



LimmatWealth

Investment Strategy – May 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	3.3	-0.7	0.3	14'266	↗	↗	-0.21	-0.25	-0.15	-	-	-
Germany	-5.3	3.3	0.4	2.3	15'171	↗	↗	-0.24	-0.30	-0.10	-	-	-
Eurozone	-6.8	4.1	0.3	1.6	4'003	↗	↗	-	-	-	1.10	1.10	1.12
United Kingdom	-10.1	5.5	0.9	1.5	7'039	↗	↗	0.80	0.85	1.00	1.27	1.29	1.31
United States	-3.5	6.2	1.3	2.6	4'168	↗	↗	1.57	1.70	1.90	0.91	0.92	0.92
Japan	-5.1	2.9	0.0	0.2	29'331	↗	↗	0.09	0.10	0.10	120	116	116

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	14.9	14.9	0.8	0.8	871	↗	↑	-	-	-	-	-	-
China	2.3	8.5	2.5	1.5	3'444	↗	↑	3.15	3.20	3.20	6.48	6.50	6.40

Review – Equity markets continue their upward trend

Equity markets worldwide finished last month again with positive returns. The markets in the United States (+5.2%), United Kingdom (+3.8%), and Asia (+2.4%) appreciated, while the one in Japan (-1.3%) and Asia (-2.7%) ended the month with a negative return.

Yields on ten-year government bonds worldwide developed differently in April. While interest rates rose in Germany (+0.09% to -0.20%) and Switzerland (+0.08% to -0.20%), they decreased in the United States (-0.11% to 1.63%).

Currency markets in parts moved strongly last month. The Swiss Franc strengthened against the US Dollar (+3.4% to CHF 0.91) and the British Pound (+3.1% to CHF 1.26), as well as the Euro (+0.8% to CHF 1.10). The US Dollar weakened against the Euro (-2.4% to USD 1.20).

Alternative investments performed positively last month. The Gold price (+3.6% to USD 1,769 per ounce), oil (WTI, +7.5% to USD 63.58 per barrel), as well as hedge funds (+1.6%) appreciated.

Outlook – Cryptocurrencies – not all are equal

Cryptocurrencies are a popular topic. Bitcoin, Ethereum and Co. are rushing from all-time high to all-time high this year. Despite the enormous growth of the crypto market over the past 12 months, cryptocurrencies are barely comprehensible and not well understood by most investors. We would like to shed some light on this and show that there are big differences between the various cryptocurrencies.

Most cryptocurrencies are based on a so-called "distributed ledger" instead of a central directory. The most important and most common application is the blockchain, on which both Bitcoin and many other cryptocurrencies are based. All transactions are stored in blocks that form a chain - the blockchain. The blocks store who paid whom how many coins and when. The big advantage of blockchain technology is its

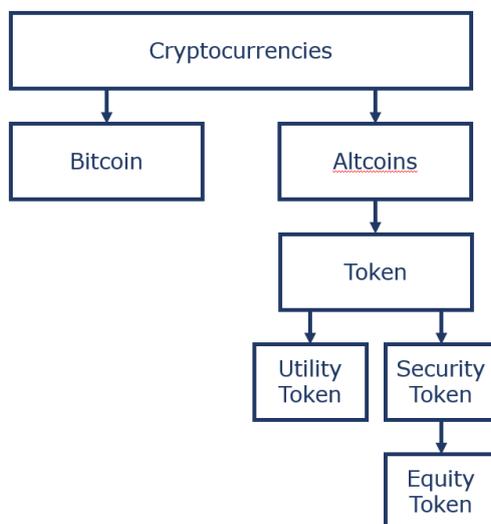
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decentralized structure. Each participant in the cryptocurrency network has their own copy of the blockchain and all transactions. In combination with cryptography (encryption of information) it is practically impossible to manipulate the blockchain or to spend coins multiple times ("double spending"). An important component is therefore the confirmation of the transactions in cryptocurrencies on the basis of the Proof-of-Work algorithm (PoW) which is implemented by mining.

The mining, which is realized by solving cryptographic puzzles through pure computing power, validates transactions and thus maintains the consensus of the entire network. That makes the blockchain forgery-proof. Mining fulfills another important role in PoW coins: the creation of new coins. As a reward for mining and the computing power made available for it, miners receive freshly mined coins.

There are many different cryptocurrencies with different functions. Coins such as Bitcoin or Litecoin are primarily used as digital currency or store of value ("digital gold") and thus offer the same application options as classic money or gold. Bitcoin and Co. are suitable as a modern means of payment that, thanks to its decentralized structure, work without a bank, payment service provider or other middleman who could earn money from a payment or transfer or exclude certain people from using it. Such coins are also sometimes referred to as "payment tokens". While their use as a means of payment is not yet widespread, cryptocurrencies are increasingly being used as established objects of investment and speculation. Bitcoin, Ethereum and many other cryptocurrencies can be traded on numerous exchanges and are increasingly being packaged in financial instruments (exchange-traded products, futures, options). Thus, investing in cryptocurrencies is now possible with just a few mouse clicks and storage is no longer a problem.



