ETF Portfolio

June 2020

Content:

1. Executive Summary

1.1. Macroeconomic Situation

The Corona-Crisis forced a temporary shutdown of the world economy. The Crisis already shifted to the second stage – stabilization and the so called "90%"-economy. This state will last until about mid 2021, after which the massive fiscal and monetary stimuli will lead to a resumption of growth. The upswing should come on the back of rising inflation rates and slowly rising interest rates, as the economic structure was not too unbalanced, which will lead to quick absorption of the currently unemployed labor force. We expect the next cyclical top in economic activity to arrive around 2023. This will coincide with a top in the stock market in the S&P 500 between 3700 and 4500 Points.

Looking out longer term, later in the 2020ies a stagflationary environment will take hold; this is due to the bond markets that will start to doubt the government's ability to pay back in hard currency. Further, entitlement spending and the unfunded liabilities are set to run through governments' budgets accelerating in the mid-late 2020ies.

1.2. Implication on Asset Prices

Equities – US and Europe	Stocks will be in a broad trading range until mid 2021, thereafter the bull market will lead the S&P 500 to new all time highs. The next cyclical major top could occur in the 2023 timeframe. The US market will outperform Europe in local currency terms due to further growth of the leading technology FAAG/GAFAM stocks. Currency adjusted, European stocks could outperform the S&P500 somewhat due to a falling USD versus the EURO. In the coming stagflationary environment of the mid-late 2020ies, stocks will do well in nominal terms; gains in real terms will be limited.
Equities – Emerging Markets	After almost a decade of underperformance, a favorable environment for emerging market equities could form over the next quarters. We expect an outperformance to start from mid 2021 until the next cyclical top in 2023. Longer term returns on EM equity will be more rewarding than developed markets from current levels.

Precious Metals	The preferred asset class for the next 10-15 years. Medium term Gold should rise slowly further and could reach 2500 to 3000 USD by 2023. The stagflation during the mid-late 2020ies will see it rise towards 10.000 USD. Silver should outperform Gold during this bull market phase.
Real Estate	German real estate is in plateau till mid-late 2021. After that it will fall slowly due to slowly rising interest rates. It could fall by 20% till 2023, before resuming an uptrend due to rising inflation rates. Gains during the stagflationary phase will only be in nominal terms; gains in real terms will be limited. Depending on the region and particular object.
Interest Rates and Bonds	European bonds (corporate and government paper) are of little investment merit currently. In the US short term corporate bonds should be kept; yields around 2% can be collected in ETFs. Interest rates should stay low for the next 12-months. After that they will start to rise gradually towards 3-4% until 2023. This means headwinds to all medium and long duration bond ETFs starting from mid 2021. Longer term, investments in bonds in general carry substantial risks for capital losses in real terms due to the upcoming stagflationary environment.
EUR/USD – exchange rate	We expect the EUR/USD ratio to rise over the next 12 months towards 1.20. The reduced yield differential to the US will drive a lasting upswing. The EURO could reach 1.3 over the next few years.

1.3. Short term Outlook

In the short term, the stock markets and risk assets like high yield bonds seem over stretched. The S&P 500 could suffer a setback to about 2600 Points in the coming months. We foresee a broad trading range between 2600 and 3200 points for the next 12 months until the bull market will resume to new all time highs. Gold seems to be consolidating for the next few months; a cyclical low around 1550 to 1600 USD could be reached in late summer. Investors should temporarily reduce risk assets like stocks and high yield bonds and increase their cash allocations.

2. Exemplary asset allocation for the next few years

Asset allocation for the next months is noted in green, this may change quarter to quarter. The short term allocation will deviate from the general long term allocation to capture short term swings in asset markets in order to reduce risks and get better entry points.

The Conservative Portfolio predominantly aims to preserve capital after tax and after inflation; the timing and weighting of the asset class mix is used to reduce risks. **The Income Portfolio** aims to generate stable income at relatively low to moderate risks; timing and weighting of asset classes is used to mitigate risks and enhance returns; some yield will be temporarily skipped to achieve this, but the total return will be enhanced. **The Growth Portfolio** aims to grow capital at higher rates while keeping risks on a medium level; The asset allocation will be changed more frequently to capture the "risk-on" and "risk-off" swings (bullish and bearish phases) in the asset markets; sector ETFs will be used to generate market-beating returns.

2.1. Asset-Allocation for USD-based investors

	Conservative		Income**		Growth	
Money market funds	**10%**	**50%**	**5%**	**30%**	**5%**	**60%**
Precious Metals	**30%**	**15%**	**20%**	**10%**	**40%**	**10%**
Gold "GLD"	15%	7,5%	10%	5%	15%	5%
Silver "SLV"	15%	7,5%	10%	5%	25%	5%
Bonds	**20%**	**15%**	**25%**	**30%**	**10%**	**20%**
US Investment-Grade Corp.						
short-term "VCSH"	10%	7,5%	5%	15%		10%
med.-long term "LQD"	10%	7,5%	5%	15%		10%
High-Yield Corp. Bonds "HYG"			5%			
EURO High-Yield Corp. Bonds "IHYG"*			5%		10%	
Emerging Market Bonds USD "EMB"			5%			
Real Estate* **	**20%**	**15%**	**25%**	**20%**	**10%**	**5%**
Stocks	**20%**	**5%**	**25%**	**10%**	**40%**	**5%**
S&P 500 "SPY"	10%	2,5%				
Nasdaq "QQQ"					10%	2,5%
Dividend Stocks US "VYM"			12,5%	5%		
European Stocks "VGK"* Emerging Markets "VWO"*	10%	2,5%	12,5%	5%	10%	2,5%
Oil & Gas Sector "XLE"					10%	
Gold Miners ETF "GLD"					10%	

* these ETFs have exposure to foreign currencies and thus may have currency risks. We use this exposure deliberately to enhance USD total returns.

** The basic, longer term allocation in the income portfolio (5% Cash, 25% Bonds, 25% Real Estate, 25% Dividend Stocks, 20% Precious Metals) would result in a current yield of around 2,7%. Given the excellent long term prospects for precious metals, an income investor should allocate to Gold and Silver, even if that lowers the current yield from about 3,3% (allocation without precious metals, about 1/3 Bonds, 1/3 Stocks, 1/3 Real Estate) to 2,7%.
The short-term underweighting of risk assets with higher yields (stocks and high yield bonds) is necessary to protect against the risk of a set-back in the market over the next few months. The current yield of the allocation is therefore at around 1,5% p.a.

*** Real estate investment cannot easily be replicated with ETFs. We highlight the US REIT ETF (Ticker "VNQ") which may be suitable for some investors either who wish to blend this ETF with their direct real estate holdings or who do not want to have direct real estate investments.

2.2. List of ETFs for US investors

Precious Metals:
Gold: SPDR Gold Trust, Ticker "GLD"
Silver: iShares Silver Trust, Ticker "SLV"

Bonds:
USD denominated:
US Investment Grade Corporate Bonds: Vanguard Short-Term Corporate Bond ETF, Ticker "VCSH", distributing, *yield to maturity of underlying bonds, currently: 1,5%, short term bond duration*
US Medium-Long Term Investment Grade Corporates: iShares iBoxx $ Investment Grade Corporate Bond ETF, Ticker "LQD", distributing, *yield to maturity of underlying bonds, currently: 2,3%, medium to long term bond duration*

US High-Yield Corp. Bonds: iShares iBoxx $ High Yield Corporate Bond ETF, Ticker "HYG", distributing, *current distribution yield: 4,6%, yield to maturity of underlying bonds, currently: 6,1%, short to medium bond duration*

Emerging Market Bonds (USD denominated): iShares J.P. Morgan USD Emerging Markets Bond ETF, Ticker "EMB", distributing, *current distribution yield: 4,8%, yield to maturity of underlying bonds, currently: 5,1%, medium to long term bond duration*

Euro denominated:
EU High-Yield Corp. Bonds (Euro denominated): iShares Euro High Yield Corp Bond UCITS ETF, Ticker "IHYG", distributing, *current distribution yield: 4,3%, yield to maturity of underlying bonds, currently: 5,0%, short to medium term bond duration*

Money Market Fund:
Vanguard Federal Money Market Investor, Ticker "VMFXX", *current yield: 0,15%*

Stock ETFs

US stocks:

S&P 500: SPDR S&P 500 ETF, Ticker "SPY"

Dividend Stocks: Vanguard High Dividend Yield ETF, Ticker "VYM", distributing, *current yield: 3,6%,Note: Due to the Corona-Crisis a cut of the dividends for 2020/21 is to be expected, current estimates range between 15 and 30%. The prospective yield may therefore be around 2,5% to 3% for 2020/21.*

Nasdaq 100: Invesco QQQ, Ticker "QQQ"

US sector ETFs:

Energy Sector: Energy Select Sector SPDR Fund, Ticker "XLE"

Gold Mining Sector: VanEck Vectors Gold Miners ETF "GDX"

European Stocks:

Vanguard FTSE Europe ETF, Ticker "VGK", distributing, *current yield: 3,5%,Note: Due to the Corona-Crisis a cut of the dividends for 2020/21 is to be expected, current estimates range between 15 and 30%. The prospective yield may therefore be around 2,5% to 3% for 2020/21.*

Emerging Markets:

Vanguard FTSE Emerging Markets ETF, Ticker „VWO"

Real Estate

US REIT sector ETF: Vanguard Real Estate Index Fund VNQ, *current yield: ~3,5%*

Note: This REIT ETF may offer exposure to the index of exchange traded US REITs. However, investments in such REIT ETFs have different attributes and cannot substitute direct real estate investments. In general, prices of the ETF may fluctuate substantially during periods of market stress (bear markets). This means that there is substantial correlation to the general stock indices, which may or may not be the case with direct real estate investments.

