

# ETF Portfolio

Update November 2020

## 1. Recent developments in global financial markets

In the last few months, important events took place which will shape future directions. The election of Joe Biden and the announcement of extremely positive results on new vaccines for the corona-virus should herald a significant economic upswing in 2021 and 2022. Due to the immense monetary and fiscal policy stimulus in the USA as well as in Europe and Asia, however, we expect a recovery that will be accompanied by a rise in inflation rates. This will occur in 2021 solely due to the base effect (many important raw material prices were very low in spring 2020 and will therefore make a positive contribution to inflation in 2021) and will continue into 2022, as the central banks will and must continue to support this upswing with their zero interest rate policy. In contrast to the situation after the financial crisis in 2009, the banks are now much better capitalized and are no longer required to shorten their balance sheets (this clearly counteracted the strong liquidity glut of the central banks at the time). Furthermore, the unemployment rates are falling significantly faster than back then, as the economic structure was much healthier before the Corona-crash than it was before the financial crisis. These important differences should soon push inflation rates a little higher, surprising consensus expectations.

## 2. Outlook for asset prices for the coming months

### Stocks – EU und USA

The cyclical upswing should boost value stocks in particular - they have underperformed the market for many years and are ripe for catching up. The technology stocks (FAANG shares) seem very highly valued and should underperform the coming quarters. The end of the corona epidemic should temporarily lower their growth rates and thus their attractiveness. From a regional point of view, we favor emerging markets, which should get a boost due to the weakening USD. European value stocks and cyclical stocks are also interesting. In the USA, an investment in the US oil and gas sector is recommended, which has catch-up potential.

### Precious Metals

The correction in gold prices since summer should soon be completed. We see rising precious metal prices in the 1st half of 2021. The general conditions are very positive for precious metals; the upturn should be able to drive gold towards 2300 USD and silver above 30 USD. Investments in gold and silver

mines are also promising, albeit associated with more volatility.

### **Real Estate**

Contrary to expectations, German residential real estate rose again in price. The support measures have so far been effective in preventing a crash in the housing market. Office buildings in peripheral locations should now be avoided, as many companies are planning a rotation principle of office and home offices and the demand for office space is therefore likely to decrease. The realignment after Corona could also lead to widening commuter distance from urban centers, as the trend towards home office suits commuters. We expect that the residential property market could do well for another 1-2 years, but that the somewhat rising inflation will cause interest rates to rise by 1.5-2% percentage points. This could then become the famous needle prick for bursting the German housing bubble.

### **Bonds and interest rates**

Interest rates should remain low for the coming months. For European private investors, high quality bonds are hardly worthwhile. Adequate interest rates can only be achieved in the high-yield (non-investment grade) area. In the US, interest rates have also fallen, but are still positive. Investments in emerging market bonds still offer opportunities to generate returns, but should always be balanced due to their higher risk. Furthermore, time horizons should be kept relatively short, as a possible rise in interest rates in 2022-23 could then weigh on bond prices.

### **EUR/USD**

We continue to favor the EURO against the USD. Some emerging market currencies could also offer recovery potential as the world economy opens up.

## 1. 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.

### 1.1. Asset-Allocation for USD-based investors

	Conservative		Income**		Growth	
<b>Money market funds</b>	10%	10%	5%	5%	5%	5%
<b>Precious Metals</b>	30%	30%	20%	20%	40%	40%
Gold “GLD”	15%	15%	10%	10%	15%	15%
Silver “SLV”	15%	15%	10%	10%	25%	25%
<b>Bonds</b>	20%	20%	25%	25%	10%	10%
US Investment-Grade Corp.						
short-term “VCSH”	10%	10%	5%	5%		
med.-long term “LQD”	10%	10%	5%	5%		
High-Yield Corp. Bonds “HYG”			5%	5%	10%	10%
EURO High-Yield Corp. Bonds “IHYG”*			5%	5%		
Emerging Market Bonds USD “EMB”			5%	5%		
<b>Real Estate***</b>	20%	20%	25%	20%	10%	10%
<b>Stocks</b>	20%	20%	25%	10%	40%	40%
S&P 500 “SPY”	10%					
US Value stocks		5%			10%	10%
Dividend Stocks US “VYM”			12,5%	5%		
European Stocks “VGK”*	10%	5%	12,5%	5%	10%	5%
Emerging Markets “VWO”*		5%				5%
Oil & Gas Sector “XLE”		5%			10%	10%
Gold Miners ETF “GLD”					10%	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 2,3%. 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 2,9% (allocation without precious metals, about 1/3 Bonds, 1/3 Stocks, 1/3 Real Estate) to 2,3%.

