LimmatWealth

Investment Strategy – April 2021

Data & Forecasts

Developed Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs CHF)		
	GDP 20	GDP 21	CPI 20	CPI 21	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Switzerland	-3.3	3.2	-0.7	0.2	13'444	↗	↗	-0.27	-0.40	-0.35	-	-	-
Germany	-5.3	3.4	0.4	1.7	14'038	↗	↗	-0.31	-0.40	-0.30	-	-	-
Eurozone	-7.0	4.2	0.3	1.3	3'703	↗	↗	-	-	-	1.11	1.09	1.10
United Kingdom	-10.2	4.6	0.9	1.5	6'638	↗	↗	0.76	0.40	0.60	1.28	1.22	1.25
United States	-3.5	5.0	1.3	2.2	3'820	↗	↗	1.45	1.40	1.60	0.92	0.90	0.89
Japan	-5.2	2.7	0.0	-0.1	28'930	↗	↗	0.13	0.00	0.00	116	116	117

Emerging Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs USD)		
	GDP 20	GDP 21	CPI 20	CPI 21	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Asia ex Japan	3.9	3.9	0.9	0.9	914	↗	↑	-	-	-	-	-	-
China	2.3	8.4	2.5	1.5	3'503	↗	↑	3.26	3.20	3.20	6.47	6.45	6.40

Review – Family office implosion leads to big losses for some big banks

The turbulence surrounding the family office Archegos Capital Management is sending shock waves through the banking industry. Archegos founder Bill Hwang used bank debt to leverage American media stocks and Chinese technology stocks. When the banks asked for additional security and Archegos failed to deliver, they sold the collateral, blocks of shares worth billions, on the market. Some of the banks involved posted heavy losses and the industry appears to have a problem with risk management.

Bank shares have recently been on the upswing. Investment banks benefited from the investment boom fueled by central bank money, commercial banks from the prospect of a post-corona recovery and rising interest rates. Archegos' miscalculation could not break this trend either as the European Stoxx 600 Banks Index has been trending sideways since the incident. However, some individual banks have suffered significantly.

The first to liquidate Archegos' blocks of shares were the American investment banks Morgan Stanley and Goldman Sachs. In doing so, they put the other lenders of the family office under pressure and at the same time caused the prices of the shares concerned to tumble. These two banks appear to be getting out of the situation without any major damage, as is UBS. Deutsche Bank also apparently sold a USD 4 billion equity position at the last minute. But not everyone was able to sell their stakes without a loss: The Archegos debacle cost Credit Suisse USD 4.7 billion - after a damage of up to USD 2 billion in the course of the Greensill bankruptcy, which was less than a month ago. Experts wonder why the banks lent Archegos, and therefore Bill Hwang, so much money in the first place. After all, the manager had already been convicted for insider trading in 2012 and was no longer allowed to speculate with investor money, only with his own funds and risk capital from banks. Nomura also had to report a large loss, they estimate it to be around USD 2 billion.

Worse than the losses at individual banks, however, is the damage to the industry's reputation. Archegos' gamble and the role of banks continue to erode confidence in the risk management of big banks.

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However, we would like to clarify one important thing: Archegos was a family office, not a hedge fund. The presence of external investors and the transparency required of regulated vehicles such as hedge funds prevent them from using too much leverage for concentrated portfolios. Paradoxically, hedge funds are often more risk averse than aggressive family offices.

Equity markets worldwide finished March with positive returns, except in Asia. The markets in Germany (+8.9%), Europe (+7.8%), and Switzerland (+6.7%) appreciated, while the ones in China (-1.9%) and Asia (-2.7%) ended the month with negative returns.

Yields on ten-year government bonds worldwide developed differently last month. While interest rates rose significantly in the United States (+0.34% to 1.74%), they changed little in other regions and countries. In Switzerland, interest rates fell slightly in March (-0.08% to -0.28%).

Currency markets moved strongly last month. The Swiss Franc weakened against the US Dollar (-3.7% to CHF 0.94) and the Euro (-0.9% to CHF 1.11), as well as the British Pound (-2.7% to CHF 1.30). The US Dollar strengthened significantly against the Euro (USD 1.17).

Alternative investments performed differently last month. The Gold price (-6.1% to USD 1,734 per ounce) and oil (WTI, +17.8% to USD 61.50 per barrel) fell, while hedge funds (+1.0%) appreciated.

Outlook – Better outlook thanks to vaccination progress

Joe Biden's first hundred days of his presidency will soon be over. What he has achieved in the past three months is quite remarkable. Biden has promised to help Americans through the two major crises of the time, the coronavirus pandemic and the economic collapse caused by the measures taken to contain the spread of the virus. In both cases he kept his promise. The vaccination effort now works largely without any problems. When Biden was sworn in on January 20th an average of 900,000 Americans were receiving vaccinations per day. Since then, that number has risen to nearly three million vaccinations per day. In addition, another stimulus package was passed in early March, giving many Americans money. The new US administration also wants to invest in the ailing infrastructure, namely the extraordinary sum of USD 2 trillion over the next eight years.

The outlook for the COVID-19-plagued world economy is improving. Much depends on global progress in vaccinations to avoid further infection-related lockdowns. After the restriction caused by lockdown phases, private consumption is likely to show clear catch-up effects and global trade is also likely to revive in 2021, despite some problems with supply chains. Volatility is likely to stay elevated this year in various segments of the markets, mainly due to four factors:

- We are seeing the first real increase in long-term interest rates in decades that is not driven by the central banks.
- Inflation expectations are rising.
- The new US administration is less pro-business than the last.
- World economies are reopening.

We are currently seeing a sector rotation from growth to value, but we are still convinced that in the longer term, good quality companies that are spared the aftermath of the pandemic and benefit from long-term trends will continue to outperform. We are also positive for Asia and especially China. Asia handled the pandemic far better than Europe and the United States. In addition, Asia has far fewer supply chain problems. China, for example, did very well last year and at the beginning of this year, thus the small correction in the past one and a half months (-7.0%) offers opportunities.

We continue to expect positive global economic and profit growth, mainly due to the slump last year (base effect). We continue to expect volatile markets, which will trend upwards this year, although setbacks are possible. We continue to favour Switzerland, the United States and China over Europe and continue to focus on good quality companies with strong balance sheets.

Market participants do not expect any further rate changes by the US central bank Fed and the European Central Bank ECB over the next 12 months. There are also no rate changes expected by the Swiss central bank SNB.

Trade disputes and geopolitical developments can lead to strong movements in currency markets. The Swiss franc serves as a safe haven in such cases.

Hedge funds continue to capitalize on the increased volatility (in particular distressed, structured credit, and global macro funds).

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Limmat Wealth Ltd.