2.3. Asset-Allocation for EURO-based investors

	Conservative		Income**		Growth	
Cash	**10%**	**50%**	**5%**	**30%**	**5%**	**60%**
Bonds	**20%**	**15%**	**25%**	**30%**	**10%**	**20%**
Euro:						
Investment Grade Corp.	10%	10%	5%	15%		10%
High-Yield Euro Bonds	2,5%		7,5%		5%	
USD:						
US Investment-Grade Corp. *				15%		10%
High-Yield US Bonds*			7,5%		2,5%	
Emerging Markets Bonds*	2,5%		5%		2,5%	
Precious Metals	**30%**	**15%**	**20%**	**10%**	**40%**	**10%**
Silver	15%	7,5%	10%	5%	25%	5%
Gold	15%	7,5%	10%	5%	15%	5%
Real Estate* **	**20%**	**15%**	**25%**	**20%**	**10%**	**5%**
Stocks	**20%**	**5%**	**25%**	**10%**	**40%**	**5%**
EuroStoxx 50	15%	5%			10%	2,5%
Dividend Stocks EU			25%	10%		
S&P 500*						
Nasdaq*	5%				10%	2,5%
Emerging Markets*						
Oil&Gas Sector USA					10%	
Gold Miners ETF					10%	

* currently EUR/USD hedged ETFs are used for the coming years due to the expected depreciation of the USD relative to the EURO.

** The basic, longer term allocation in the income portfolio (5% Cash, 25% Bonds, 25% Real Estate, 25% Dividend Stocks, 20% Precious Metals) would result in a current yield of around 2,7%. Given the excellent long term prospects for precious metals, an income investor should allocate to Gold and Silver, even if that lowers the current yield from about 3,3% (allocation without precious metals, about 1/3 Bonds, 1/3 Stocks, 1/3 Real Estate) to 2,7%.
The short-term underweighting of risk assets with higher yields (stocks and high yield bonds) is necessary to protect against the risk of a set-back in the market over the next few months. The current yield of the allocation is therefore at around 1,5% p.a.

*** Real estate investment cannot easily be replicated with ETFs. We highlight the "Xtrackers FTSE EPRA/NAREIT Developed Europe Real Estate UCITS ETF" (ISIN LU0489337690, WKN DBX0F1), which may be suitable for some investors either who wish to blend this ETF with their direct real estate holdings or who do not want to have direct real estate investments. We like to note that German residential real estate is no longer attractive at current levels; in other European countries, there may be better opportunities.

2.4. List of ETFs for European Investors

Precious Metals:

Gold: Xetra-Gold ETC, ISIN: DE000A0S9GB0

Note: only "Xetra-Gold" is considered tax-free for German investors after a holding period of 12 months (other ETFs still might not have such status before the tax authorities)

Silver: WisdomTree Physical Silver, ISIN: DE000A0N62F2

Bonds:

European Bonds:

Investment-Grade Corporate Bonds: iShares Core Euro Corporate Bond UCITS ETF (Dist), distributing, ISIN: IE00B3F81R35, WKN: A0RGEP, *current yield: ~0,9% (yield to maturity of underlying bonds, currently: 1,0%), medium term bond duration*

EU High-Yield Corp. Bonds: SPDR Barclays Euro High Yield Bond UCITS ETF, distributing, ISIN: IE00B6YX5M31, WKN: A1JKSU, *current distribution yield: ~3,6%, (yield to maturity of underlying bonds, currently: 4,8%), medium term duration*

US Bonds:

US Investment Grade Corporate Bonds (hedged to the Euro): UBS ETF (LU) Bloomberg Barclays US Liquid Corporates UCITS ETF (hedged to EUR), reinvesting, ISIN: LU1048317025, WKN: A110Q8 (medium to long term duration), *there are no ETFs with EUR/USD hedged for US Investment Grade Bonds for European investors currently on offer. The Yield to maturity of underlying bonds, currently: 2,2%, medium to long term bond duration*

US High-Yield Corp. Bonds (hedged to the Euro): iShares USD High Yield Corporate Bond UCITS ETF EUR Hedged (Dist), distributing, ISIN: IE00BF3N7102, WKN: A2DUCX, *current yield: 5,5%, (yield to maturity of underlying bonds, currently: 5,6%), short to medium term duration*

Emerging Markets:

Emerging Market Bonds (hedged to the Euro): iShares J.P. Morgan USD EM Bond EUR Hedged UCITS ETF (Dist), distributing, ISIN: IE00B9M6RS56, WKN: A1W0MQ, *current yield: 5,0%, (yield to maturity of underlying bonds, currently: 4,8%), medium term duration*

Stock ETFs

US stocks:

S&P 500: iShares S&P 500 EUR Hedged UCITS ETF (Acc), reinvesting, ISIN: IE00B3ZW0K18, WKN: A1C5E9

US Dividend Stocks: SPDR S&P U.S. Dividend Aristocrats UCITS ETF, EUR Hedged, distributing dividends, ISIN: IE00B979GK47, WKN: A2PFYX, *current dividend yield: ~3,5% Note: Due to the Corona-Crisis a cut of the dividends for 2020/21 is to be expected, current estimates range*

between 15 and 30%. The prospective yield may therefore be around 2,5% to 3% for 2020/21.

Nasdaq 100: Invesco Nasdaq-100 UCITS ETF, EUR Hedged, dividends reinvesting, ISIN: IE00BYVTMS52, WKN: A2DT9V

Sector ETFs:
Energy Sector: Lyxor STOXX Europe 600 Oil & Gas UCITS ETF, dividends reinvesting, ISIN: LU1834988278, WKN: LYX02P

Gold Mining Sector: iShares Gold Producers UCITS ETF, reinvesting, ISIN: IE00B6R52036, WKN: A1JKQJ

European Stocks:

EURO Stoxx 50: iShares Core EURO STOXX 50 UCITS ETF EUR (Acc), reinvesting, ISIN: IE00B53L3W79, WKN: A0YEDJ

European Dividend Stocks: SPDR S&P Euro Dividend Aristocrats UCITS ETF (Dist), distributing, ISIN: IE00B5M1WJ87, WKN: A1JT1B, *current dividend yield: ~3,5%. Note: Due to the Corona-Crisis a cut of the dividends for 2020/21 is to be expected, current estimates range between 15 and 30%. The prospective yield may therefore be around 2,5% to 3% for 2020/21.*

Emerging Markets:
iShares Core MSCI Emerging Markets IMI UCITS ETF (Acc), reinvesting, ISIN: IE00BKM4GZ66, WKN: A111X9

Real Estate
European REIT Sector: iShares European Property Yield UCITS ETF, distributing, ISIN: IE00B0M63284, WKN: A0HGV5, *current dividend yield: 4,8% Note: Due to the Corona-Crisis a cut of the dividends for 2020/21 is to be expected, current estimates range between 15 and 30%. The prospective yield may therefore be around 3,5% to 4% for 2020/21.*

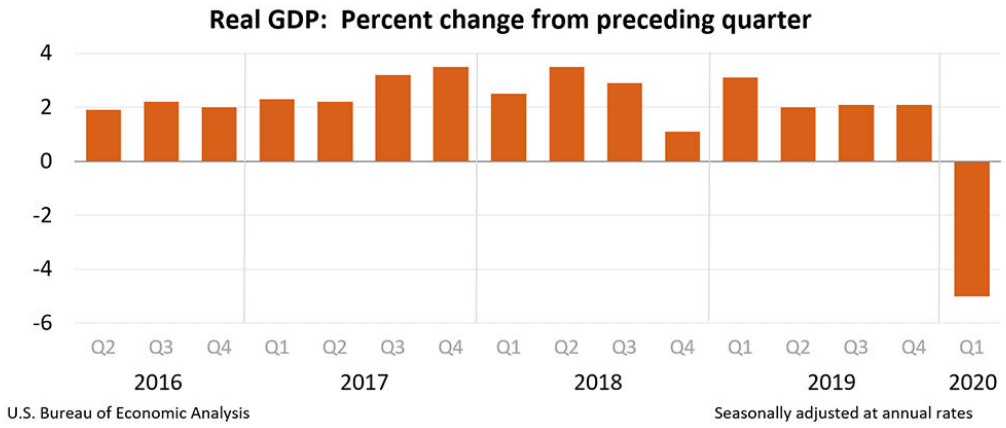
Note: This REIT ETF may offer exposure to the index of exchange traded European REITs. However, investments in such REIT ETFs have different attributes and cannot substitute direct real estate investments. In general, prices of the ETF may fluctuate substantially during periods of market stress (bear markets). This means that there is substantial correlation to the general stock indices, which may or may not be the case with direct real estate investments.

3. Macroeconomic Situation and Outlook for Global Equities

3.1. The Corona-Crash

This long term "Goldilocks cycle" ended abruptly with the politically forced shut-down of the global economy due to the Corona virus Pandemic.

The Corona-Crisis is clearly a meaningful "external shock" to the world economy, which subsequently slowed at record pace since the politically ordered lock-down.



Since the S&P 500 also traded at elevated valuation levels before the Corona shut-down hit, the subsequent fall in the index was very steep; the index fell from its high of close to 3400 Points to a low of about 2200 Points in March, a loss of about 35% in only 5 weeks! The German DAX fell even more, from its high of about 13700 Points to a low of 8000 Points, a fall of 42%.

