ETF Portfolio

April 2020

1. Recent developments in global financial markets

The leading indices - S&P 500 and DAX - reached new record highs of over 4,000 and over 15,000 points, respectively. We are now seeing a situation that is almost a mirror image of the lows in the Corona crisis from a year ago. At that time, many stocks were valued cheaply; today - after an almost 100% increase - we only find a few cheap stocks. In particular, the tech sector in the second tier and the so-called "SPACs" show ratings that were only exceeded in the high of 1999/2000. Since last autumn there has also been a strong rally in “value stocks”, especially in the cyclical sectors. This re-flation or re-opening trade (after Corona) has also been pretty hot. The stocks are no longer cheap here, but not at the bubble level.

As a result of the massive stimulus measures, the budget deficit in the USA will also be very high in 2021 and 2022. As a result, there has been a first wave of sales in the government bond markets in the past few weeks and 10-year interest rates in the USA rose above 1.6%. We see consolidation here in the short term, but in the longer term this could have been the start of a multi-year bear market in government bonds. This is being driven on the one hand by extremely high levels of government funding from the central banks and rising inflation expectations. We believe central banks around the world will also let inflation go above 2% before the reins are tightened.

For these reasons, we continue to see precious metals as the preferred asset class for the coming months. Both gold and silver should move towards last year's highs in the months ahead. The equity markets seem overbought to us and ripe for a correction lasting several months. The longer-term returns that can be expected from today's levels also appear low to us. It should be noted here that rising inflation rates improve corporate results and, as is well known, stocks also represent real assets; on the other hand, rising inflation rates have a dampening effect on the valuation multiples. Given the high valuations of global equity indices, we foresee poor performance for several years.

2. Outlook for asset prices for the coming months

Stocks

The high valuations urge caution. We expect a price correction in the stock markets of 10-15% by summer. The tech-heavy Nasdaq could correct even more. We recommend buying gold and silver mining stocks, as these can often move inversely to the stock market. In addition, preference should be given to defensive value stocks from the healthcare industry. The telecom sector also offers comparatively defensive stocks with high dividend yields.

From a regional point of view, we favor Europe. You should wait a few months with new investments in emerging markets. In the longer term, the Asian markets are very promising.

Precious Metals

The correction of the exaggeration from last summer should be complete. We see rising precious metal prices for the coming months. The general conditions are very positive for precious metals; the upswing should be able to drive gold towards USD 2100 and silver above USD 35. Investments in gold and silver mines are also promising, albeit associated with more volatility. This could be triggered both by a correction of growth expectations in the real economy, the rising inflation figures as a result of the base effect and also by a correction on the stock market.

Real Estate

We expect that the German residential real estate market could still do well in 2021, but that the somewhat rising inflation will cause German interest rates to rise by 1.5-2% percentage points in the medium term. At the beginning of 2022 in particular, it will become clear how the rescue measures have affected inflation rates and thus the bond markets. This could then become the famous needle prick for bursting the bubble.

Bonds and interest rates

After the sell-off on the bond markets, we expect the situation to calm down in the coming months. Should a correction in the stock market set in, many portfolios could be shifted more into bonds, which could slow the upward trend in interest rates. In the medium to long term, we expect interest rates to rise significantly at the long end. This is being driven by rising inflation rates. The high-yield markets seem expensive to us. Investors should keep the time horizons short here. For private investors, the interest rates on quality bonds are very uninteresting in both the US and Europe. We therefore recommend holding liquidity instead of bonds and waiting for opportunities in dividend stocks.

EUR/USD

We continue to favor the euro against the USD. From the second half of the year in particular, we see a relative recovery in the European economy and an excessively loose monetary policy in the USA. Therefore, EUR / USD should be able to move towards 1.25.

3. 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.

a. Asset-Allocation for USD-based investors

	Conservative		Income**		Growth	
Money market funds	**10%**	**30%**	**5%**	**15%**	**5%**	**10%**
Precious Metals	**30%**	**30%**	**20%**	**20%**	**40%**	**40%**
Gold "GLD" Silver "SLV"	15% 15%	15% 15%	10% 10%	10% 10%	15% 25%	15% 25%
Bonds	**20%**	**0%**	**25%**	**15%**	**10%**	**0%**
US Investment-Grade Corp.						
short-term "VCSH"	10%		5%			
med.-long term "LQD"	10%		5%			
High-Yield Corp. Bonds "HYG"			5%	5%	10%	
EURO High-Yield Corp. Bonds "IHYG"*			5%	5%		
Emerging Market Bonds USD "EMB"			5%	5%		
Real Estate* **	**20%**	**20%**	**25%**	**20%**	**10%**	**10%**
Stocks	**20%**	**20%**	**25%**	**25%**	**40%**	**40%**
S&P 500 "Short ETF"						10%
US Value stocks Dividend Stocks US "VYM"				10%		
European Stocks "VGK"* Emerging Markets "VWO"*						
Health Care Sector "XLV"		10%		15%		10%
Gold Miners ETF "GLD"		10%				20%

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

** The current allocation in the income portfolio (15% Cash, 15% Bonds, 25% Real Estate, 25% Dividend Stocks, 20% Precious Metals) would result in a current yield of around 1,9%. 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.

*** 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.

b. 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,

US Medium-Long Term Investment Grade Corporates: iShares iBoxx $ Investment Grade Corporate Bond ETF, Ticker "LQD", distributing

US High-Yield Corp. Bonds: iShares iBoxx $ High Yield Corporate Bond ETF, Ticker "HYG", distributing

Emerging Market Bonds (USD denominated): iShares J.P. Morgan USD Emerging Markets Bond ETF, Ticker "EMB", distributing

Euro denominated:

EU High-Yield Corp. Bonds (Euro denominated): iShares Euro High Yield Corp Bond UCITS ETF, Ticker "IHYG", distributing

Money Market Fund:

Vanguard Federal Money Market Investor, Ticker "VMFXX

Stock ETFs

US stocks:
S&P 500: SPDR S&P 500 ETF, Ticker "SPY"
Short S&P 500: ProShares Short S&P 500 „SH"

Dividend Stocks: Vanguard High Dividend Yield ETF, Ticker "VYM", distributing

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”
Health Care Sector: Health Care Select Sector SPDR Fund “XLV”

