PostFinance investment compass April 2021

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Editorial

Making money with real estate

Real estate investments are a good option for small-scale investors. But they are not without risk. For this reason, the usual principles also apply to real estate: a long-term horizon and diversified portfolio pay off.

Daniel Mewes
Chief Investment Officer

Living space is a fundamental human requirement. Long before the coronavirus pandemic, it was clear that where and how you live have a major impact on your quality of life.

From an economic perspective, few things are as secure and sustainable as demand for living space. And where demand exists, there's also money to be earned – which is why investors should also consider the real estate market.

It is a very unusual market, however. First and foremost, this is because living space is a very personal matter. Earning money from it is not always top priority. For example, there are various co-operatives that do not generate any return, but instead provide discounted rents.

The real estate market is not exclusively for major investors

Real estate is also special because each property is unique. Shares make exchange-listed companies easy to trade, but this is not the case with real estate. Valuing an individual property is a complex process. For many people, investment in entire properties or in their own home is beyond their financial means.

Despite this, returns can still be generated on the real estate market. The real estate market does not have to be exclusively for major investors. It's also worth investing small amounts to purchase real estate fund units. Many of these funds are exchange-listed, which means that their units can be bought and sold on a daily basis. However, their prices are not a one-to-one reflection of the prices of the real estate purchased by the fund. This would not actually be feasible, as the price of the real estate itself is estimated by experts only at lengthy intervals. The difference between the price of the fund and that of the real estate is known as a premium – we'll come back to that.

A long-term approach and diversification

Real estate investments are not without risk. Property prices will not necessarily always go up. There is also currently uncertainty as to how the market will develop in future. The coronavirus crisis may result in greater value being placed on living space in the long term, which could increase the demand for residential property. Conversely, employers are cutting back on office space due to the trend towards working from home, which may have an adverse impact on commercial property prices. The low interest rate policy is also leading to a constant increase in the supply of real estate and a rise in vacancy rates. It is difficult to predict how these changes will impact on supply and demand.

«We regard a sharp rise in premiums as a sign that a more cautious approach is required.»

This means that, as in other asset classes, adopting a long-term perspective is the best approach when it comes to real estate. Investors should not focus primarily on short-term fluctuations, but instead on the fact that living and working space play a key role in society. For this reason, real estate funds are a key element in the portfolios that we manage. This enables our customers to benefit from long-term developments on the real estate market, while ensuring phases of weak performance are withstood thanks to diversification with other asset classes.

In the investment committee, we also evaluate the premiums – in other words, whether the valuations of real estate funds diverge too far from those of the properties managed by the fund. We regard a sharp rise in premiums as a sign that a more cautious approach is required. Premiums have recently reached record highs that are barely sustainable, leading us to realize gains and give the asset class an underweighted position in our portfolios for the time being.

Positioning

Realizing gains on real estate investments

The markets seem to have factored in the end of the pandemic to a large extent. This means that neutral equity market positioning and the realization of gains on listed real estate funds is advisable.

The financial markets have been focusing on the end of the coronavirus pandemic over the past six months. The markets have been anticipating that fears over the pandemic will subside and that everyday life will finally return to normal for consumers and producers. The economic data not only confirmed these expectations, but regularly exceeded them.

As a result, the prices of growth-sensitive assets – such as equities, commodities and corporate bonds – have risen sharply over recent months. In contrast, defensive assets – gold, secure bonds and the Swiss franc – have tumbled in value. Defensive assets usually rise in value when investors are anxious and equity prices begin to falter.

New driving forces sought

The strong impetus produced by the prospect of the pandemic coming to an end now appears to be slowly petering out. Prices generally seem to have factored in a return to normality. The strong business figures for the first quarter of 2021 do not come as a surprise anymore. Equities have no longer been attractively priced for some time. With few exceptions, the prices of all the major leading indexes have recovered to pre-coronavirus levels. New record highs were reached in many places over recent weeks – including in Switzerland. The broad-based Swiss Performance Index (SPI) exceeded the 14,000-point mark for the first time in April.

«It is as though stock markets are playing tug of war during these market phases.»

New driving forces will emerge on the stock markets over the coming weeks and months. It is as though stock markets are playing tug of war during these market phases: forces are pulling on both sides, sometimes no clear trend emerges and there are rapid and frequent changes of direction. Experience shows that the best approach during such market phases is to stick to your strategy and not assume any major risks.