Types of cryptocurrencies (Source: Own representation)

Compared to Bitcoin and the classic Altcoins, tokens are a special type of cryptocurrency. Most tokens do not serve as digital money, but have a wider range of different functionalities. Coins use their own blockchain, as is the case with Bitcoin or Ethereum, for example. Tokens, on the other hand, do not have their own blockchain, but use existing blockchain networks and enable the creation of decentralized applications. Regardless of whether a cryptocurrency is a coin or a token, most can be traded on crypto exchanges. These are exchange platforms that behave in a similar way to equity markets, based on supply and demand (e.g. Coinbase, Binance, Kraken or Uniswap). However, these are not yet officially regulated, making them more susceptible to manipulation and are considered highly speculative. The lack of regulation also goes hand in hand with the fact that only unregulated tokens can be traded on these exchanges.



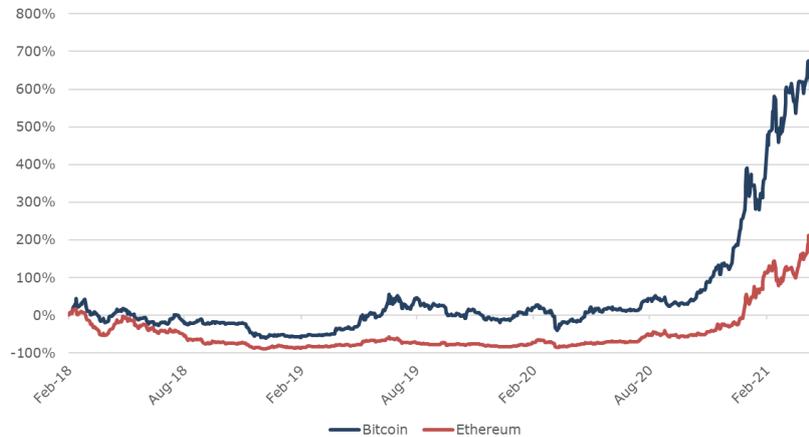
There are, in turn, several distinctions between the different tokens that define the goal, purpose and use of these. In the following we explain three token categories: the utility token, the security token and the equity token.

- Utility tokens: Most cryptocurrencies today are utility tokens. These are cryptocurrencies that represent a certain benefit or value within their blockchain system. They are also described as the fuel of the system, as they ensure that the system and the functionality of the blockchain are kept alive without central control (comparable to an operating system such as Microsoft Windows). They can be used to pay transaction fees or to grant access to certain blockchain services, which act as a kind of digital voucher. Since many projects are still in development, the associated tokens of these blockchain projects cannot yet be used, but can already be traded. Utility tokens are therefore not actually intended as an investment, but many investors speculate that the associated blockchain and its services will be successful in the future and that the value of the corresponding token will increase as well. With the purchase of a utility token, however, one does not acquire any shares in the company itself, no entitlement to dividends or voting rights. Examples of utility tokens are Ethereum, Polkadot, Cardano, Filecoin or Binance.
- Security token: A token that is considered a security, in contrast to the utility token, behaves more like a security and has no "operational" function for the blockchain. Thus, a cryptocurrency counts as security if it represents an investment with the main goal of realizing investment profits. Since the definition of a security token involves several obligations and regulations under financial market law, many cryptocurrencies try to avoid this status. Security tokens cannot be traded on private crypto exchanges, but theoretically on public and regulated stock exchanges. Security tokens are still rare due to regulatory restrictions. Examples of security tokens are Stellar or tZERO.
- Equity tokens: Equity tokens are a subtype of security tokens and an important part of future cryptoeconomies. They combine to a certain extent classic, financial market-regulated values such as company or equity shares with the technological implementation of blockchain and tokens. This means that with the purchase of an equity token, for example, you receive shares in the company, shares in assets (e.g. real estate), voting rights or the right to a dividend. The equity token enables such shares to be represented in the form of digital tokens. This goes hand in hand with all the advantages and disadvantages of regulated financial regulators. Because of this, equity tokens are still not widely used as a security and are aimed more at financial markets and professionals, rather than private investors. However, there are increasing considerations towards equity tokens, as it is expected that future regulations will favour security rather than utility tokens. An example of an equity token is Tesla's equity token.

As with all investment and investment opportunities, there are also risks and dangers involved when investing in cryptocurrencies. The storage of coins and tokens is an important point. In the case of cryptocurrencies that are packaged in financial instruments, this is usually solved well and in a safe manner. In addition, there are of course also political risks. Gold bans have already existed in the past, especially in times of crises. Accordingly, it is also conceivable that countries will ban cryptocurrencies or at least try to do so. A direct ban is difficult to implement and even more difficult to control due to the decentralized structure of most cryptocurrencies. This is one of the great advantages of cryptocurrencies compared to the classic monetary system. However, new laws could make trading more difficult and for example prohibit banks and other payment service providers from processing deposits and withdrawals to and from crypto trading venues. And then there is the volatility of cryptocurrencies. The chart below clearly illustrates this using the example of Bitcoin and Ethereum. Those who invested in these cryptocurrencies at the beginning of February 2018 have almost made seven times (Bitcoin) or more than three times (Ethereum) their



money, but have had to endure major setbacks in between. During this period, the maximum drawdown for Bitcoin was -73% and for Ethereum even -91%.



Bitcoin and Ethereum prices, February 2018 to April 2021 (Source: Bloomberg, Limmat Wealth)

We therefore do not actively recommend our clients to invest in cryptocurrencies at the moment, but if you need more information or are interested in an investment, we are at your disposal for further information.

We continue to expect positive global economic and profit growth, mainly due to the slump last year (base effect). The progress in terms of vaccinations is slowly leading to a normalization in many areas of life. 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 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).