While the fundamental economic consequences from the Corona Pandemic are severe, the Corona-Crash was a confluence of 3 factors:

- Relatively high valuations to begin with
- a massive change in outlook for corporate profits
- a selling wave amplified by algorithmic trading, Robo-Advisors and the VAR-model

More on the VaR-model can be found here. https://www.investopedia.com/terms/v/var.asp

The common problem of this wide-spread model is the fact, that it does not incorporate any fundamental valuation of the underlying assets and that it is used by so many market participants, which makes the markets much more pro-cyclical than with more diverse financial models.

In the case of the Corona-Crash, it was the automated selling by the VaR-modeled advisors that contributed to the massive selling wave, especially for the last 1/3 of the crash. The model forces to liquidate stocks and "risk assets" if the volatility increases beyond a set threshold, as to "preserve the clients stated financial goals" (i.e. the maximum risk tolerance). This is illogical from a valuation and fundamental risk/reward perspective and is

thus creating misallocation among portfolios. Warren Buffett has called this behavior a welcome source of opportunity.

Astute investors can often take advantage of situations like this, since the fundamental outlook of the underlying securities has not changed by as much as the stock prices. To successfully execute such strategy, investors need to be ready commit for medium to long term periods and need to stomach these phases of higher volatility; by concentrating on the underlying fundamentals, the investor can more objectively assess the potential than by following the markets wild swings.

Once the volatility decreases, the VaR-models once again allow the advisors to participate in the stock market again and the "pressure to make money for the clients" will once again lead them into the market, thus driving asset prices up. This is exactly what happened in April and May, with the strong recovery after the crash.

At the low point, rising insider purchases of shares could be observed and valuations of many shares were relatively low again and the massive fiscal and monetary stimulus that has been announced by governments and central banks around the Globe have backstopped the economy and the financial markets.

3.2. Medium Term economic Outlook

The Corona Pandemic will radically change the economic landscape and asset market trends for the years to come.

While the strong social distancing measures were loosened somewhat as of June 2020, it has to be understood that the Corona-Pandemic can only be fully overcome if:

- a vaccine or an effective medicine has been found
- a sufficient number of the population has contacted the virus and built anti-bodies (so called "herd immunity", which means 60-70% of all the population has contacted the virus)

It has to be noted here, that a "contact with the virus" alone does not necessarily mean that a person has to become sick and show symptoms, as this depends on various factors, that have not been scientifically discovered yet.

As the lock-down measures have meaningfully dampened the spread of the virus, it has to be assumed that neither the herd immunity nor the effective vaccine will be reached by the end of 2020, maybe even in 2021. A current (end of May) antibody-study of citizens in New York City found that only 25% of the population had built antibodies. As New York was rather heavily hit by the Virus, it has to be assumed that the overall population of the US is far below that 25% number.

Therefore it seems most likely that the Virus will not simply "go away" but that there will likely be secondary more local out brakes that could lead to a temporary strengthening of the social distancing measures on a regional basis.

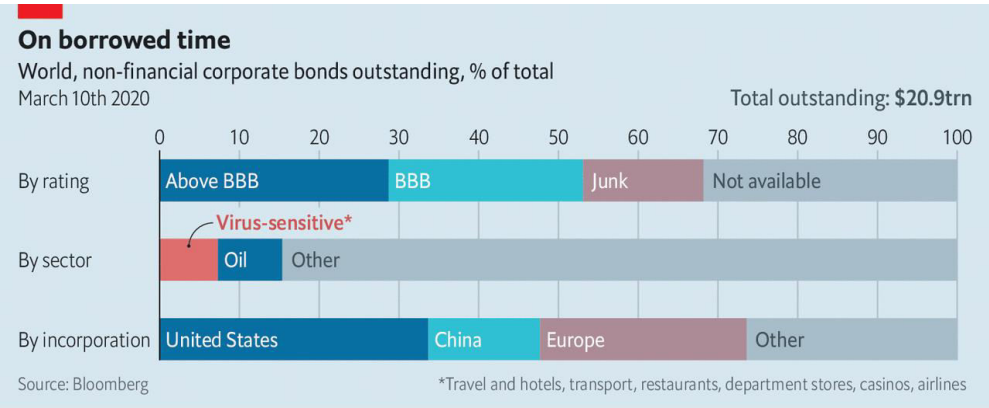
Three stages of the Corona-Recovery

Due to the current situation we forecast a three phase reaction to the Corona-Crisis:

1) Global Lock-Down Phase
2) "90%"-economy Phase, stabilization
3) Resumption of economic growth

As per end of June, we are approaching the second stage of the Corona-Economy. This phase will likely hold for at least until the end of 2020 or even until mid-2021. We expect the stock markets like the S&P500 to trade in a broad sideways range (between 2650 and 3200 Points) until mid-2021.

Given the fact that the ultra-low interest rates implemented by global central banks have fueled a massively high level of corporate indebtedness, we foresee that corporate bankruptcies will be on the rise in the second half of 2020. The stimulus and aids had only some effect of postponing the inevitable for the weakest corporations. While the economic structure was not that unbalanced as prior to the financial crisis of 2008/9, still there is the bubble in debt issuance that may cause some concern for the next quarters.



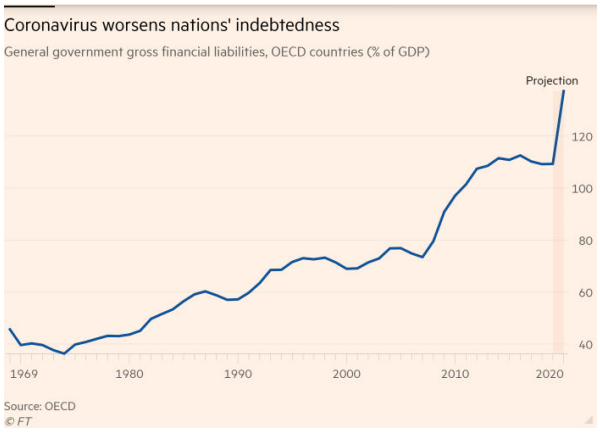
Source: The Economist

Only after this second phase will the lockdown fully reside and the immense monetary and fiscal stimulus will finally find its way into the real economy and restart economic growth. The S&P 500 and the German DAX should then resume its upward trends and reach new all-time highs by 2022 and beyond.

The coming years will be far from smooth from a financial market perspective. The reason for this is that the massive debt load of government and corporate finance that has been accumulated over the last decades – in an environment of constantly falling interest rates – will become very challenging after the Corona Crisis in the years to come.

Simply spoken, the Corona Crisis leads to drastically shrinking tax revenues and corporate profits for 2020 and even 2021. The required bail-outs and programs to restart the economies will require a record amount of bond issuance by governments around the Globe.

Investors should not be soothed too much by the words of politicians and investment banks that give the impression that "it is contained, or the worst is over". This is just their agenda, but not the correct view for the individual investor here!



Source: Financial Times

https://www.ft.com/content/66164bbc-40c7-4d91-a318-a0b4dbe4193e

While Germany and some other stronger countries can still afford this kind of deficit spending, many weaker countries like Italy, Spain, and Greece would likely have been forced to declare a cut to the debt holders, had they not been in the Euro-Area.

Even the US governments' finances are not in stable territory anymore; but the FED and the ECB will fund any shortfall in government revenues by their massive bond buying programs. Such economics have to be clearly dangerous for the honorable savers in the long run – therefore investors should take precautionary measures when investing their hard earned money.

In the current "recovery phase 2", most of this newly printed money will simply be locked inside the financial system, as neither corporations nor the household sector will engage in much spending. With this current state of elevated savings and the central bank interventions, the bond issuances can be financed at ultra-low rates for the next 12 months.

Once the recovery gets into stage 3 however, we are likely to see a gradual rise in bond yields (starting from mid-2021) that should at first be welcomed as a sign of normalization. This should not hinder the equity markets to resume their bull markets, but this is critical for bond investors and the many bond ETFs (see chapter below), because this should sign the end of the multi-decade long bull market in bonds.

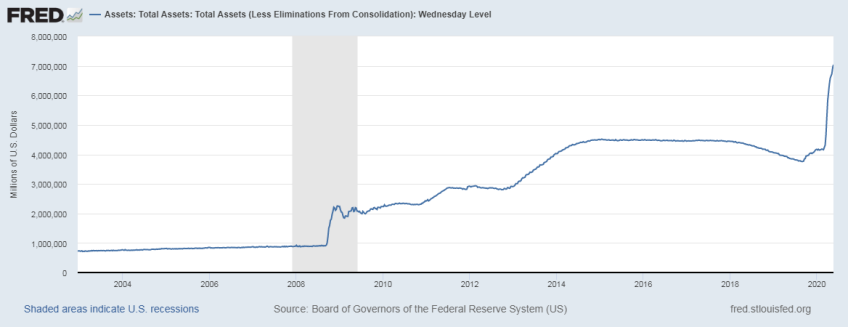
3.3. Medium Term Outlook for Stocks

While the Corona-Shut-down lead to steep falls in the Global Stock indices (S&P 500 down from 3300 to 2200 Points), the subsequent technical recovery was impressively strong, with the S&P 500 rising by 45% and the German DAX rising by 60% from their respective low points.

The current level of 3200 Points in the S&P500 and 12.800 Points in the German DAX are relatively high when compared to typical valuation norms. It has to be remembered that these were levels seen late in 2019 when the outlook for corporate profits was much smoother than currently. On the other hand, interest rates in the US are now even lower than a few months ago and the enormous liquidity injections lend support to stock prices.

The massive stimulus of the FED and the ECB have once again done their "economic miracles" in times of record unemployment and economic crisis – the S&P 500 almost reached to alltime high in midst of the worst economic contraction!