Performance of asset classes

Asset class		**1M in CHF**	**YTD[1] in CHF**	**1M in LCY[2]**	**YTD[1] in LCY[2]**
Currencies	EUR	–0.3%	2.1%	–0.3%	2.1%
	USD	–0.6%	4.2%	–0.6%	4.2%
	JPY	–0.2%	–1.0%	–0.2%	–1.0%
Equities	Switzerland	4.6%	7.3%	4.6%	7.3%
	World	3.8%	14.7%	4.4%	10.1%
	USA	4.5%	15.6%	5.1%	10.9%
	Eurozone	3.6%	13.4%	3.9%	11.1%
	United Kingdom	2.5%	15.1%	4.0%	9.5%
	Japan	0.2%	8.1%	0.4%	9.1%
	Emerging markets	–0.4%	8.7%	0.2%	4.3%
Fixed Income	Switzerland	0.0%	–1.1%	0.0%	–1.1%
	World	0.0%	0.9%	0.6%	–3.1%
	Emerging markets	1.5%	1.1%	2.1%	–3.0%
Alternative Investments	Swiss real estate	4.7%	3.8%	4.7%	3.8%
	Gold	1.3%	–3.0%	1.9%	–6.9%

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

Data as of 15.04.2021
Source: Web Financial Group, MSCI, SIX, Bloomberg Barclays, J.P.Morgan

This is why we are maintaining neutral equity market positioning. Our regional preferences for equities also remain unchanged. In our view, US and UK equities offer greater potential for gains than Japanese and European securities over the short term. We believe we can build on the gains this positioning has produced over recent weeks.

Prices of real estate investments reach record highs

In contrast, we are realizing the gains made on Swiss real estate investments. In light of rapid price rises over recent weeks, we are reducing the weighting in the portfolios entrusted to us to below the strategy allocation. Prices of listed real estate funds have risen by around 7 percent in less than a month. That is more than the average annual return yielded by this asset class. The premiums indicate how high the prices now are. Owing to easy tradeability, investors usually pay a premium for these investments. This means that the prices are normally higher than the value of the properties contained in the fund. Investors are currently paying a premium of 45 percent on average. However, we believe that a premium of only around 30 percent is justified. This means that realizing gains is the best option in our view.

Positioning relative to long term strategy: Swiss focus

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

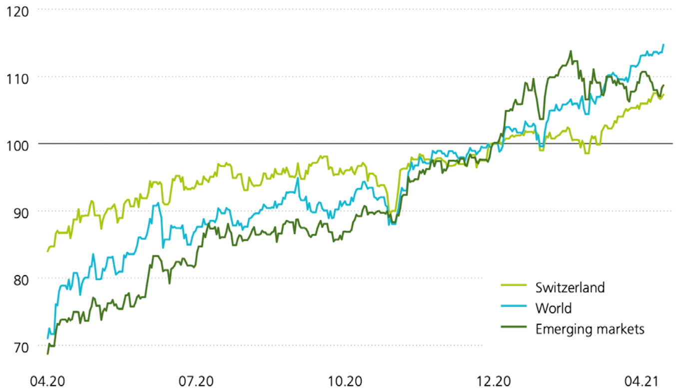
[1] Tactical Asset Allocation: short to mid-term orientation
[2] Currency hedge to CHF
[3] Positioning relative to our long-term asset allocation

☐ Adjustment compared to last month

Market overview
Equities

The Swiss equity market recouped lost ground last month. After a slow start to the New Year, it climbed by almost 3 percent last month. The Chinese equity market, which has been adversely impacted by the new cartel laws, is lagging behind.