European Stocks:
Vanguard FTSE Europe ETF, Ticker “VGK”, distributing

Emerging Markets:
Vanguard FTSE Emerging Markets ETF, Ticker „VWO“

Real Estate
US REIT sector ETF: Vanguard Real Estate Index Fund VNQ
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.

c. Asset-Allocation for EURO-based investors

	Conservative		Income**		Growth	
Cash	**10%**	**30%**	**5%**	**15%**	**5%**	**5%**
Bonds	**20%**	**0%**	**25%**	**15%**	**10%**	**10%**
Euro:						
Investment Grade Corp.						
High-Yield Euro Bonds			7,5%	5%	5%	5%
USD:						
US Investment-Grade Corp. *						
High-Yield US Bonds*			7,5%	5%	2,5%	
Emerging Markets Bonds*			5%	5%	2,5%	5%
Precious Metals	**30%**	**30%**	**20%**	**20%**	**40%**	**40%**
Silver	15%	15%	10%	10%	25%	25%
Gold	15%	15%	10%	10%	15%	15%
Real Estate* **	**20%**	**20%**	**25%**	**25%**	**10%**	**10%**
Stocks	**20%**	**20%**	**25%**	**25%**	**40%**	**40%**
EuroStoxx 50					10%	
Dividend Stocks EU			25%	5%		
EU Value ETF						
S&P 500 Short ETF						10%
Emerging Markets[o]						
Health Care Sector EU		10%		15%		10%
Gold Miners ETF		10%				20%

* currently EUR/USD hedged ETFs are used for the coming years due to the expected depreciation of the USD relative to the EURO. [o]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 1,7%. 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.

*** 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.

d. List of ETFs for European Investors

<u>**Precious Metals**</u>**:**

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

<u>**Bonds:**</u>

European Bonds:

Investment-Grade Corporate Bonds: iShares Core Euro Corporate Bond UCITS ETF (Dist), distributing, ISIN: IE00B3F81R35, WKN: A0RGEP,

EU High-Yield Corp. Bonds: SPDR Barclays Euro High Yield Bond UCITS ETF, distributing, ISIN: IE00B6YX5M31, WKN: A1JKSU, *current distribution yield: ~3,0%, (yield to maturity of underlying bonds, currently: 2,8%), 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.*

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: 4,7%, (yield to maturity of underlying bonds, currently: 3,2%), 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: 3,8%, (yield to maturity of underlying bonds, currently: 4,2%), medium term duration*

<u>**Stock ETFs**</u>

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: ~2,2%*

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

Short S&P 500 ETF: Xtrackers S&P 500 Inverse Daily S.UE 1C, WKN: DBX1AC, ISIN: LU0322251520, this ETF performs 100% inverse to the S&P 500

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: ~3,0%.*

European Oil and Gas: iShares STOXX Europe 600 Oil & Gas UCITS ETF (DE), distributing, ISIN: DE000A0H08M3, WKN: A0H08M,

EU Health Care Sector: iShares STOXX Europe 600 Health Care UCITS ETF (DE) ISIN: DE000A0Q4R36, WKN: A0Q4R3, distributing, *current dividend yield: ~1,3%*

EU Telekomsektor: iShares STOXX Europe 600 Telecommunications UCITS ETF (DE) ISIN: DE000A0H08R2, WKN: A0H08R, distributing, *current dividend yield: ~2,1%*

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,

Real Estate

European REIT Sector: iShares European Property Yield UCITS ETF, distributing, ISIN: IE00B0M63284, WKN: A0HGV5, *current dividend yield: 2,6%*

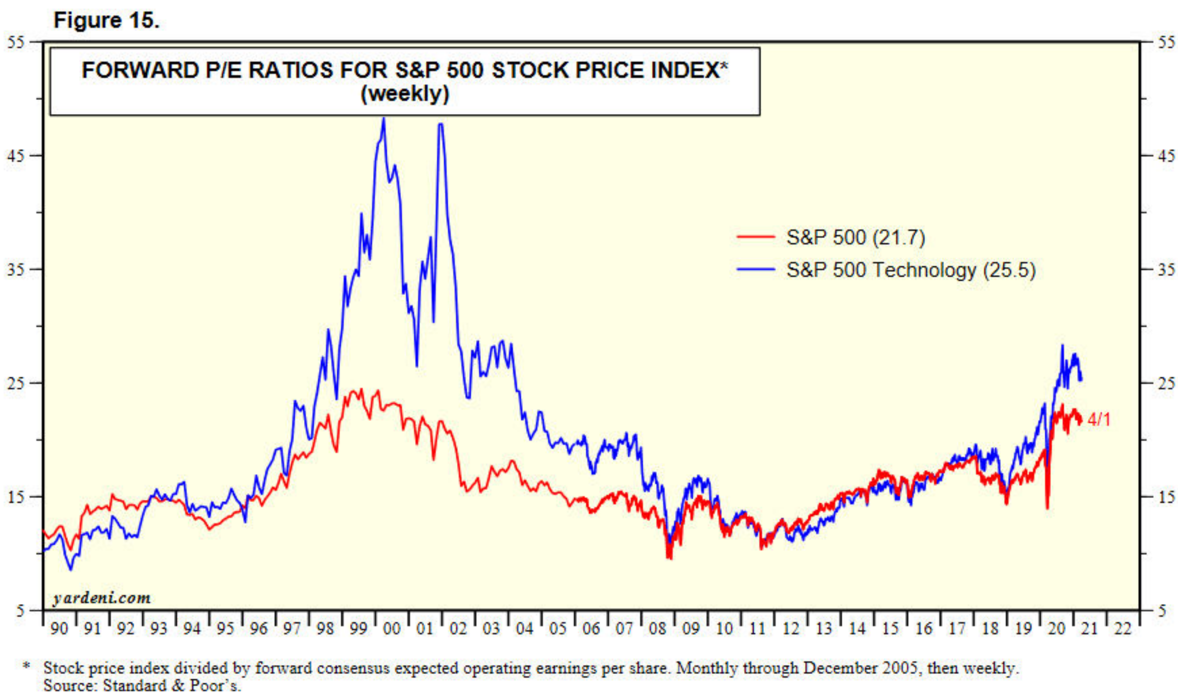
Note: This REIT ETF may offer exposure to the index of exchange traded European REITs. However, investments in such REIT ETFs have different attributes and cannot substitute direct real estate investments. In general, prices of the ETF may fluctuate substantially during periods of market stress (bear 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.