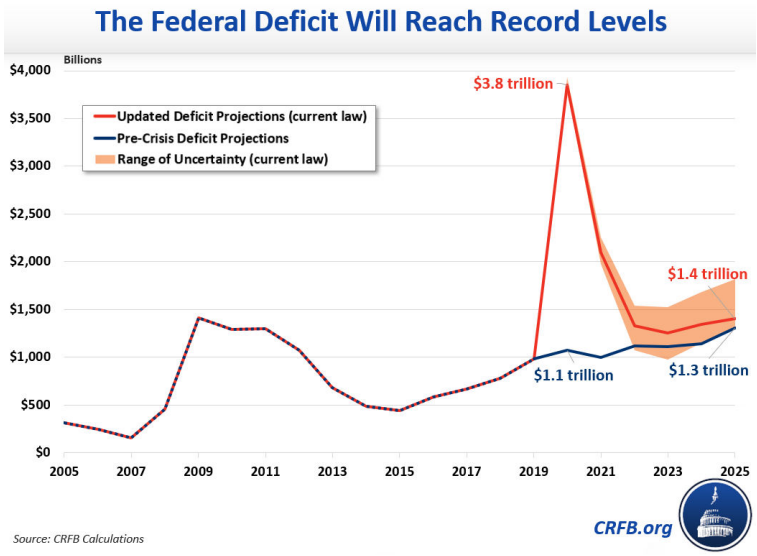
Ballooning Fed Balance Sheet due to Corona:



Source: fred.stlouisfed.org;

However, liquidity alone is not sufficient for continuously rising stock prices, only corporate profits can lead to sustainable bull markets. Printing money is an easy thing – making a real business with real profits quite another. While typically the fiscal and monetary stimulus measures will lead to economic expansion in 9-12 months and the corporate profits will therefore follow and build a base for the stock market, these current high levels will call for caution. The steepest impact on corporate profits will be seen in Q2 and the quarter reports upcoming in July could lead to a correction in the stock market in the summer months. Further, the reacceleration of corporate profits could take longer than current stock price levels imply. It has to be noted here, that the FAANG / GAFAM stocks partly even benefited from the Corona-Shutdown (like Amazon and Netflix); a normalization of the economy would however partly reverse these gains, as people will go more to the shopping malls than buy their goods online. Further, the generally reduced economic spending (due to the unemployment rates) could weigh somewhat on their growth rates.

Impact of the Corona-Crisis on US federal budget deficit:



Due to the strong monetary stimulus, we foresee that any fall back would not reach the old lows again, but that a secondary low in the range of 2600 to 2700 points could be formed.

Likewise we foresee the German DAX to trade sideways in a broad range between 13.000 and 10.500 Points.

Looking ahead for the remainder of 2020 sees the all-important US presidential election in late autumn. With the Democratic candidate Joe Biden leading the current polls by a 10% margin, the election could once again bring increased market uncertainty and volatility. Regardless of the current polls, the US electorate seems to be quite polarized and a win for the Democratic Party would not be so well received by the markets as the Trump victory resulted to be, especially if the Democrats were to take both, Congress and Senate; this could result in an undoing of the corporate tax reforms by the Trump administration.

Due to the large fiscal and especially monetary stimulus in the US, it seems likely that the USD will start to weaken relative to the Euro and emerging market currencies, once the world economy enters Phase 3 (resumption of economic growth). Thus readers should start paying attention to emerging market equities, which have underperformed the developed markets since 2012. We expect to see a start of a new bull market in about mid-2021.

We foresee a whipsawed equity market for the next 12 months. A low point could come in late summer from which the markets could rebound to the upper bound of the channel by the end of the year.

3.4. FAANG / GAFAM Stocks

The impressive performance of this basket of technology stocks (Microsoft, Amazon, Apple, Google, Facebook and Netflix) has driven the outperformance of the S&P500 over the last decade.

Current P/E-multiples of the FAANG stocks:

	Price/earnings ratio
Alphabet (Google)	27x
Amazon	79x
Apple	25x
Facebook	32x
Microsoft	31x
Netflix	76x

Source: Fairfax Financial Holdings, shareholder newsletter 2020

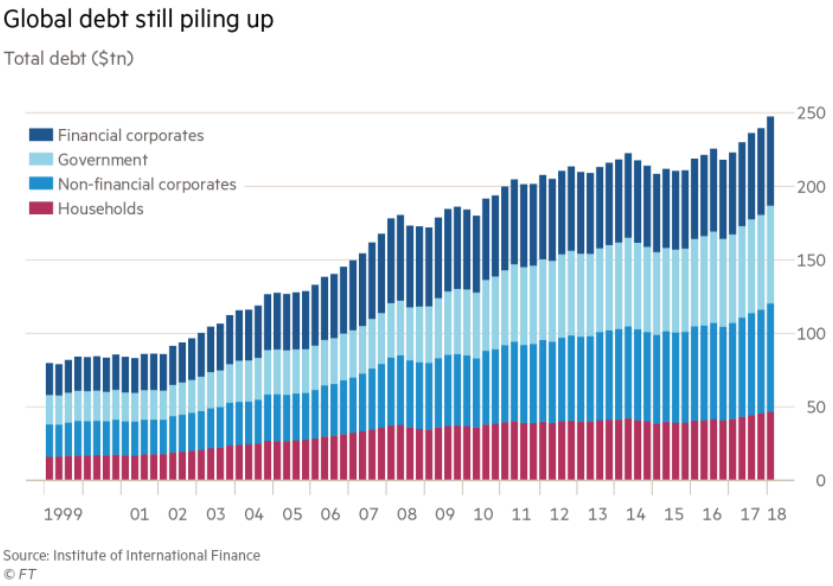
Looking out the next few years, we forecast further outperformance of these leading stocks into the 2023 timeframe, although at a slower pace. The business models and financial strength of these companies is very strong, but due to their sheer size, growth rates will have to moderate in the future.

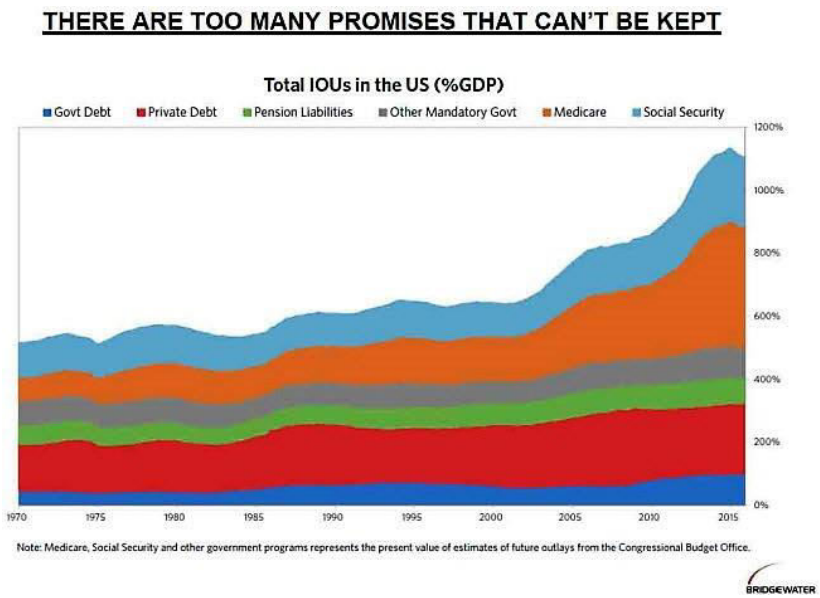
Coupled with the forecast environment of rising inflation and rising interest rates for the 2020ies, we foresee a much more moderate performance for these stocks for the coming decade. There should still be positive real returns possible but the gains will be more in the 3-8% p.a. range. The relatively high P/E ratios could start to contract somewhat once their growth rates slow and interest rates rise.

4. Long Term Outlook

4.1. The economic environment of the 2020ies

Looking out longer term, the picture for stocks is not the best. Politicians and Central Banks around the globe have played the game of lax fiscal and monetary standards far too long and hooked the financial system on enormous debt and pension burdens. No personal household or honest business could get away with such financial disorder for such a sustained time! It is only the fact that the system, especially individuals and sound businesses have accumulated high levels of wealth over the last decades that allowed the bureaucrats to run such misaligned policies.



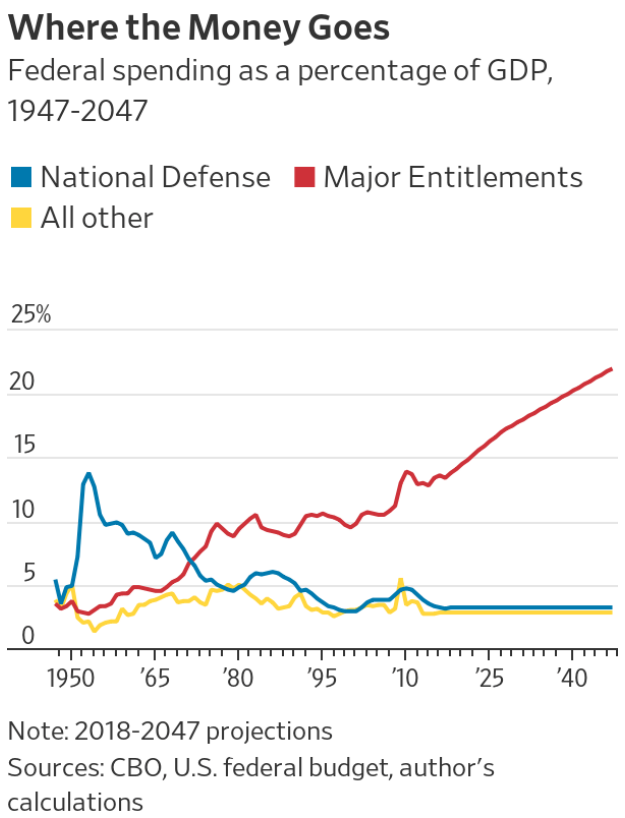


Source: Bridgewater Associates

Note: the charts presented here do not show the impact of the Corona-Crisis. The impact makes the economic picture even worse for the 2020ies.