\*\*\* 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.

## 1.2. 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: 0,72%, 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: 1,86%, medium to long term bond duration*

**US High-Yield Corp. Bonds:** iShares iBoxx \$ High Yield Corporate Bond ETF, Ticker "HYG", distributing, *yield to maturity of underlying bonds, currently: 3,7%, short to medium bond duration*

**Emerging Market Bonds (USD denominated):** iShares J.P. Morgan USD Emerging Markets Bond ETF, Ticker "EMB", distributing, *yield to maturity of underlying bonds, currently: 3,6%, 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: 3,7%, yield to maturity of underlying bonds, currently: 2,8%, short to medium term bond duration*

### Money Market Fund:

Vanguard Federal Money Market Investor, Ticker "VMFXX", *current yield: 0,02%*

### 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: 3,25%*

**Nasdaq 100:** Invesco QQQ, Ticker “QQQ”

**US Value Stocks:** iShares Core S&P U.S. Value ETF, Ticker: “IUSV”

**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: 2,6%*,

**Emerging Markets:**

Vanguard FTSE Emerging Markets ETF, Ticker „VWO“

**Real Estate**

US REIT sector ETF: Vanguard Real Estate Index Fund VNQ, *current yield: ~3,4%*

*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.*

### 1.3. Asset-Allocation for EURO-based investors

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

\* currently EUR/USD hedged ETFs are used for the coming years due to the expected depreciation of the USD relative to the EURO. <sup>o</sup>Dividend distributing ETF for "Income" portfolio

\*\* 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 2,2%. 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 2,8% (allocation without precious metals, about 1/3 Bonds, 1/3 Stocks, 1/3 Real Estate) to 2,2%.

\*\*\* 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 DBXOF1), 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.

## 1.4. 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: AORGEP, *current yield: ~0,8% (yield to maturity of underlying bonds, currently: 0,3%), 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: ~3,4%, (yield to maturity of underlying bonds, currently: 3,1%), 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: 2,1%, 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: 4,9%, (yield to maturity of underlying bonds, currently: 3,8%), 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: 4,0%, (yield to maturity of underlying bonds, currently: 4,0%), medium term duration*

### Stock ETFs

#### **US stocks:**

**S&P 500:** iShares S&P 500 EUR Hedged UCITS ETF (Acc), reinvesting, ISIN: IE00B3ZWOK18, 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: ~2,2%*

**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 Value-Stocks:** iShares Edge MSCI Europe Value Factor UCITS ETF, reinvesting, ISIN: IE00BQN1K901, WKN: A12DPP

**European Dividend Stocks:** SPDR S&P Euro Dividend Aristocrats UCITS ETF (Dist), distributing, ISIN: IE00B5M1WJ87, WKN: A1JT1B, *current dividend yield: ~3,1%. Note: Due to the Corona-Crisis a cut of the dividends for 2020/21 is to be expected, current estimates range between 10 and 20%.*

**European Oil and Gas:** iShares STOXX Europe 600 Oil & Gas UCITS ETF (DE), distributing, ISIN: DE000A0H08M3, WKN: A0H08M, *current dividend yield: ~5,0%.*

***Emerging Markets:***

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

**Distributing:** iShares MSCI EM UCITS ETF (Dist), ausschüttend, ISIN: IE00B0M63177, WKN: A0HGWC, *current dividend yield: ~1,5%.*

## Real Estate

**European REIT Sector:** iShares European Property Yield UCITS ETF, distributing, ISIN: IE00B0M63284, WKN: AOHGV5, *current dividend yield: 2,7%*

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