4. Long-term outlook

Stock market

After the rises of the past 12 months, the stock markets are now valued very highly. If you look at historical comparative figures, you can see that the valuations were only higher in 1999/2000 than they are today. Back then, at the time of the Internet bubble, the valuations of the major technology stocks (which are included in the S&P 500) were again about a factor of 2 higher.

Chart: expected P/E S&P 500 and S&P 500 technology

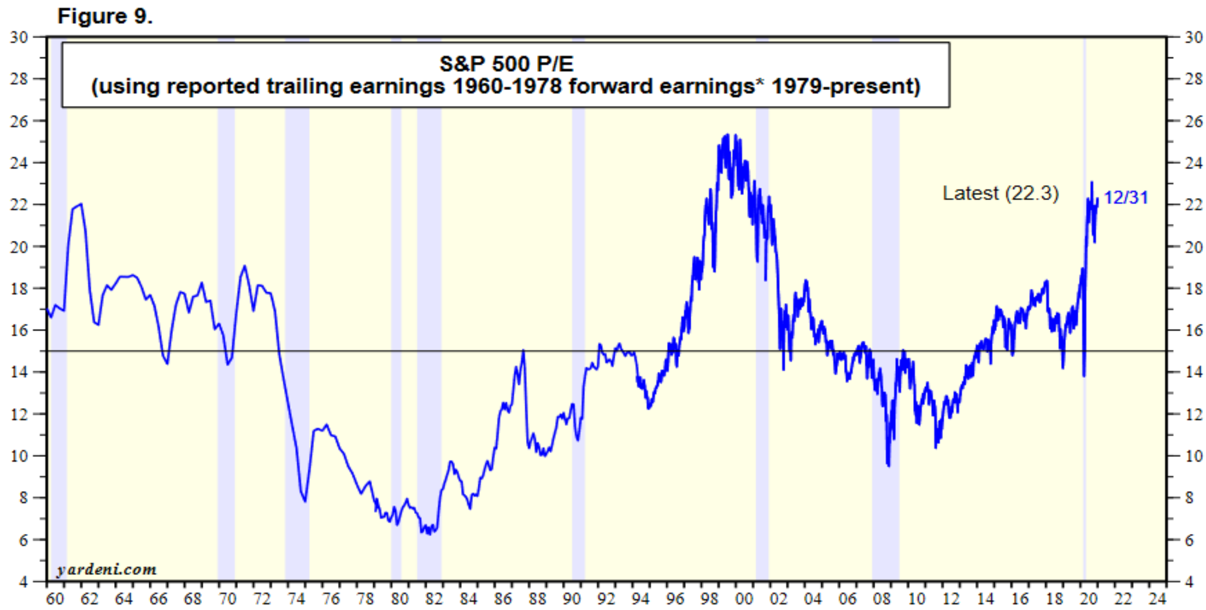


Source: www.yardeni.com

The P / E ratios of the DAX and S&P 500 are historically rather high, but not at the bubble level of 20 years ago. This is also due to the very high profit margins of the companies, especially in the USA in the technology sector.

The bulls argue here with the low interest rates and the technological advances brought about by digitalization, which will enable new profitability and new growth and thus justify higher valuations. However, we want to expressly warn here, because such arguments were already used in the times of the Internet bubble and also in the "Golden 20s" to justify very high valuations. As is well known, both episodes did not end well.

Chart: P/E-ratio S&P 500



Source: www.yardeni.com

In order to forecast the further long-term development, it is crucial how the valuation indicators will develop. If one assumes, in simplified form, that economic growth of 2% and inflation of approx. 2% would prevail for the next 10 years, this would result in a stock market return of

- Approx. 5-6% p.a. if valuations remained roughly the same
- Approx. 2-3% p.a. if valuations went back to the level of before Corona
- Approx. 0-1% p.a. if valuations fell to the average of the last 20 years

Mind you, this is a purely statistical approach that leaves out any cyclical swings that are typical of the financial markets. In addition, real (inflation adjusted) stock returns would be two percentage points lower (nominal returns minus 2% inflation).

If you look at the components of stock market valuation and corporate earnings in detail, it is noticeable that corporate profit margins are historically very high and wages are relatively low in comparison. As is well known, this is also due to the globalization of the past 20 years and the monopoly-like strong position of many large companies due to the increasing consolidation of many markets.

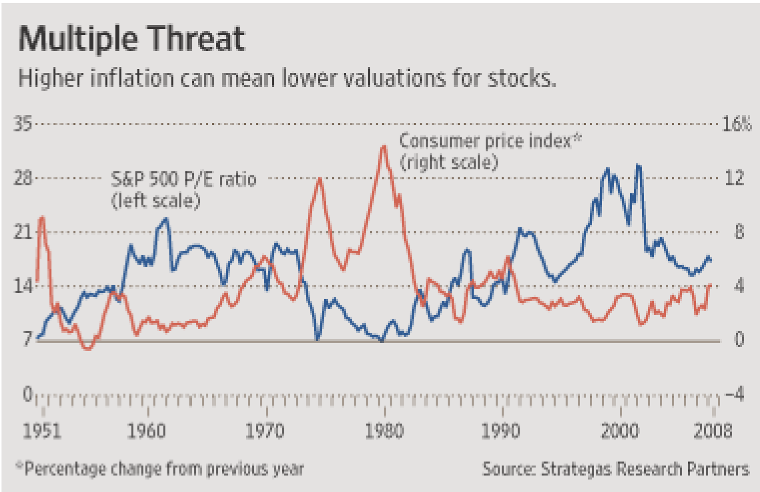
We therefore see the following long-term risks for the stock markets that could negatively affect stock returns:

- Rising minimum wages, politically wanted wage inflation
- rising corporate taxes
- rising nominal interest rates as a result of higher inflation rates

All of these factors could have a dampening effect on ratings. After the extremely high budget deficits as a result of the Corona crisis, it will hardly be possible to avoid increasing tax revenues in the medium term, both through higher taxes and somewhat higher inflation rates. President Biden's proposals to increase corporate taxes and the statements by the central banks to allow inflation to overshoot clearly go in this direction.

It should be noted here that higher inflation may not necessarily improve stock returns. On the one hand, corporate profits may rise faster if companies can pass on the price increases. On the other hand, rising inflation rates mean that valuations are contracting (this results from the DCF model and particularly affects growth stocks with high P / E ratios). Historically, real stock returns have often been negative to very low in times of rising inflation.