Yet it is a fallacy to believe that there won't be any severe financial consequences in the long run. It's a shame that is has gone so far off the right path, but since the individual investor has no power to change this situation, there is no choice for us left, but to adapt our investment decisions in the best way possible.

Due to the elevated debt levels around the globe and the large looming pension deficits and Medicare and Medicaid deficits (in the US), which will start rolling through governments balance sheets in the 2020ies, it is our view that equities in general will underperform relative to precious metals.
It has to be noted, that these unfunded liabilities do not show up in official debt statistics yet, as they are paid each year as they come due. But these liabilities are essentially promises to pay pensions or social benefits later on. These liabilities will put increasingly strain on government budgets, accelerating in the mid 2020ies.



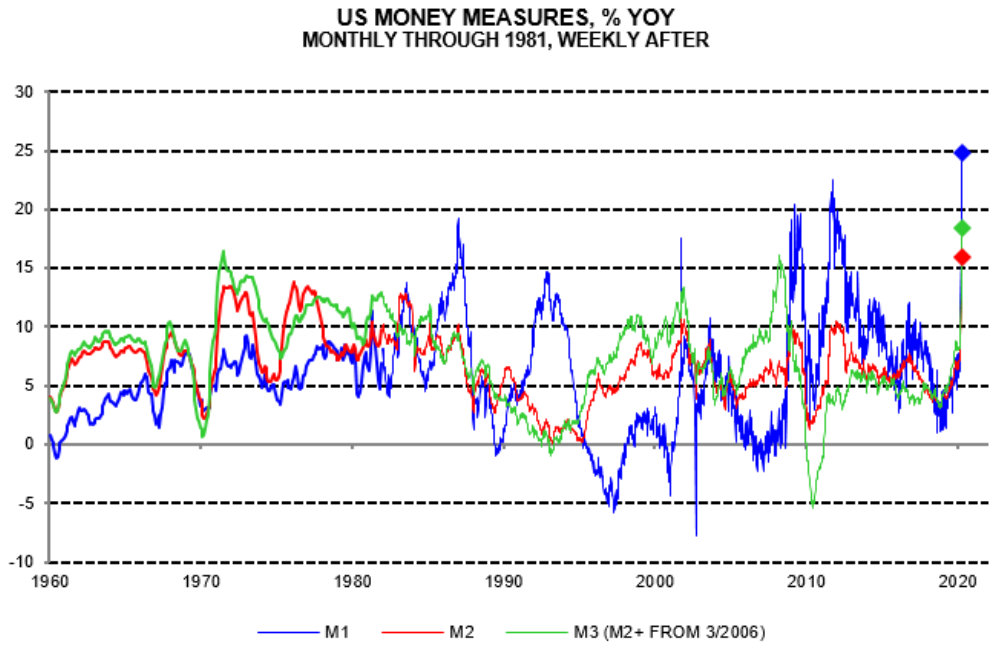
Note: the charts presented here do not show the impact of the Corona-Crisis. The impact makes the economic picture even worse for the 2020ies.

With the democratic political framework in Europe and in the US in place, a substantial cut in these promises seems unlikely, as it would upset the electorate. Furthermore, such cuts, if done too aggressively would impact consumer confidence and spending.

Once the Corona-bail out money starts to circulate in the real economies, it is likely that interest rates will start rising. More importantly, as the Corona-Crisis was an external shock to the economy, it is much likely that unemployment rates will fall more quickly than in a

typical boom/bust recession with more structural imbalances. This means that medium term, starting in 2022/23 inflation rates will start to increase.
It has to be noted here that the current monetary stimulus was the largest since the 70ies – interested readers are referred to our current blog entry "Will the Corona-Crisis lead to Inflation".

Extraordinary US money growth after Corona:



Source: moneymovesmarkets.com

This could spark a feedback loop among wages and also among interest rates, as the FED and the ECB are required to keep refinancing rates down to ensure governments solvency. It is likely that the Central Banks will resort to some form of "Yield curve management", which is a form of financial suppression, whereby the Central Bank will hold long term government refinancing rates below a certain level and buy up any bonds on the market to ensure that level.

Once unemployment rates are starting to fall, it will be very unlikely for Central Banks to take all the money back – because the fear of acting too early and risking rising rates and or a fall back into recession will be very strong. Furthermore, the Corona-Crisis will lead to ballooning state debt that needs to be refinanced at low interest rates.

While the inflation dynamics of the 1970ies with the strong labor union demands where somewhat different to the labor markets today, it has to be noted, that the enormous impact of globalization and the addition of billions of people to the global economies with the opening of China and Asia over the last decades seems to largely have run its deflationary course. The enormous efforts of China since the 1980ies to build a modern capitalist society and the associated infrastructure lead to a flood of manufacturing goods

produced with cheap labor, which depressed global inflation rates especially since the new millennium. As labor costs are rising significantly in many parts of the world as well and as the US administration and now even Europe seeks to bring back key manufacturing into their own economic zones, this offsetting factor is no longer much relevant in the coming decade.

It is even politically welcomed that the gap between the lower incomes and the upper deciles is narrowed and many countries have successfully enacted minimum wages, which did not lead to rising rates of unemployment.

Therefore we strongly forecast a decade of rising inflation rates, which could start around 2022/23 and which will be even welcomed and tolerated at the start. This has profound effects on all asset markets, as the large government debts will need to be refinanced at low interest rates. This could spark a lasting feedback loop where the Central banks will be forced to buy longer term government bonds even among rising inflation rates and the wage inflation cycle could be ignited.

We therefore forecast this inflation will run for several years, up to a decade and that it will only come to an end once

a) Government debts will have declined relative to GDP
b) The electorate will care more about the inflation than about their jobs.

Historically these were inflation rates above 5%, maybe even close to 10% that were high enough that society will have changed course.

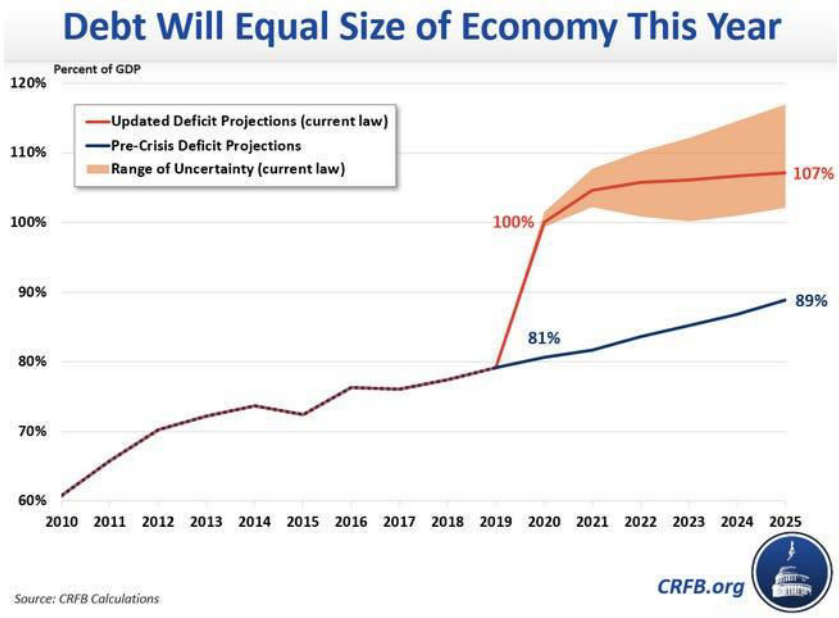
For many readers this will sound unlikely, since currently interest rates and inflation rates have been so low for such a long time, but it has to be clearly seen, that all the central bank intervention will have to give rise to such an outcome eventually. It is just the fact that the Euro-zone and the US are large, rather self-sufficient highly developed economies, a situation that gave these Central Banks such a large leeway to print these staggering amounts of money without immediate effects on the purchasing power of the currency. However, while the Central Banks powers are large, they are not limitless as some may assume and eventual outcome is yet to come in the years ahead.

It is therefore much more likely, that politicians will go the least painful route and start to run higher inflation rates and will let entitlements and pensions rise in nominal terms. In real terms these entitlements will start to shrink, to find the right balance again.

Therefore the upcoming economic period will be characterized by the following sections:

1. A recovery period, lasting 2-3 years with stocks reaching new highs
2. An inflationary, stagflationary economic environment in the second half of the 2020ies, with the S&P 500 rising in nominal terms, but underperforming in real terms

US Debt to GDP ratio of the US, with Corona-Impact:



Debt to GDP ratio of the EU since 1995:

Source: www.tradingeconomics.com. Note: The impact of the Corona-Crisis is an addition of another 20-30%-points in debt to GDP. While Germany's ratio is estimated at around 80% after the Corona-bail-out, Italy's ratio will be a worrisome 160%!

4.2. Long Term Implications for Global stock indices

The stock indices should have a very volatile decade, with a recovery phase until 2022/23 which could lead to a top in real terms for the S&P 500. The top could from in the range between 3700 and 4500 points. The recovery will be strong at first, however in the latter half of the 2020ies, rising inflation rates will tend to push multiples lower, hence the S&P 500 will underperform in real terms.

For international equities, we foresee an outperformance of emerging markets relative to developed markets. Especially, once the world economy will resume its growth phase, a weakening USD will drive emerging markets outperformance, starting from about mid-2021.