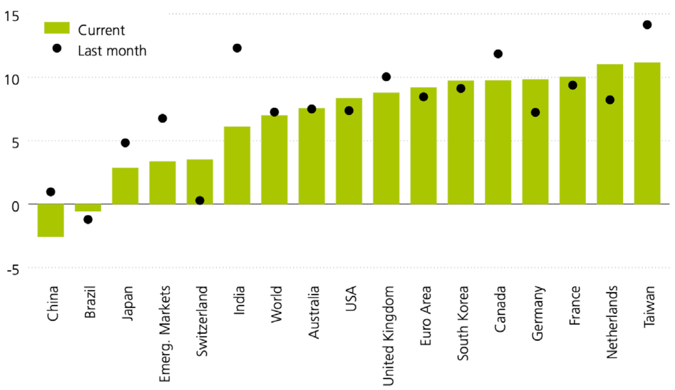
Indexed stock market performance in Swiss francs
100 = 01.01.2021



The upward trend on the international equity markets continued in April. Events with downswing potential – such as the blocking of the Suez Canal, the implosion of the Archegos hedge fund or the revived debate about tax rises in the USA – have been met with a shrug of the shoulders. Prices are currently heading in only one direction – and that's up. The S&P500 recently broke through the 4,000-point mark, and the German DAX equity index also achieved a new record high of over 15,000 points. Australian equities performed equally well and were up by 8 percent last month.

Source: SIX, MSCI

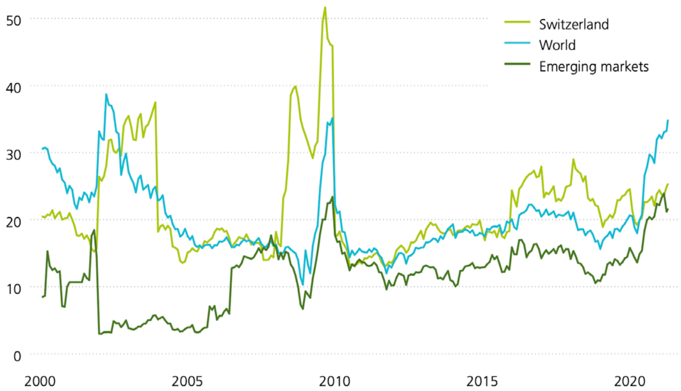
Momentum of individual markets
In percent



Not all equity markets are performing quite so dynamically. Stock exchanges in emerging markets, in particular in India and China, have suffered a sharp downswing. China, which had consistently led the way until mid-February, is now bringing up the rear. Despite a strong economic outlook, investors are showing restraint in light of the government's recent efforts to adopt a more stringent policy on monopolies. Compared to the previous month, momentum on the Swiss equity market has picked up significantly. After a slow start to the New Year, it has now reached its pre-crisis level.

Source: MSCI

Price/earnings ratio
P/E ratio



Equity valuations worldwide are now significantly higher than their pre-crisis levels. The recent slump in emerging market equity prices did nothing to change this. US but also Japanese equities are very expensive measured by their price/earnings (P/E) ratio. Swiss equities, which recovered more slowly, are an exception, and their valuation is low, despite the recent increase of almost 5 percent last month.

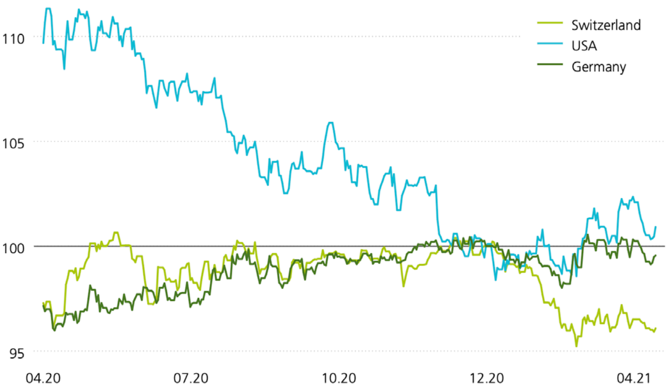
Source: SIX, MSCI

Market overview

Fixed income

The sell-off on the bond markets has come to an end. Interest rates have stabilized at pre-coronavirus levels.