Chart: Inflation rates and P/E S&P 500



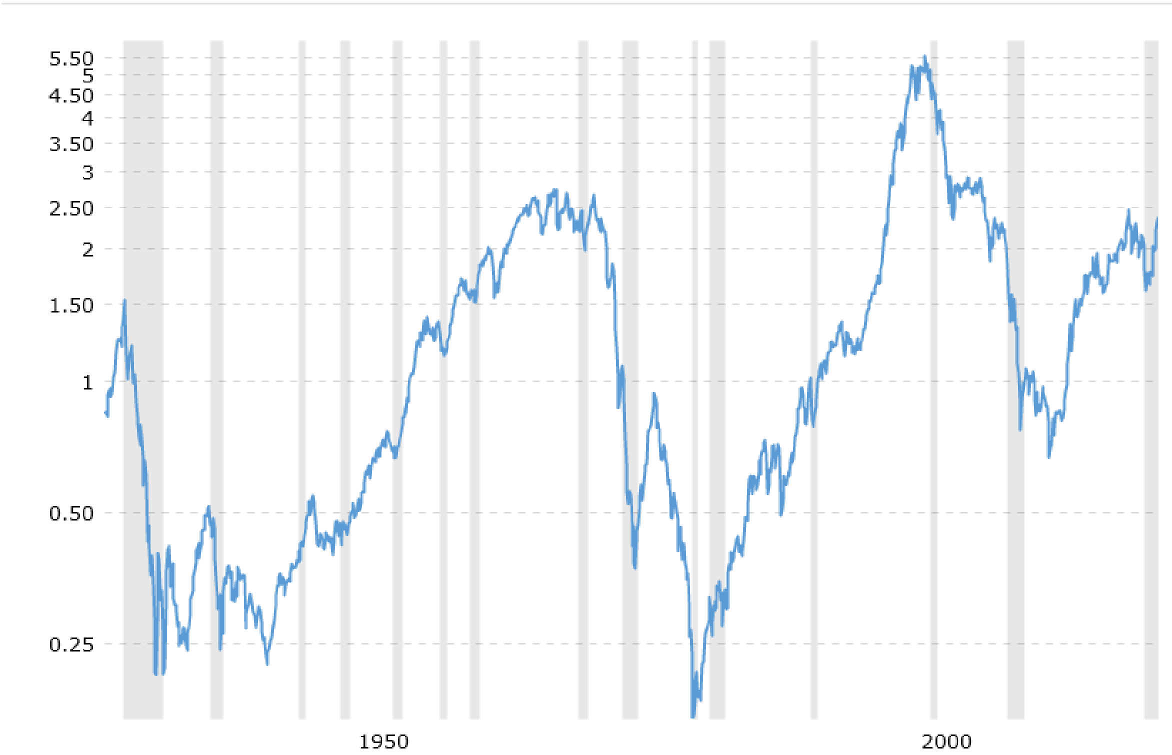
Source: MG Gobal Investing

For these reasons, realistically expectations of real (inflation adjusted) stock returns for the coming decade shouldn't be too high.

Precious metals

Should the constellation of rising inflation rates and rising interest rates actually arise in the coming years, then precious metals would be the preferred asset class in this case. Since real interest rates have to remain at zero or negative due to the mountains of debt around the world, there is still much to be said for an environment of rising raw material and precious metal prices. A long-term historical comparison (chart) shows the outperformance of precious metals in phases of rising inflation. In phases like the 1970s, gold was able to clearly outperform the stock indices - i.e. the ratio of S&P 500 and gold fell:

Chart: ratio S&P 500 to Gold



Source: macrotrends.net

A lot will depend on politics here - we don't see double-digit inflation rates coming, as some economists do. However, we could expect a controlled inflation of 4-5% p.a. imagine well over a decade. In this way, states around the world would elegantly discharge a good part of their debt burden.

Therefore, our recommendation is to add gold and silver to the portfolios in any case in order to be able to at least preserve the purchasing power of the assets in such scenarios.

Bonds

In contrast, bonds are arguably a poor choice for the next 10 years. The yields on high quality bonds are near or even below 0% anyway. We therefore recommend that investors hold a combination of cash, precious metals and dividend stocks. Those who are absolutely dependent on interest rates should only touch the high-yield bond markets widely and to a limited extent. The terms should be kept rather short in order to be able to flexibly reinvest funds released when interest rates rise.

Property

German residential property prices continued to rise in the past quarters despite the Corona crisis. The state support measures were very positive here. Given the current extremely high price levels, however, we would advise investors, in particular, to sell properties that can be sold tax-free and to design the portfolios less real estate-oriented. The cycle is now in its 12th year and the mood on the residential property market is euphoric. Commercial real estate must be viewed differently from this.

In the longer term, we see the following possible risks on the residential property market:

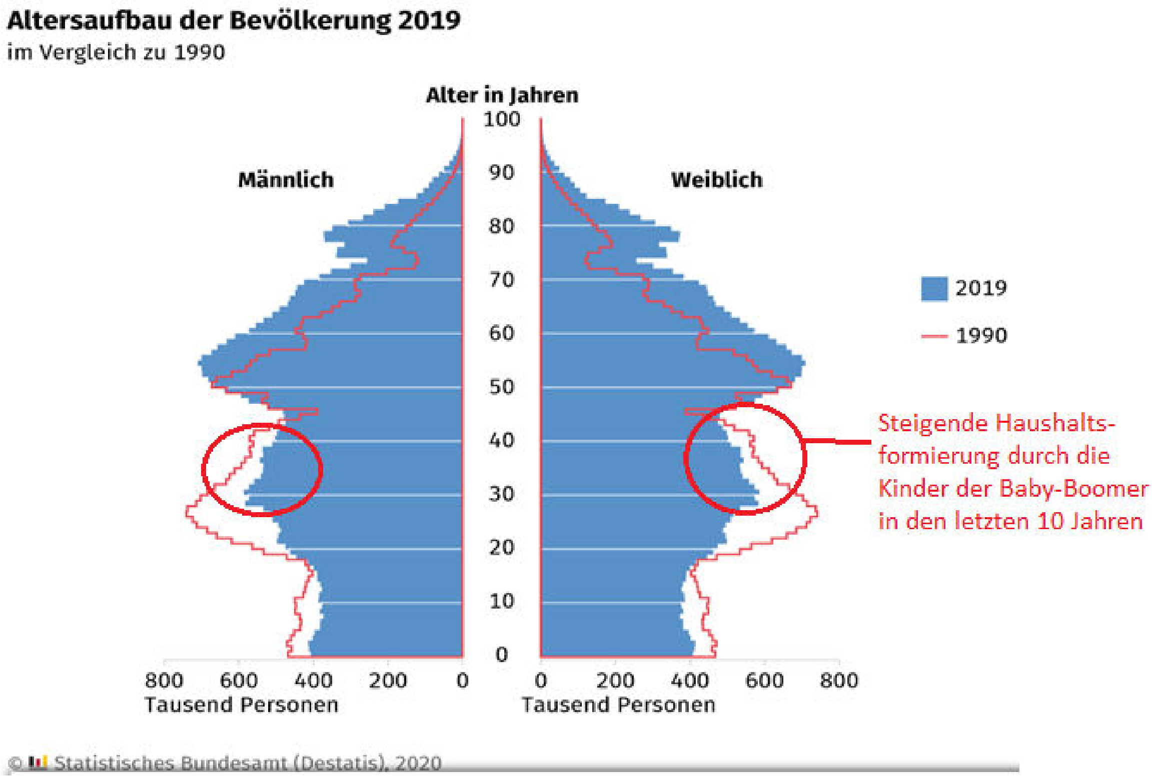
• Stronger political rent cap
• Rising interest rates, rising inflation
• Weaker demographics and immigration

Of course, the real estate market is still experiencing a cyclical upswing, which was caused by the insufficient number of new buildings in the years 2005-2015, immigration (especially from the other EU member states) since the financial and euro crisis in 2009 and 2012, and also by the structural and budgetary (politically) necessary extremely low interest rates.

The demographics are also interesting here - we don't just mean the weak demographic tree in Germany, but rather the cohorts. After all, it is the children of the post-war baby boomer generation who have increasingly started new households in recent years and thus fueled demand. On the other hand, many elderly people have stayed in their houses and apartments, although they now live alone or without children in very large living spaces. This “stay in one’s home” effect plays a major role in the current real estate boom, especially in large cities. In the longer term (around 2025), however, this effect will be reversed: after the children of the baby boomer generation, the demographic tree will narrow again, i.e. household formation will decrease. At the same time, more and more older households will be dissolved due to deaths or going to nursing homes. As a result, the real estate market will relax significantly towards the late 20s and especially the 30s.

Whether this can be offset by increased immigration is extremely questionable, because the other EU countries (including the Eastern Bloc) have similarly poor demographics and young people should be able to feel a lively demand as workers at home. Immigration from other countries in the world, especially from Muslim countries, has become politically more and more a sensitive issue. Real estate investors should not rely on such immigration and expect it to prop up prices in the long term.

Chart: demographics in Germany



Even a rise in inflation (discussed above) does not necessarily have a positive effect on property prices. Because the strict rent cap in Berlin has now reached the Constitutional Court. Most likely, this lid will be declared unconstitutional. Then the discussion would move at the federal level and public pressure could call for a nationwide rent brake. In view of the upcoming elections in the autumn (and the possibility of the Greens or the left taking part in the government), clear risks seem latent here.

Furthermore, if inflation rises, long-term interest rates will also rise. An increase in federal bond yields to 1-2% seems to us to be definitely possible for 2022 and 2023. This, too, could then be a needle prick for the bubble to burst.

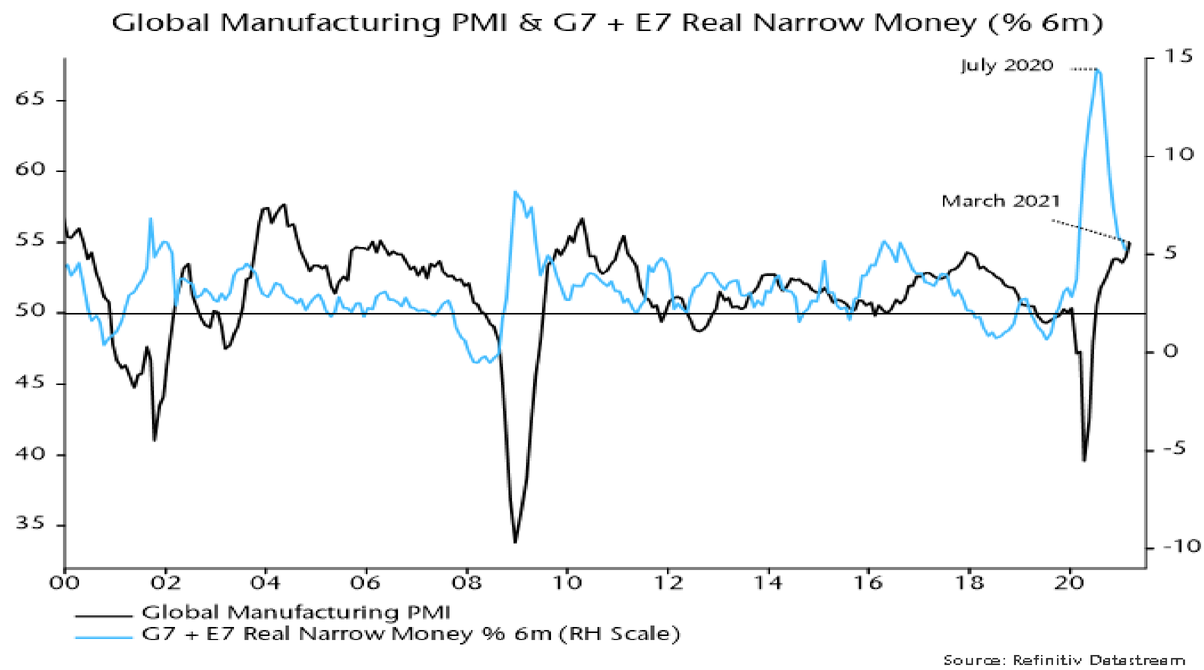
5. Short to medium term prospects

Stock market

If you look at the stock market in the short to medium term, in retrospect the Corona crisis has probably set a historic low in the markets. The Corona recession was an exogenous shock to the real economy and also marked the end of the credit and economic cycle. The crisis thus acted like a market shakeout and thus also laid the foundation for a new economic and credit cycle, which was fired by the stimulus measures of the states and central banks.