European equities will not necessarily outperform US equities (with the faster growing technology sector) in local currency terms, but since we expect the EUR to start a bull market relative to the USD (see chapter below), the USD adjusted returns for European equities could equal or even outperform the US.

While it is often stated that stocks will do well in inflation, since businesses will raise prices, a closer look at the DCF-model will reveal otherwise.

Yes, cash flows will be rising faster – but only for some businesses with pricing power – but interest rates will start to go up, since the “bond market vigilantes” (bond market participants) will want a compensation for rising inflation rates. This effect will weigh much stronger on the multiples than the rising cash flows. Therefore, stocks tend to underperform in real terms in periods of rising inflation and rising interest rates. This is what Warren Buffett has repeatedly stated in his famous letters to shareholders (even before the formation of Berkshire Hathaway, in his “partnership letters”). Therefore he sought to purchase businesses with significant pricing power, which can mitigate the adverse effects of inflation.

Hence it is our forecast here that the S&P 500 (including dividends) will do very little in real terms for the next decade. Buy and hold strategies will therefore not be of much reward from current levels of 3000 Points. At best, long term investors could expect inflation adjusted returns of 2-3 % p.a. for the coming decade. Returns in emerging markets could be somewhat better than those of US equities.

5. Precious Metals and Commodities

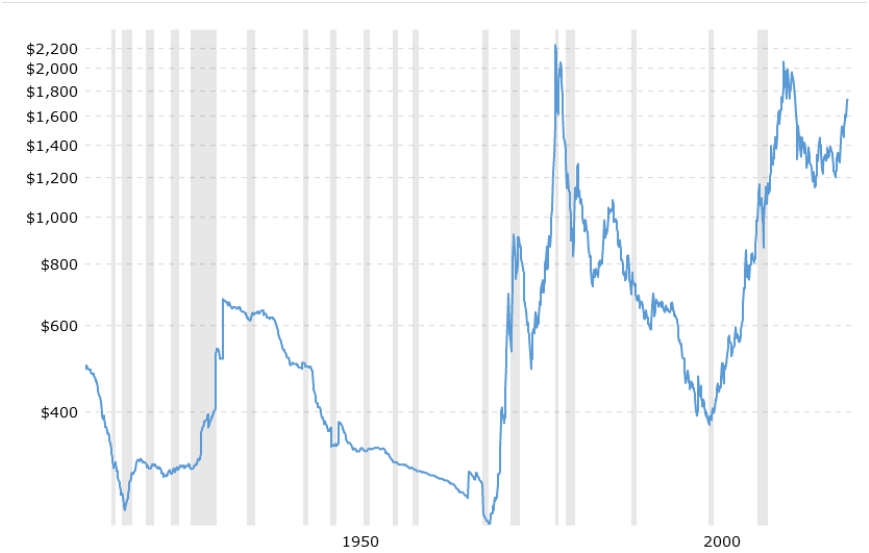
5.1. Long Term View

Due to their storage costs, only precious metals are suitable for holding long periods of time. Hence, this part will focus on Gold and Silver. Other commodities can be suitable for investment for the medium term. Readers are here referred to our Publication “PVI the global investment newsletter”.

Please refer to the section „Global equities“and “The economic environment of the 2020ies” for detailed economic background.

Precious metals prices have had large cyclical swings during the last 100 years as can be seen in the following chart:

Gold prices adjusted for inflation since 1910:



Source: www.macrotrends.net

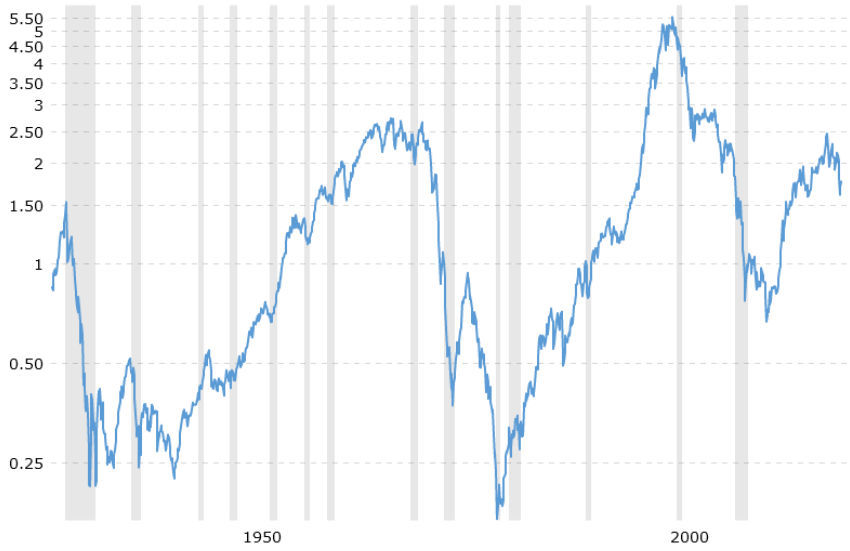
The long term up-cycles in Gold appear when the real interest rate is kept low and inflation rates start rising. This is exactly the environment that is described in the section “The economic environment of the 2020ies”.

In essence, this environment occurs, when fiat (paper) currencies are in phases of political mismanagement which lead to an oppression of the natural (positive) rate of interest and/or an erosion of purchasing power due to too much inflationary issuance of new currency.

In our current macro-economic environment, due to the high government debts, real interest rates must be kept low or even negative until inflation starts to rise enough to bring back the balance by lowering debt levels and real entitlement spending.

Therefore it is our view here, that Gold and especially Silver will be the preferred asset classes during the 2020ies.

S&P 500 to Gold Ratio since 1925:



Source: www.macrotrends.net

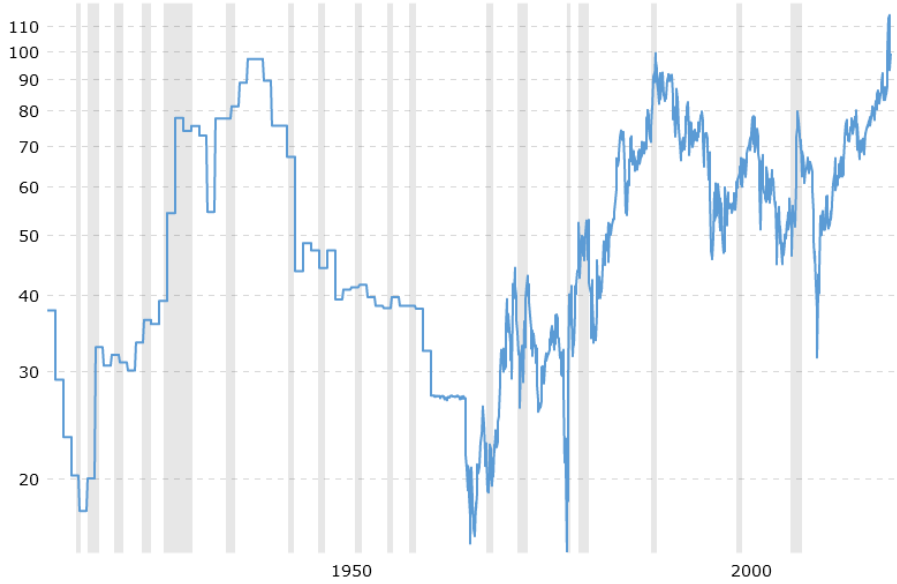
Gold should outperform stocks, bonds, real estate and most other asset classes during the next decade. We see Gold prices reaching 5000 – 10000 USD in 10-15 years from now.

During the economy of the 2020ies the implication for Gold prices is characterized by the following sections:

1. An economic recovery period from the Corona-Crash, lasting 2-3 years with Gold rising slowly on the back of a falling USD, slowly rising nominal interest rates, but real interest rates that are negative or zero at best. Gold could reach 2500 to 3000 USD by mid-2023.
2. An inflationary, stagflationary economic environment in the second half of the 2020ies, with Precious Metals entering a strong bull market phase, which could lead Gold up to 10.000 USD

Silver is even more attractive for long term investors, if they can handle its higher volatility. The gold to silver ratio is near its all time high, and historically silver has tended to outperform gold in periods of accelerating prices, especially during stagflationary periods. The silver market is very tight and therefore we expect Silver to exhibit a major bull market run towards the end of the cycle.

Gold to Silver Ratio:



Source: www.macrotrends.net

It should be noted here, that we are not "Gold bugs" in the sense of always proclaiming rising gold prices or the "end of the world". As the long term charts above clearly show, there are long periods of falling gold prices, during which this asset class should be avoided.

5.2. Medium Term view

We foresee a phase of consolidation for the Gold market in the coming months with a next low coming in autumn; the market could revert into the high 1500s to low 1600s. The reason for this is that the Corona-Crash has driven out the classical (stable) Gold-Buyers such as India, China, the Middle East and Russia (via their Central Bank). The crash in oil prices has contributed to large economic contractions there and a lack of purchasing power for precious metals. It is the strong inflows into Gold ETFs and the bullish sentiment among western asset managers that drives the Gold markets currently. But, since the expected inflation could still be off several quarters, we could be entering a cooling phase in Gold investors' sentiment for the next couple of months. A buying opportunity could emerge in early autumn.

After such consolidation, we foresee the Gold bull market to resume and carry on for the next few years, alongside the resumption of the economic expansion. This should come on the back of a weakening USD, slowly rising interest rates and rising inflation rates – a scenario somewhat reminiscent of the mid 2000s.

Silver could follow Gold's performance in the next few months, but should show a more pronounced rise than Gold in the next few years due to the re-emerging industrial demand.