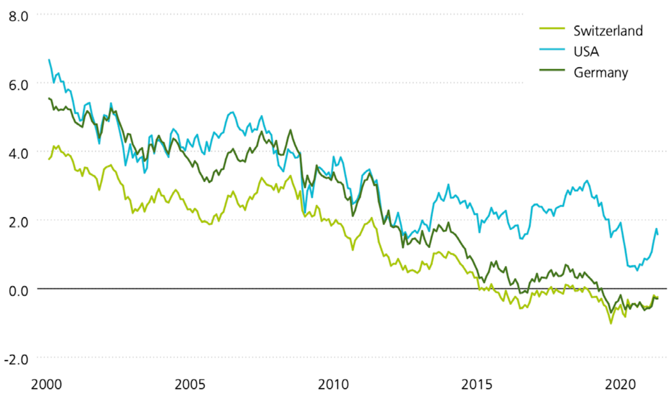
Indexed performance of government bonds in Swiss francs
100 = 01.01.2021



The sell-off on the bond markets since the start of the year has come to an end. Prices have predominantly trended sideways since mid-March. Swiss and German government bonds fell in value last month, whereas US 10-year bonds rose slightly. Jerome Powell, chair of the US Federal Reserve, has reaffirmed several times that he has no plans to increase interest rates in the foreseeable future. The inflation trend currently being observed is primarily due to the strong recovery in the oil price over the course of last year and is not a cause for concern.

Source: SIX, Bloomberg Barclays

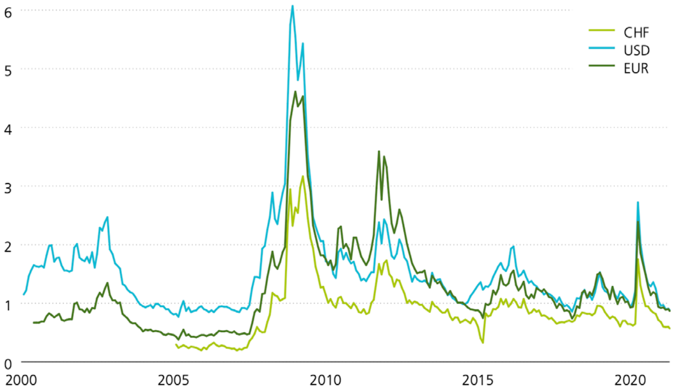
Trend in 10-year yields to maturity
In percent



After rising sharply since the start of the year, yields to maturity have stabilized at a high level. In the USA, they have returned to the pre-crisis level for 10-year government bonds, standing at around 1.60 percent. The interest differential between Swiss and German government bonds has narrowed again recently. Both currently stand at –0.27 percent, which is the pre-pandemic level. In contrast, real interest rates are still below their long-term average. In contrast, real interest rates are still below their long-term average. This means there is upswing potential, but an increase in inflation forecasts cannot be ruled out in the medium term. Both of these factors indicate that there could be further rises in nominal interest rates.

Source: SIX, Bloomberg Barclays

Credit spreads on corporate bonds
In percentage points



The risk appetite among investors has been at pre-crisis levels since the turn of the year. This is clearly reflected in the normalization of the credit spreads on corporate bonds – there is now little differentiation. For higher-quality bonds denominated in EUR or USD, the difference is now less than one percent, while the risk is deemed even lower for Swiss corporate bonds. This trend is also being observed for higher-risk, high-yield bonds. In the USA, they are now lower than a year ago. This normalization may continue for the time being, not least thanks to the generous purchasing programmes by the central banks.

Source: Bloomberg Barclays

Market overview

Swiss real estate investments

The protracted sideways trend for Swiss real estate funds has come to an end. Prices surged in April, rising by 6 percent.

Indexed performance of Swiss real estate funds

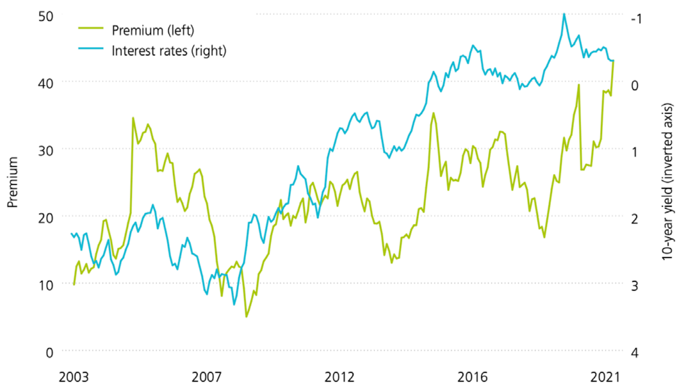
100 = 01.01.2021

After performing impressively in terms of price in the second half of 2020, indexed Swiss real estate funds appeared to be making little headway in the New Year. This changed dramatically in the first week of April. New record highs and an upswing of over 6 percent were achieved in a short space of time. But there has also been strong demand for real estate investments worldwide recently. European real estate investments climbed by 4 percent, while in the US they rose by 2 percent.