However, we can see that the initial recovery phase after the shock seems to be over: the stock markets have already priced in too strong economic growth. It seems to us questionable whether this growth could actually be that high. The money supply indicator, which is often around 9 months ahead of the real economy, already peaked in autumn 2020; since then the real surplus money supply (money supply growth minus economic growth) has been negative again.

Chart: real money supply and purchase manager index

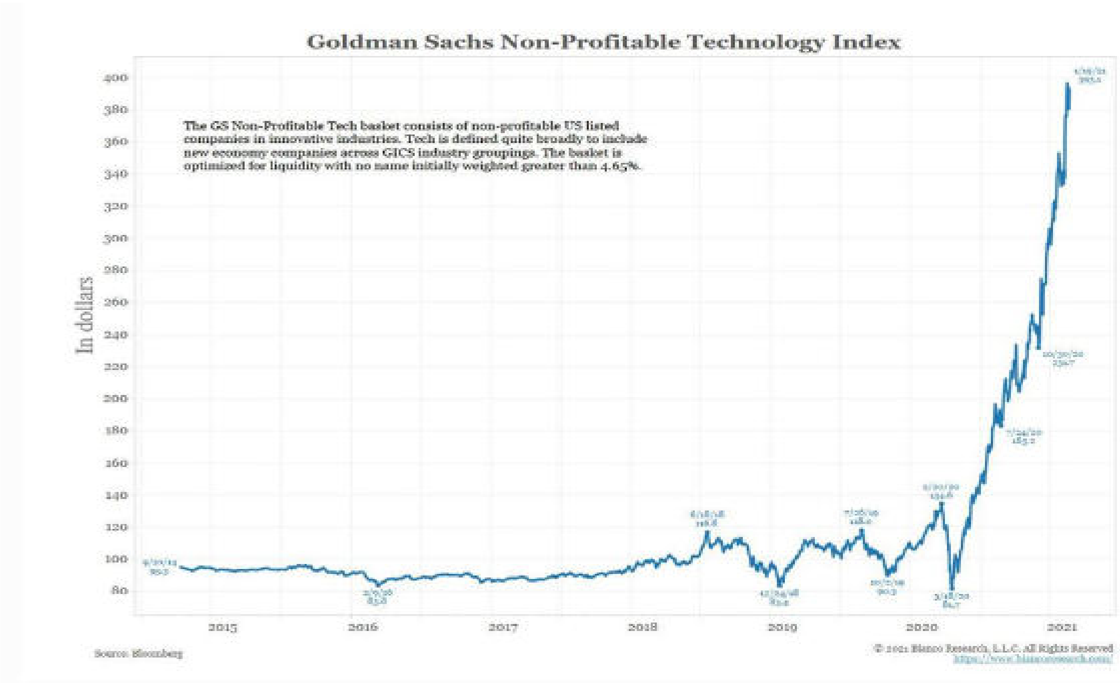


Source: moneymovesmarkets.com

This means that, in relative terms, the stock market will again have less money available. This important indicator thus provides a sell signal. While the money supply and interest rates are generally supportive, caution should be exercised relative to the growth of the economy and the sharp rise in share prices. We are closely monitoring how the further stimulus packages will affect the money supply indicator. At the moment, however, we assume that economic growth will tend to disappoint the markets in the summer. The money supply indicator is usually quite accurate; however the opening up of the service sector could offset the decline in the industrial sector to some extent. Nevertheless, the influence of the industrial sector should prevail.

The mood in the markets is also euphoric in some segments: the tech values from the "second row", that is, behind Facebook, Apple, Amazon, Microsoft and Co., are sometimes rated with price-to-sales ratios of 30-100. Such valuations are somewhat reminiscent of the situation in the Nasdaq in 1999, although it was even more extreme at the time. After several years of growth, which was also fundamentally justified, this segment was strongly fueled by the special economic situation through the lock-downs. The quarterly figures for Q1 should turn out to be positive again year-on-year, from Q2 the special economic situation could reverse and the comparative figures could turn out to be rather disappointing.

Chart: Index of non-profitable Tech-Companies

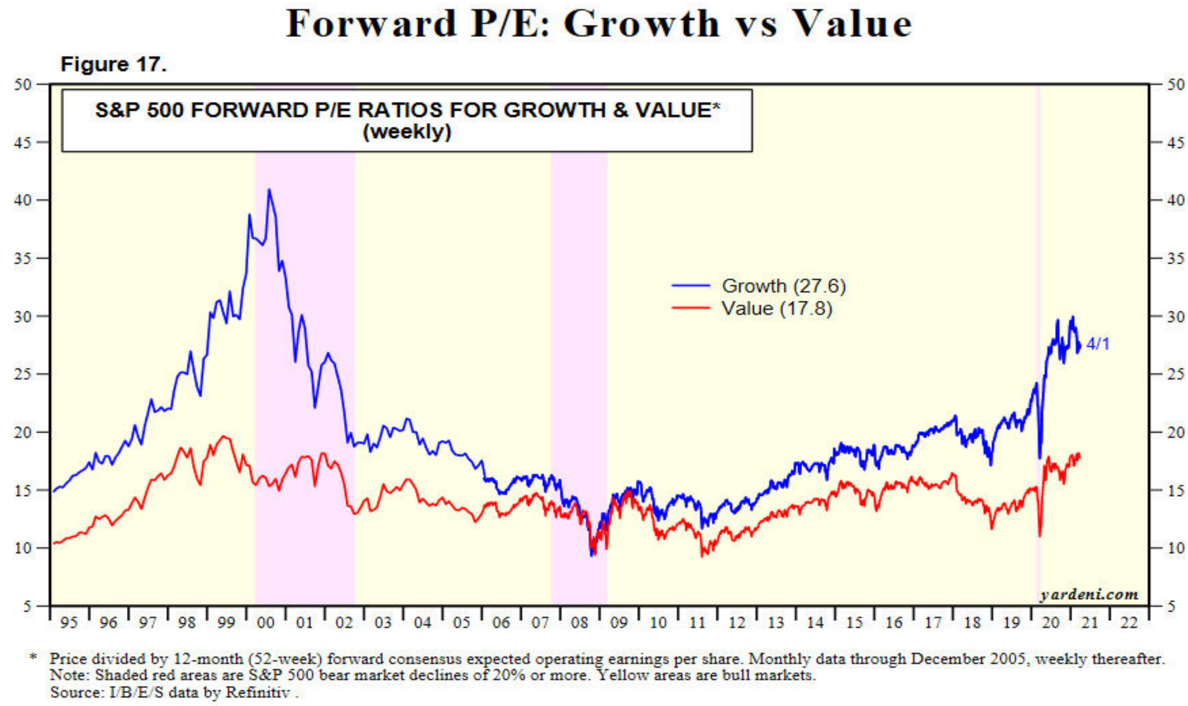


The Goldman Sachs "Non-Profitable Technology Index" has soared since its March 2020 lows