The Gold to Silver ratio stands close to the all-time high which shows an undervaluation of silver relative to gold (due to the fact of weak industrial demand due to the Corona-Crisis).

For Investors who can handle increased volatility, an investment in Gold mining stocks (such as the Goldminers ETF) could be especially rewarding if done at the appropriate time, since the profit margins of these companies will be expanding meaningfully with rising Gold prices.

5.3. Other commodities

The Corona-Crash coupled with the Saudi-Price war lead to oil prices collapsing to record lows. As demand will be coming back slowly in the next few years and global oil investment has totally collapsed, a case for a new bull market in oil can be made. As investments in oil and oil equities are rather volatile, investors are generally referred to our more short term oriented publication "PVI – the Global Investment Newsletter".

For long term investors, a setback in the coming months in the general stock market could mean a buying opportunity in the Oil Sector ETF. Opportunities will be highlighted in our Publications.

US Oil Sector ETF ("XLE"):

Source: https://www.tradingview.com/x/OOXMq3Ch/

6. Real Estate

6.1. Real Estate Prices and Inflation

It is a large misperception that real estate is a “hedge against inflation”. It might be in some periods, but most likely it will not be in the 2020ies.

Real estate prices, like all other assets with cash flows, are priced with the DCF-model. As seen above for stock prices, the current low interest rate environment has pushed up multiples in many markets, especially in Germany.

When multiples are high, the effect of the rising interest rates and inflation on the multiples is much higher, than the effect of rising rents. This means, that valuation multiples will contract and real estate prices will underperform.

Of course, if investors have financed a portion of the purchase price with fixed long term interest rates, this factor will help them and offset part of the underperformance.

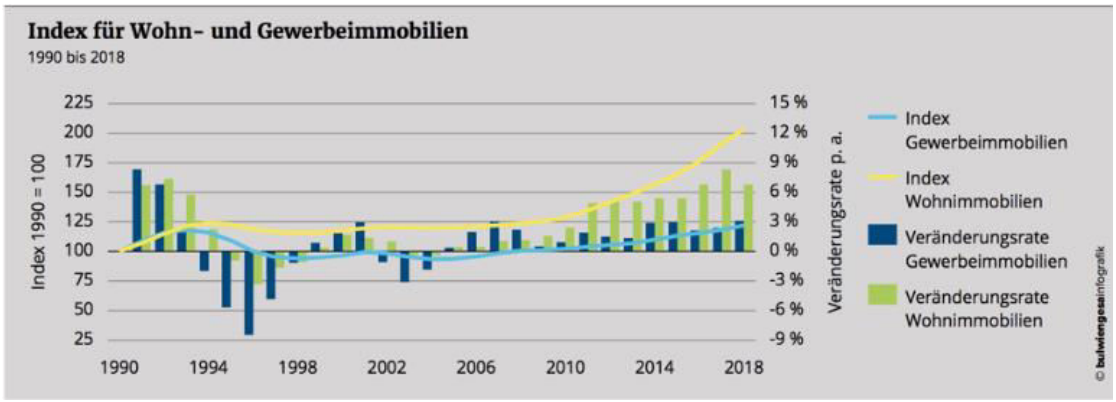
In general, real estate prices are very regional and therefore, some regions and economies will tend to do well in the 2020ies. Therefore each investor has to look at his real estate investment decisions individually, but the global macroeconomic outlook presented here should be taken into consideration.

6.2. German real estate

Since we posses deep knowledge of the German residential real estate market, we will include our forecast for the overall German residential real estate market here.

It should be noted, that in practice there is no homogenous real estate market, since every location and object is different from each other. While astute operators will always find bargains in some niches, the general trend as indicated by indices such as the Bulwiengesa – Index will be our focus here, as this general trend and sentiment toward real estate influences most buy and sell decisions in the market.

German Property-Index Chart:



Source: Bulwiengesa

The current boom in German residential real estate prices is predominantly driven by structurally low interest rates (due to the support of the Southern European economies) and too little in terms of new supply coming on the market (especially after years of under spending on construction activity in prior years).

The Corona-Crash has lead to a split in the real estate markets between stable residential property prices and somewhat weakening commercial property prices. Since rental contracts in Germany are usually long term oriented and many workers have not been fully laid off but work part time (with the government aid paying for part of the difference in wage – so called "Kurzarbeit"), rents and prices of residential property have proven stable.

German 10year mortgage rates:

Source: www.interhyp.de

6.2.1. Medium Term Outlook

It is our view that the Germany real estate prices have reached a plateau which will last for 12-18 months. Once the world economy will enter the Phase 3 (resumption of growth) it is likely that global long term interest rates will start to rise slowly – on the back of enormous

debt issuance and slowly rising inflation rates. This will start weighing on property prices and will lead to falling property prices during the economic expansion phase until 2023.

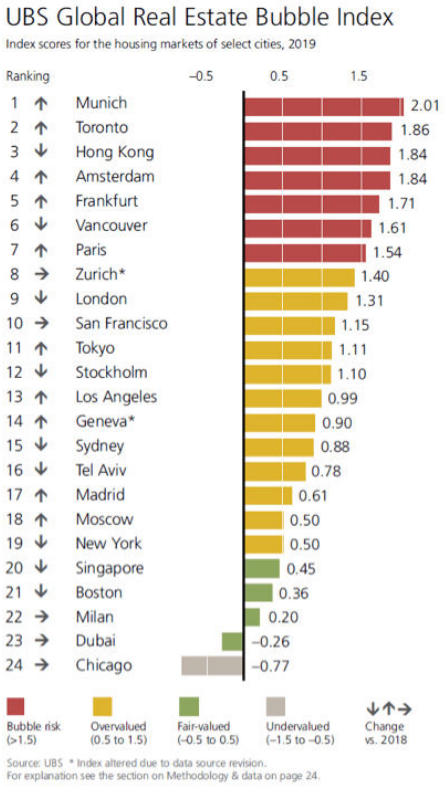
While this will come as a surprise to many German real estate investors, we note that the DCF-model predicts a strong influence on prices by rising interest rates, especially from such an elevated level with high price-to-rent multiples.

Since the property market is not in state of oversupply or speculative building activity, we do not foresee a total crash, but rather a gradual decline of about 20%.

6.2.2. Longer Term Outlook

Due to a lack of building activity, it is likely that the rental market will continue to be strong. Due to the upcoming stagflationary environment in the mid- to late 2020ies, the rising nominal interest rates will start to shrink the valuation multiples of real estate prices. Furthermore, it is a fallacy to believe that the higher inflation rates will be forced upon the tenants that easily, since the political environment will become increasingly tenant oriented and the electorate will try to enforce limits to rising rents.

Hence we expect that investments in residential real estate in general will underperform investors' expectations. We expect prices to gain in nominal terms from current levels for the next 10-15 years, but to be contracting in real terms. This way we expect the market to slowly start to close the gap between people's incomes and the elevated prices – by real estate prices that will underperform the rise in nominal wages for the 2020ies.



Source: www.ubs.com

7. Bonds

7.1. European Bonds

Current yields for government paper and high-grading corporate debt of less than 1% are of little reward for most investors; especially when one incorporates the loss of flexibility during the holding period.

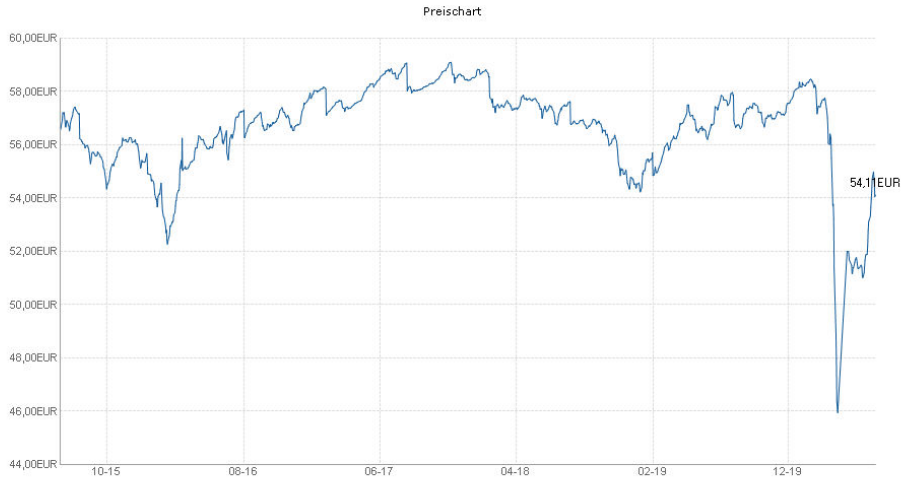
In practice, the private investor (in contrast to institutions with large sums of money) in the middle to upper income and wealth group (e.g. with less than 1 Mio. to invest) is much better off parking his money in 0% earning bank deposits (some banks still offer short term money with positive yields for smaller amounts of money with a governmental insurance of up to 100.000 Euro) while keeping the full flexibility for any arising chances in the global financial markets.

Medium Term Outlook

We expect European interest rates to stay in their low range-bound level until around mid-2021. After that, we expect long term interest rates to start rising slowly on the back of a resumption of growth in the economy.
Therefore bond investors and bond ETFs should have one more year to collect interest without price losses on their principals. After mid-2021 rising interest rates will start suppressing bond prices, which means headwinds for all medium and long maturity bond ETFs.

While high yields European bond ETFs currently offer yields of up to 5%, the performance of such ETFs should be more volatile and even somewhat correlated to the stock market performance, especially since the ECB is not actively buying junk bonds in the markets currently. (They are still mainly active in investment grade bond markets).