Source: SIX

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

In percent

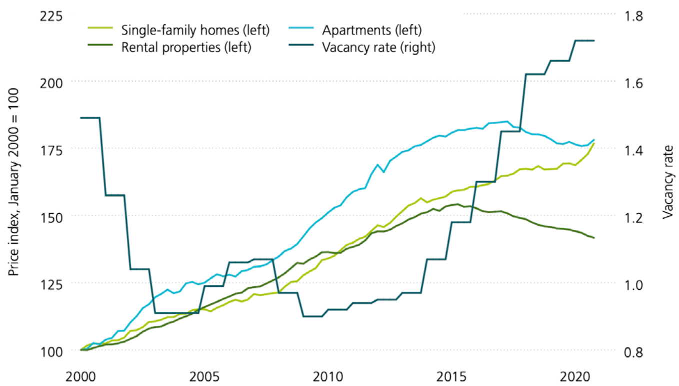


The average premiums achieved on the properties contained in the real estate funds have reached new highs. Rarely before have they diverged as much from their fair value, which is derived from long-term interest. The upturn in prices and the fall in interest rates over recent weeks and months have led to the rise in premiums. On average, premiums of more than 43 percent are currently being demanded.

Source: SIX

Vacancy rate and real estate prices

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



Accommodation has become a higher priority for many people due to the coronavirus crisis. With working from home becoming mandatory and a dramatic reduction in activities available, many people suddenly found themselves spending more time at home than ever before. This not only triggered demand for renovation and home improvements, but also changed living requirements. There is particularly strong demand for space and proximity to nature. Lots of people are moving out of the city into the suburbs. This is also reflected in the weaker price trend of urban real estate compared to more rural property – at 0.6 percent, the inflation rate is at its lowest level for four years. Demand for holiday homes also appears to remain strong.

Source: SNB, BfS

Market overview

Currencies

The Swiss franc has overcome its weakening, and its downward trend came to a halt last month. This was surprising in light of the positive risk environment. In contrast, the US dollar is moving in the opposite direction: while it has performed strongly since the start of the year, momentum ground to a halt in early April.

The good news from the economy and the impressive progress with the global vaccination campaign also had an impact on the currency markets. The Swiss franc has weakened significantly since the start of the year. However, the downward trend came to an end last month. This means it remains at almost a fair valuation on a trade-weighted basis. In contrast, the Japanese yen – another safe-haven currency – continued its downward trajectory unabated. The looming fourth wave of coronavirus in Japan may also be a factor in this trend. The US dollar's momentum has also turned since early April, with the upward trend coming to a halt. Despite this, it remains the most overvalued currency in the world according to our calculations. Some emerging market currencies are currently struggling. Rising COVID-19 case numbers have caused the Indian rupee to fall to its lowest level since July, while the value of the Turkish lira tumbled by over 5 percent last month.

Currency pair	Price	PPP[1]	Neutral area[2]	Valuation
EUR/CHF	1.10	1.15	1.07–1.23	Euro neutral
USD/CHF	0.92	0.88	0.77–0.99	USD neutral
GBP/CHF	1.27	1.41	1.22–1.61	Pound neutral
JPY/CHF[3]	0.85	1.04	0.88–1.20	Yen undervalued
SEK/CHF[3]	10.92	12.07	10.86–13.27	Krona neutral
NOK/CHF[3]	11.01	12.58	11.23–13.93	Krona undervalued
EUR/USD	1.20	1.30	1.13–1.47	Euro neutral
USD/JPY	108.74	84.49	69.38–99.60	Yen undervalued
USD/CNY	6.52	6.31	6.07–6.56	Renminbi neutral

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

Source: Web Financial Group

Gold

Gold has plummeted in value since the start of the year. Due to the strong economic performance and rising interest, its price has plunged by 200 US dollars. The precious metal only recently recovered to a value of 1,750 US dollars per troy ounce.

