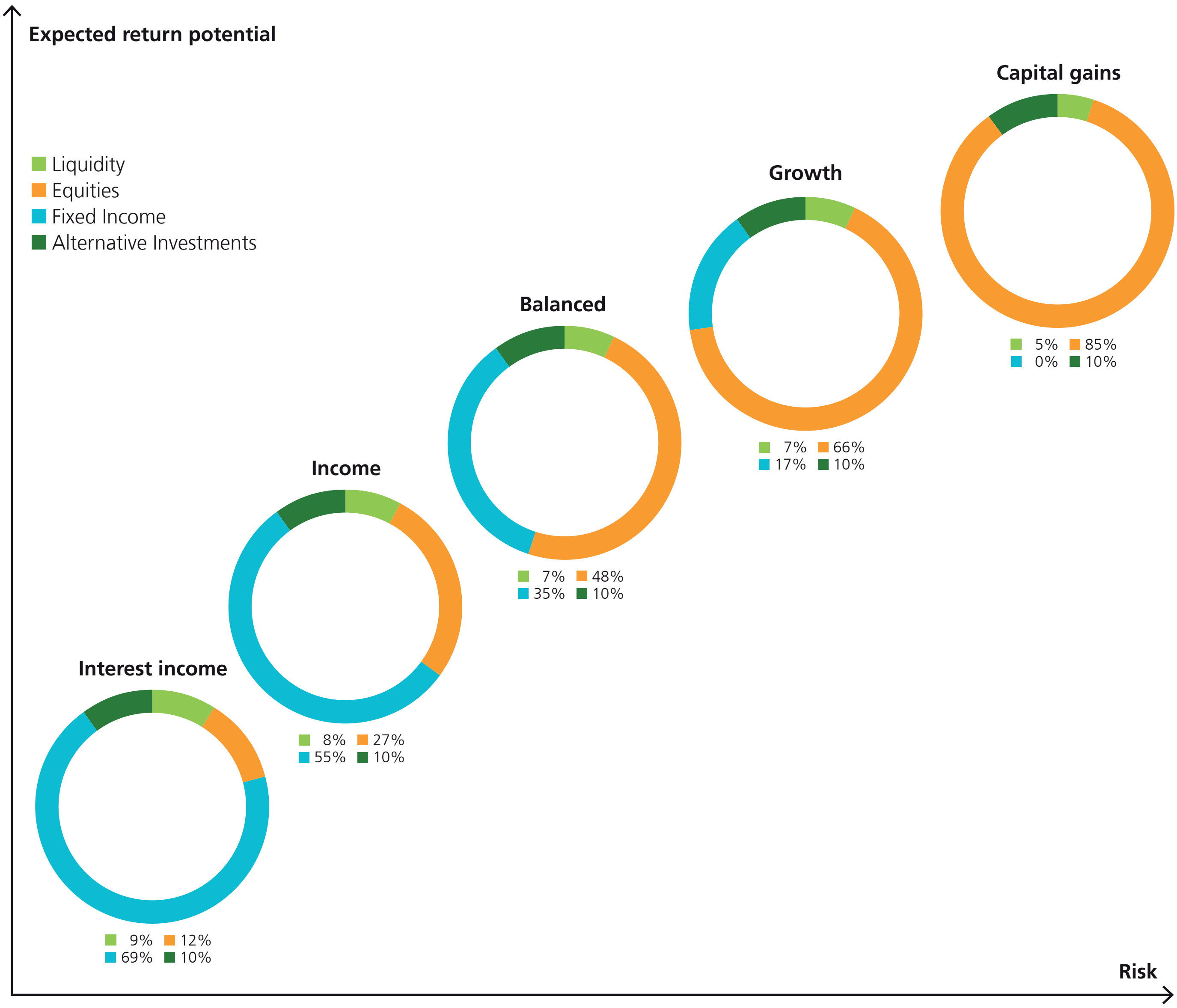
Model portfolios Swiss focus

Rising economy puts bonds under pressure

Supported by an - in view of the difficult circumstances - surprisingly robust economy, the financial markets have recently shown renewed optimism. Speculative excesses in individual equities are making news. We are maintaining our neutral equity quota and minimising the risk by investing diversified in hundreds of stocks in the portfolios we manage.

In the US, the government is providing additional support with new aid packages. Companies are exceptionally optimistic. With its flexible economy, the US seems well positioned for recovery. Accordingly, we are positioning our portfolios with an increased US focus in equity investments at the expense of European equities.

With the purchase of inflation-linked bonds in spring 2020, we had geared our portfolios to inflation expectations rising. This is exactly what has happened. We are now unwinding this position. With the economy picking up, it is to be expected that central banks will be more cautious and bond prices could therefore come under pressure. We are therefore positioning the portfolios with an underweight in bonds.



Source: PostFinance Ltd

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