BLOOMBERG, BIANCO RESEARCH

After the positive reports on the approval of vaccines in November, the value stocks also got a boost: the expectation of a reopening of the economy boosted cyclical and commodity stocks in particular. A reflation trade was also repeatedly played by the market. The valuations here are neither at bubble level, nor particularly favorable. Since the money supply indicator predicts a relative weakening of the industry for the summer, this market segment could soon run out of steem as well.

Chart: P/E growth vs value stocks



Source: www.yardeni.com

Therefore, for more conservative investors, there are only a few market segments left that have not been gripped by speculative fever: **defensive, non-cyclical value segments.** The **health care and telecommunications sectors** stand out in particular. Neither sector was hit hard by Corona, nor were they able to benefit from the recovery. Large European pharmaceutical companies like Novartis, Sanofi or Roche offer relatively moderate valuations (P / E ratios of 12-15) and solid dividend yields of 3-4%. The growth prospects of this industry appear to be intact as the population ages, although governments could make savings in the health sector.

We find a similar picture in the telecom sector, dividend yields are even a bit higher (3-6%). However, the industry has barely recorded any growth in recent years. In addition, the high investments for the 5G network put an additional burden. This seems to be included in the prices and the widespread introduction of 5G could even generate additional sales for the corporations (through new applications such as autonomous driving, etc.). The losers of 5G could be the cable operators, because the younger generation in particular could get their Internet and TV content completely wirelessly via 5G.

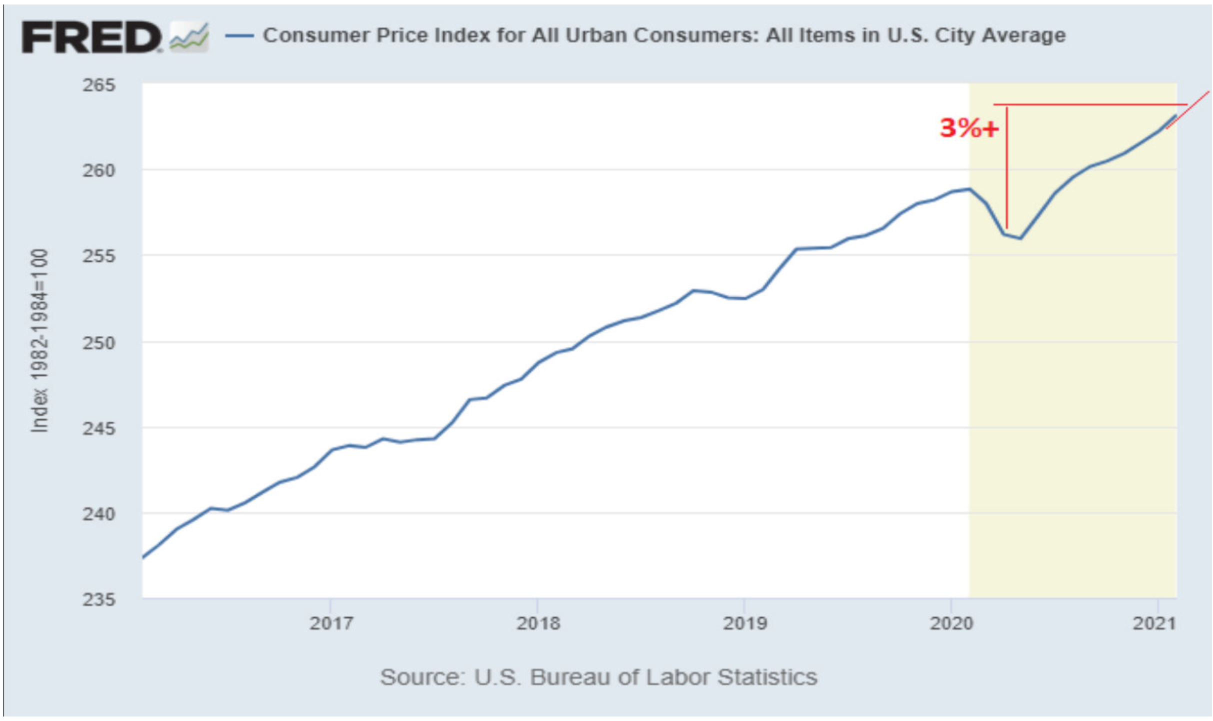
We therefore recommend a defensive equity positioning for the coming months.

Precious metals

The mood on the gold market is currently the mirror image of last summer: at that time gold shot to record highs and many market participants saw inflation as inevitable with the flood of money from the central banks. Today, around 3 quarters later, gold is quoted at a good 1700 USD and is almost left behind. Traders are too focused on speculative stocks to benefit from the coming economic boom.

However, the reported inflation rates will be well above average by May at the latest due to the low base due to the lock-down from a year ago: For the USA we expect 3% headline inflation, for Germany 2+%. These reports could have a significantly positive effect on the general public in favor of precious metals. We expect a lively debate this summer as to whether inflation is a temporary or a permanent phenomenon.