Indexed performance of gold in Swiss francs
100 = 01.01.2021

After surpassing the mark of 2,000 US dollars last August, the price of gold has been falling. Investors have shown greater risk appetite since the turn of the year and are shunning the precious metal. The price per troy ounce slipped below the mark of 1,700 US dollars twice in March, but has recently recovered slightly. There was renewed demand in India and China recently – both major players on the international gold market.

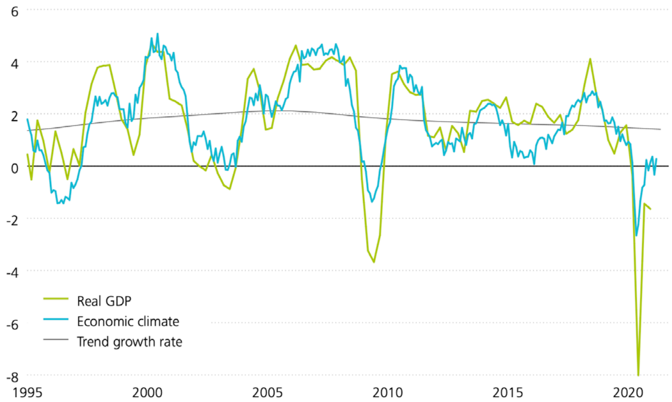
Source: Web Financial Group

Economy
Inflation soars

A year ago, coronavirus caused oil and commodity prices to collapse. Prices and the global economy have both since recovered, which has resulted in a rise in inflation rates year-on-year. Some emerging markets have been forced to raise key rates due to rising inflation.

Switzerland

Growth, sentiment and trend
In percent

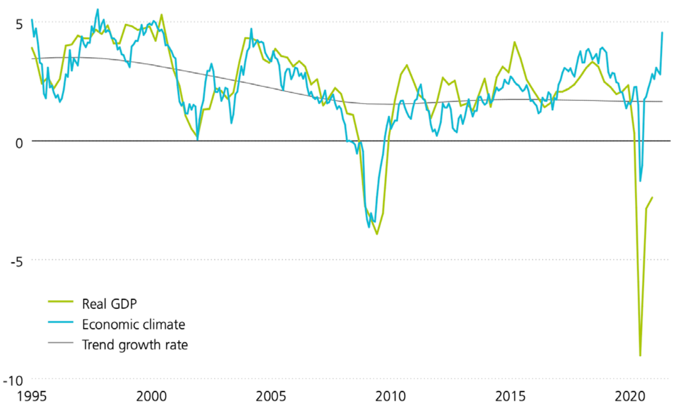


Source: Bloomberg

The Swiss retail sector suffered another sharp decline in revenue in February due to shop closures, falling –6.3 percent compared to the previous year. Shops reopened on 1 March, and significant catch-up effects are anticipated, as happened last year. Thanks to the reopening, economic output in the first quarter will decline less steeply than originally feared. The real-time indicator on weekly economic activity published by SECO points to negative quarterly growth of "just" –0.5 percent in the first quarter. Surprisingly, seasonally-adjusted unemployment fell in March from 3.4 to 3.3 percent. The inflation rate recently stood at –0.2 percent. Although prices are set to rise in the near future, inflation in Switzerland is very low by international comparison.

USA

Growth, sentiment and trend
In percemt



Source: Bloomberg

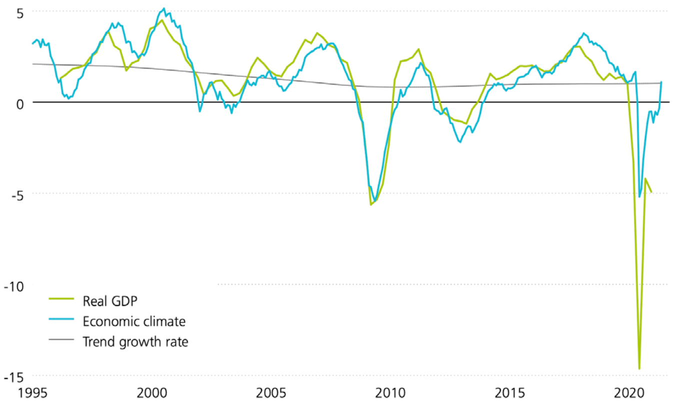
March revenues in the US retail sector were up 9.8 percent on the previous month and reached a new record high. Industrial production exceeded the pre-crisis level, climbing by 1 percent year-on-year. This means that the coronavirus crisis in the USA has largely been overcome from an economic perspective – unlike in Europe.