Price-Chart of the European High Yield Bond ETF (ISIN: IE00B6YX5M31)
(Chart without distributions.):



Historische Kursentwicklung des SPDR® Bloomberg Barclays Euro High Yield Bond UCITS ETF. Der Preischart ist um Ausschüttungen bereinigt.

Source: www.finanzen.net

While this is the only asset class with higher yields (apart from Dividend yield stock ETFs), the conservative investor should not blindly reach for yield in the current environment and be aware of the volatility and the risk. With the advent of a changed macro-economic environment (see “the economy of the 2020ies”), we would rather argue for dividend-Etfs than for investments in high-yield debt for the long term.

Of course, a measured position in high yield paper, taken at the appropriate time, can be considered for investors with more risk tolerance.

Long Term Outlook

The upcoming decade will be difficult for bonds. The big bond bull market that started in 1980 will soon come to an end and a period with rising interest rates and rising inflation rates will follow. This is an environment that is not good for bond investments in general. We would argue that bonds – especially long term bonds – will be one of the worst asset classes to own for the next 10-15 years. While astute bond investors should be able to find rewarding niches in the market, generally speaking, investors should keep durations short, in order to be able to continuously roll the returned capital into bonds with higher coupons. It has to be noted here, that the rise of interest rates and inflation will not be linear, but will come rather in cyclical waves, typical for financial markets.

All in all we do not expect that total returns on high-quality bonds will be able to keep up with inflation rates for the coming decade.

7.2. US Bonds

In the US, the situation is a bit better – while yields on government bonds have fallen to now less than 1% due to the Corona-Crisis, yields on high-quality corporate bonds of 2% can still be obtained.

US Investment Grade Corp Bonds ETF (“LQD”):

Source: www.bigcharts.com

As such, we advocate investors to allocate some part of their capital to the Corp Bond ETF, which should trade sideways for the next 12 months and collect the 2% yield. After that, interest rates should start to rise again and bond prices will face headwinds.
Due to the FEDs announced bond buying program which also includes junk bonds, the US high yield bond index has rallied strongly back from its low-point of the Corona-Crisis, currently offering close to 6% yield. We foresee that prices of junk bonds will fluctuate substantially for the remainder of 2020 and could even mirror the development of the stock market somewhat. Overall we expect price to be range-bound for the next 12 months, after which the slowly rising interest rate environment should create a headwind for prices there as well.

US High-Yield Bond ETF ("HYG"):

Source: www.bigcharts.com

The Long Term outlook in general will be difficult for bond investments. The same that has been said about European Bonds applies here as well.

European investors should avoid US Bonds despite their higher yield, due to the fact that we expect the USD to weaken significantly in the years to come. (Please see relevant the chapter below)

7.3. Emerging Market Bonds

Like most risk assets, the USD-denominated emerging markets bond ETF (EMB) also suffered a large drawdown in the Corona-Crisis, before recovering sharply.

The outlook for the next several months is a set-back, as the real damage to the global economy is felt and stock indices and risk assets in general will weaken again and reflect this somewhat. However, we do not expect the lows from March to be seen again.
Medium term, we see the market rebounding from a late summer low and trade in a broad

sideways range until mid-2021. After that the rising interest rate environment in the US will start weighing on emerging market bonds, too.

The long term outlook for investments in USD-denominated emerging market bonds is unfavorable. Investors could see more inflation compensation in these bonds, but we would not regard the real returns as sufficient for the coming decade.

8. Currencies – EUR/USD

We expect the Euro to start rising relative to the USD. Over the next 12 months the EUR/USD exchange rate should rise from a current level of around 1,12 to about 1,20.

Looking out longer term, we forecast the EUR/USD to rise into the 1,30s by 2022.

The main reason for this forecast lies in the narrowed interest rate gap between the Euro-Zone and the US since the Corona-Crisis. Before the crisis, the US had raised short term interest rates to over 2% and government bonds were enjoying a positive yield difference relative to the Eurozone as well. This environment has reversed with the US FED offering far more stimulus that the ECB up to date. In the EU social security systems are more used to shoulder the effects of the Corona-Crisis, while in the US, the government had even resorted to writing checks to households in need.

With respect to the current undervaluation of the EURO (models suggest a long term parity of 1,25-1,3), we expect the Euro to start rising relative to the USD. Technically it is important to note, that the Euro was the “carry trade currency of choice” for corporations and hedge funds alike for the last few years. Many corporations have utilized the ultra-low interest rates offered by the EURO and issued bonds denominated in Euros. With the interest rate equation relative to the US now changed, even a partial reversal of the carry trade comes into play.

Therefore, we would not advocate European investors to try to reach for the higher USD bond yields. Any yield advantage there could be quickly more than eroded by an appreciating EURO.

Also, stock market investments in the Euro-zone could benefit from the rising EURO. While the US market offers more high quality high growth companies, which could continue to drive a nominal outperformance, the depreciation of the USD could offset this in the coming years.

9. Relative Valuation of Asset Classes

This section shows the relative valuation of various asset classes. The valuation is done with regards to various variables, such as historical ratios and relative valuations. Further, the valuation is also done with forward looking estimations, such as the outlook for corporate profits, interest rates, inflation rates, mean reversion of valuation norms and other drivers for asset price development.

Long Term Asset Class evaluation:

Very Expensive
Government bonds, EU and US
Investment Grade Corporate Bonds EU and US
German residential property

Rather Expensive
High Yield Corporate Bonds, US and EU
US Stocks
European Stocks
Emerging Markets Bonds

Neutral
Gold

Rather Inexpensive
Silver, Energy Sector, Emerging Markets Stocks, Euro relative to USD

Important Investment Drivers:
The ultra-low interest rate environment and the recent massive monetary stimulus of the FED and the ECB have inflated most asset classes.
Short term – over the next few months – a correction in global "risk assets" such as stocks and high yield bonds is very likely, as the Corona-Crisis aftermath will impact corporate profits.
Longer term, higher inflation rates could drag interest rates up, which would be a headwind for equities multiples.

As such, we don't see the investment drivers in place any more that drove Government bonds, EU and US Investment Grade Corporate Bonds EU and US German residential property into the very expensive territory over the last decade.

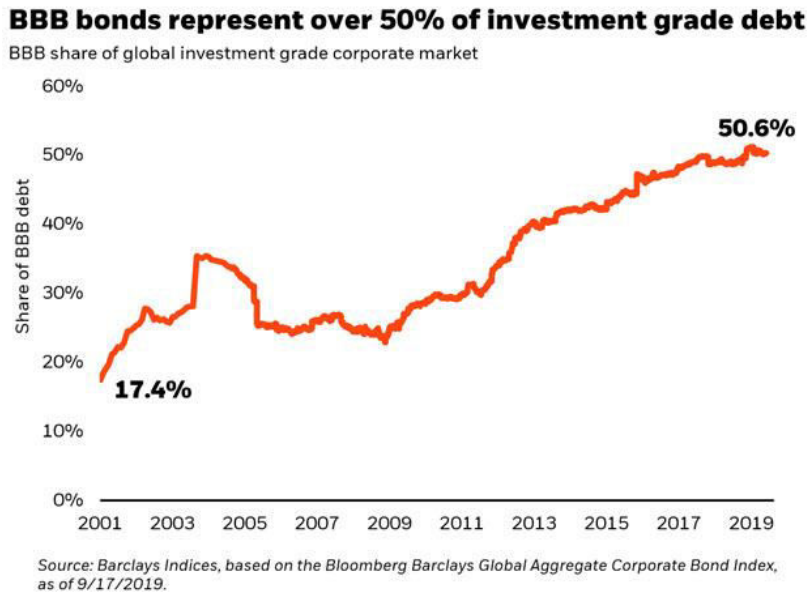
Conversely, we forecast a decade which will strongly favor precious metals and emerging market equities as preferred asset classes. Please refer to chapter 4.1. (The economic environment of the 2020ies).

10. Latent Risks

The strongest longer term risk which is currently little discussed is the return of a macro-economic environment of higher inflation and higher interest rates.

Looking out short-term, the market is currently underestimating the impact of the corona-crisis on corporate profits and also on some sectors of the high yield debt market.

Globally, there have been massive amounts of high yield debt and corporate debt of BBB quality (the lowest investment grade rating) issued over the last years. The bond market bubble is a consequence of the ultra-low interest policies of Global Central Banks over the last decades.



Source: https://www.blackrockblog.com/2019/10/07/how-risky-are-bbb-bonds/

While the Corona-Crisis has only initially sparked a massive sell-off in the many investment-grade bond ETFs and funds, the strong intervention of the FED has stabilized and turned the market around.

Yet it has to be understood that some companies will still struggle with their debt loads in the coming quarters and could face downgrades by the rating agencies, which could lead to forced selling by these bond funds. While it is our view here, that the Central Banks have backstopped much of this meltdown and the fiscal packages will reignite the economy sooner or later, still some caution for some sectors may be warranted. Therefore we

advocate a more flexible approach to the high-yield ETFs which is mirrored in our asset allocation.

Also, the Corona-Virus threat itself has not been fully resolved. This theme has been much discussed and does not present a hidden risk factor anymore. But the recent elevated levels in the stock market do by no means account for the real risk of a second wave of infections in the coming winter period. While we forecast only re-occurrence on a localized level with regional reactions, a larger wave cannot be ruled out, since only a minority of the population has had contact with the virus and built antibodies.

Further, we do not view the current political tensions between the US and China only a result of the Trump administration. The rising economic and military power of China is simply clashing with the established US powers. The conflict has been seen coming by many observers and will be with us for the next few decades. While much of these conflicts fly under the official radars (it's a stealth war), from time to time it could openly ignite and cause turbulence in financial markets.