Chart: US consumer price index

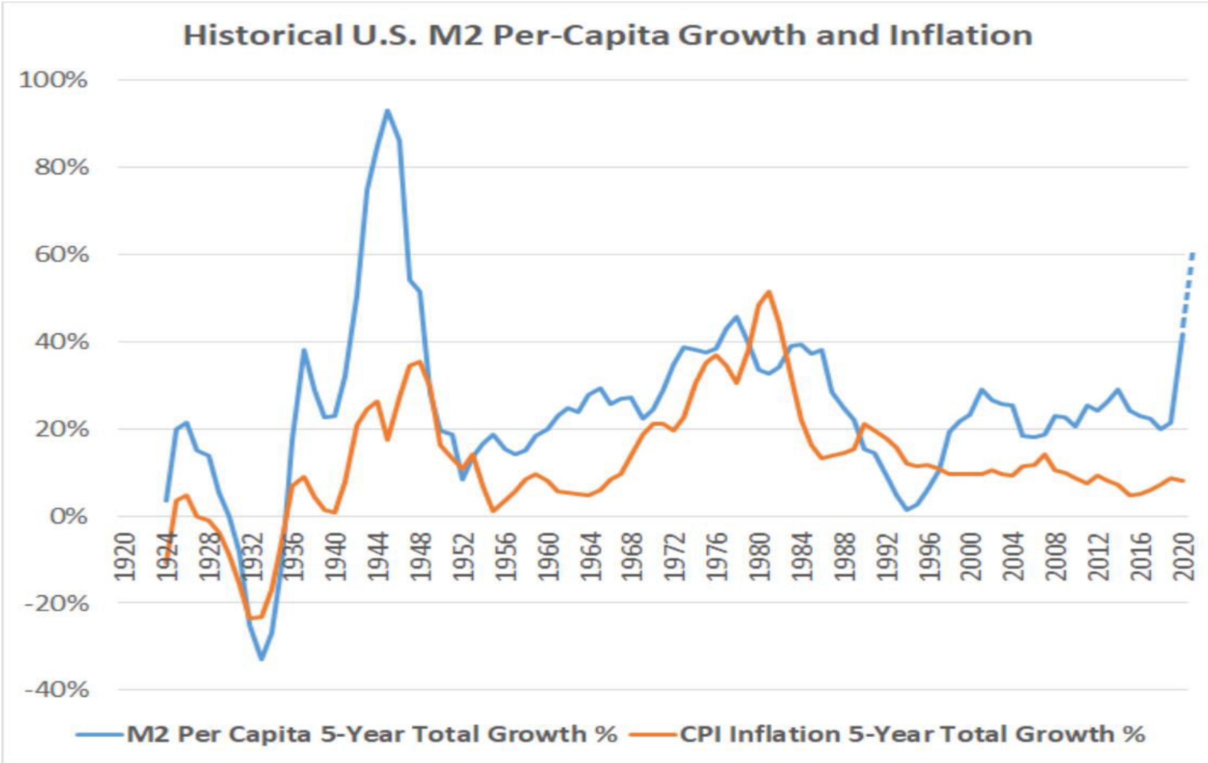


The gold market could also be fired up again by the weakening of industrial growth rates and a resulting stock market correction: this would keep long-term interest rates in the USA depressed and the expectations of the FED would be that the zero interest rate policy would have to persist even longer. This would put gold back in the focus of investors.

We assume that the inflation figures will moderate again in autumn (this also depends on further stimulus measures from fiscal policy) and that the economy could only see a slight slowdown in growth until autumn.

In the medium term, the enormously expanded money supply, especially in the USA (but also in Europe, least in China), speaks for a significant increase in inflation towards 4-5%.

Chart: money supply growth M2 USA



Source: Lyn Alden, Twitter

After the financial crisis in 2009, record sums were also "printed", but these did not end up in the pockets of consumers, but went straight into the financial system. Furthermore, a good part of the stimuli at that time were countered by a weakened, contracting banking system.

Today's rescue measures hit a significantly more robust banking system and went straight to consumers' pockets as stimulus checks. Furthermore, the economic structure before the lock-down was not as unbalanced as it was before the financial crisis. This means that, for the most part, unemployment can be absorbed much faster. This means that the fresh money will be able to get into the pockets of the population more quickly. We therefore expect a booming economy in 2022 as well.

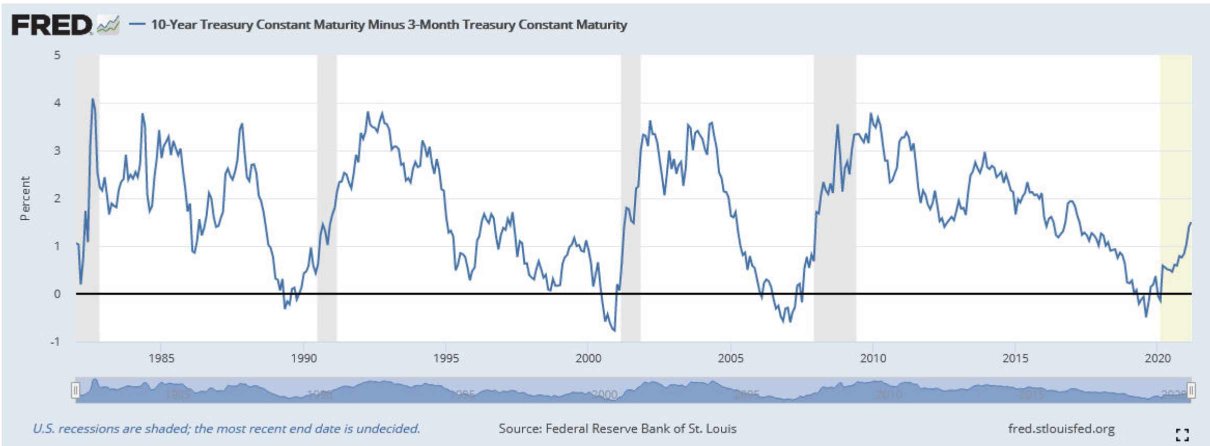
This environment is therefore very positive for precious metals in both the medium and long term.

Bonds

Should there be a correction in the equity markets, the bond markets could receive support from portfolio shifts (fewer stocks, more bonds) for a while. We expect the interest rate markets to consolidate in the coming months. From autumn, towards the end of the year, however, we expect further interest rate hikes on the long end, fueled by the situation in the USA. The economy should be very robust in 2022 and inflation rates should not be able to fall back to the pre-corona level. The extreme expansion of the money supply (see above) could have been the harbinger of this development.

The Fed should not raise interest rates until relatively late, as we anticipate that inflation will be allowed to overshoot more temporarily. The interest rate structure could therefore turn out to be clearly steep (Fed funds rate at 0% and 10-year interest rates at 2-3%). Historically, however, this would not be a novelty:

Chart: 10-year minus 3-months treasury rate (USA)



Therefore, investors should only position themselves in the bond market with short maturities.