The outlook is also bright. ISM Manufacturing, which measures sentiment amongst industrial companies, climbed to its highest level since 1983 in March. Only the unemployment figure is still well above the pre-crisis level. However, with almost a million new jobs created in March, the trend also points to recovery in this area. Inflation soared in March, rising from 1.7 to 2.6 percent. Provided that inflation remains above 2 percent temporarily, however, the US Federal Reserve is not expected to raise interest rates.

Eurozone

Growth, sentiment and trend

In percemt



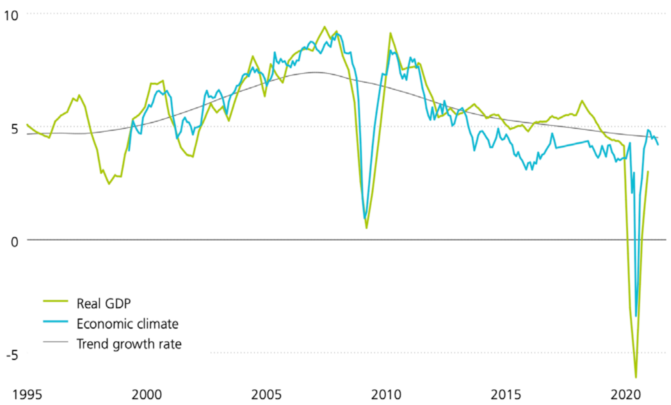
Source: Bloomberg

As in the USA, industry in the eurozone is in a buoyant mood – the indicator reached a 24-year high in March. The situation in the services sector is completely different, however. Owing to fresh lockdown measures, retail revenues in March came in at around 3 percent below the already weak figures for the same month in the prior year. It is also clear that the economies in central and eastern European countries are currently being just as severely affected as their southern European counterparts, which were hit much worse in 2020. For example, retail revenues in March stood at a similarly negative level in Germany (–5.3 percent) and in Italy (–5.6 percent), whereas France's figures were actually in positive territory, at 1.6 percent.

Emerging markets

Growth, sentiment and trend

In percemt



Source: Bloomberg

According to official figures, China's first-quarter economic output was up by 0.6 percent on the previous quarter. Despite strong momentum, China is still not yet building on the high pre-pandemic growth rates. During the first quarter, the Chinese government imposed drastic measures in response to new local outbreaks of coronavirus. The government also advised citizens against travel during the Chinese New Year celebrations. Consumption continues to recover, but has not yet reached pre-coronavirus normality.

In Brazil, where a new variant of the virus is rampant, sentiment has deteriorated significantly in recent times. The index that measures sentiment in industry fell from 58.4 to 52.8 points, while the services sector index slipped from 47.1 to 44.1 points. No impetus is expected from monetary policy, despite the challenging situation. The central bank was compelled to raise the key rate from 2 to 2.75 percent owing to high inflation (most recently 6.1 percent) and a depreciating currency.

Global economic data

Indicator	Switzerland	USA	Eurozone	UK	Japan	India	Brazil	China
GDP Y/Y[1] 2020Q4	–1.6%	–2.4%	–4.9%	–7.3%	–1.4%	0.4%	–1.1%	6.5%
GDP Y/Y[1] 2021Q1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	18.3%
Economic climate[2]	→	↗	→	↗	→	↗	→	↗
Trend growth[3]	1.4%	1.6%	0.9%	1.6%	1.0%	5.0%	1.0%	4.2%
Inflation	–0.2%	2.6%	1.3%	0.4%	–0.4%	5.5%	6.1%	0.4%
Key rates	–0.75%	0.25%	0.00%	0.10%	–0.10%	4.00%	2.75%	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.

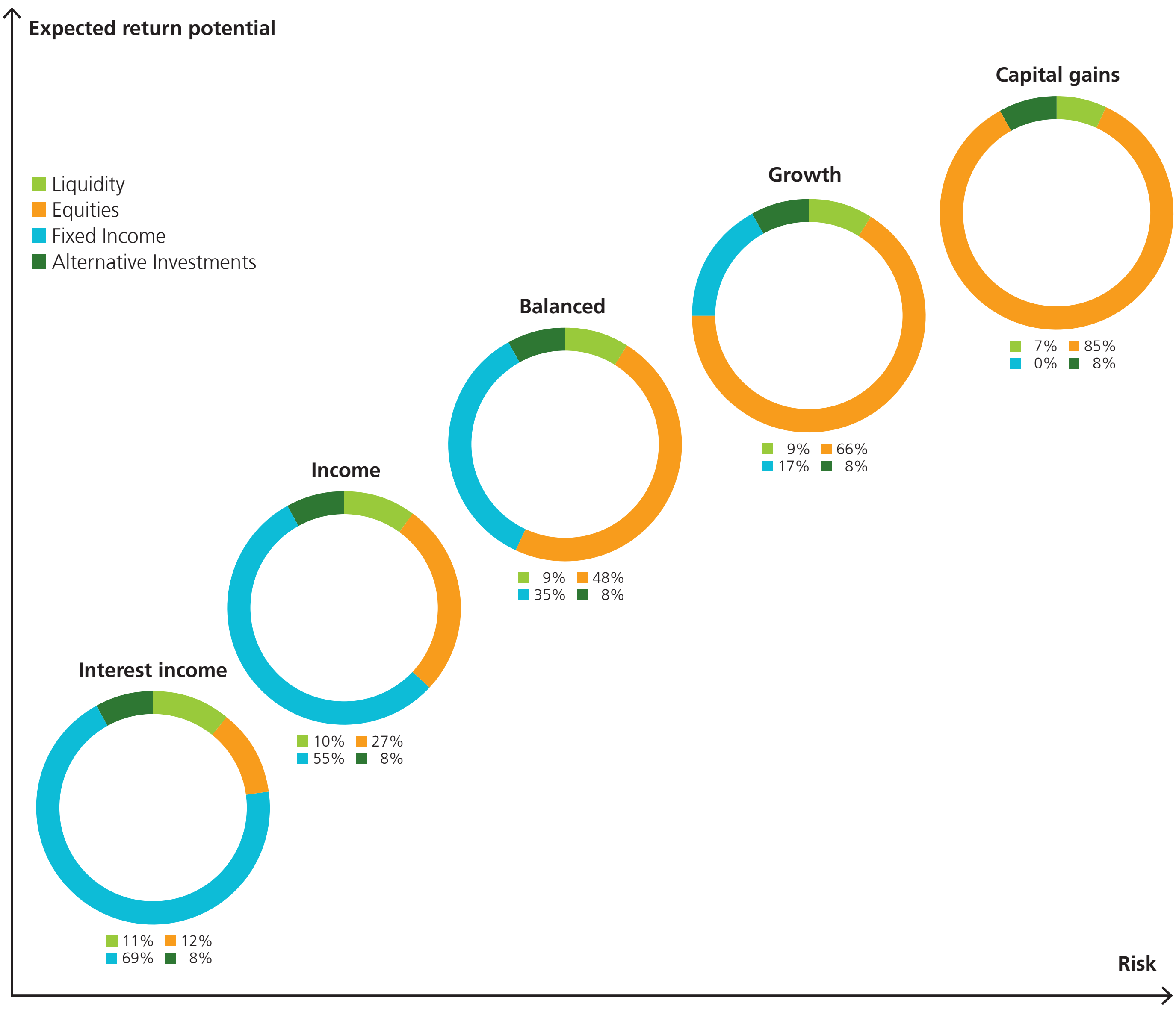
Source: Bloomberg

BILANZ
Best Wealth Managers Switzerland 2021
★★★★★
Excellent Result
Sharpe Ratio 12 Months
Balanced Risk Class
firstfive

Model portfolios Swiss focus

Tactical restraint

The focus of the financial markets in recent months has been on the end of the Corona crisis. Now, however, the imminent end of the Corona crisis seems to be priced in more and more clearly. New drivers will therefore have to emerge on the markets in the coming weeks. In such market phases of reorientation, it is advisable to position oneself close to the investment strategy and to exercise tactical restraint. For this reason, we are maintaining our neutral equity market positioning, whereby we estimate the profit potential in the short term for the American and British markets to be higher than for Japanese and European stocks. At the same time, we recommend taking profits on indexed Swiss real estate investments. These have recently reached new highs.



Source: PostFinance Ltd

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