



LimmatWealth

Investment Strategy – September 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 | 3.5 | -0.7 | 0.4 | 15'997 | → | ↗ | -0.32 | -0.20 | -0.10 | - | - | - |
| Germany | -5.3 | 3.2 | 0.4 | 2.7 | 15'876 | → | ↗ | -0.37 | -0.30 | -0.15 | - | - | - |
| Eurozone | -6.8 | 4.8 | 0.3 | 2.0 | 4'232 | → | ↗ | - | - | - | 1.09 | 1.09 | 1.12 |
| United Kingdom | -10.1 | 6.8 | 0.9 | 2.1 | 7'173 | → | ↗ | 0.70 | 0.80 | 1.00 | 1.27 | 1.29 | 1.31 |
| United States | -3.5 | 6.2 | 1.3 | 4.2 | 4'535 | → | ↗ | 1.32 | 1.50 | 1.80 | 0.92 | 0.92 | 0.93 |
| Japan | -5.1 | 2.5 | 0.0 | 0.1 | 29'660 | → | ↗ | 0.05 | 0.10 | 0.10 | 120 | 120 | 122 |

| 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 | 1.0 | 7.3 | 2.0 | 1.5 | 844 | → | ↑ | - | - | - | - | - | - |
| China | 2.3 | 8.4 | 2.5 | 1.3 | 3'622 | → | ↑ | 2.84 | 3.00 | 3.00 | 6.45 | 6.50 | 6.40 |

Review – The positive trend for equities continues

Global equity markets were able to continue their positive trend in August, with defensive stocks and technology stocks as well as partially cyclical sectors performing well. An important driver behind the positive basic trend in equities was the very good reporting season for the second quarter which just ended. Listed companies have once again exceeded the expectations of investors in aggregate and remain optimistic for the current year despite the rampant delta variant. Global interest rates were a key driver behind the sectoral performance pattern. The direction and dynamics of long-term global interest rates are disproportionately determined by US interest rates and the (verbal) actions of the US central bank Federal Reserve (FED). Long-term US interest rates rose in August due to strong labor market data, but without developing any sustained upward momentum. Comments from various FED governors initially indicated that the bond purchase program was beginning to be scaled back («tapering») this year and thus triggered interest fears among investors. However, Jerome Powell, the president of the FED, countered these fears with a dovish speech at the annual Jackson Hole conference. This ambiguous rate scenario provided support for both cyclical and defensive sectors. Cyclical (especially financial stocks) that flourish in phases of rising interest rates have reacted positively to the rise in interest rates. But defensive stocks (and technology stocks) also showed positive returns in aggregate: Investors were relieved that no robust pattern of interest rate growth had developed and that the low interest rate environment therefore in principle remains. It should also not be forgotten that global real interest rates are still at extremely negative levels, despite the moderate rise in interest rates in August. The negative real interest rate environment is also an important positive driver for the gold price, which has recovered noticeably in recent weeks.

Asian equity markets were negatively affected by China in the past month. The serious regulatory measures taken by the Chinese government, which primarily focus on domestic tech stocks, have put Chinese equity markets under great pressure. We assume that the Chinese authorities will embrace the private corporate sector again in the future. The innovation and productivity of the private economy make an important contribution to the creation of prosperity in the country.

The information and opinions expressed in this publication were produced by Limmat Wealth Ltd. as of the date of writing and may be changed without notice. Although the information herein obtained are from sources believed to be reliable, Limmat cannot assume responsibility in quality, correctness, timeliness or completeness and does not accept liability for any loss arising from the use of this publication. This publication is intended for information purposes only and does not constitute an offer or an invitation by, or on behalf of, Limmat to make any investments. This document is not subject to the "Directives on the Independence of Financial Research" published by the Swiss Bankers Association. The content of this publication does therefore not fulfill the legal requirements for the independence of financial research. Nothing in this publication constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate for individual circumstances, or otherwise constitutes a personal recommendation for any specific investor. Past performance is not a reliable indicator of future results. Performance forecasts are not a reliable indicator of future performance. This publication has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Investments in assets or asset classes mentioned in this publication may not be accessible or suitable for all recipients. Before entering into any transaction, investors should consider the suitability of the transaction to individual circumstances and objectives. Investors should independently assess, with a professional tax advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences. This publication may only be distributed in countries where its distribution is legally permitted. This information is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such publications are prohibited.

Limmat Wealth AG Tödistrasse 48 Postfach 1882 CH-8027 Zürich

T +41 44 208 24 50 F +41 44 208 24 51 info@limmatwealth.com www.limmatwealth.com



Equity markets around the world ended August with positive returns. Markets in China (+4.3%), Japan (+3.0%), and the United States (+2.9%) performed best.

The interest rates on ten-year government bonds increased globally over the past month. They increased most in Great Britain (+0.15% to 0.71%), the United States (+0.09% to 1.31%), and Germany (+0.08% to -0.38%), while they remained unchanged in China (2.85%) and Japan (0.03%). Interest rates in Switzerland also increased slightly (+0.05% to -0.32%).

Currency markets moved within a normal range in August. The Swiss Franc weakened against the US Dollar (-1.1% to CHF 0.92) and the Euro (-0.6% to CHF 1.08) and remained unchanged against the British Pound (CHF 1.26). The US Dollar strengthened against the Euro (+0.5% to USD 1.18).

Alternative investments have shown different returns over the past month. The gold price remained unchanged (USD 1,814 per troy ounce), the oil price dropped (WTI, -7.4% to USD 68.50 per barrel), and hedge funds gained (+0.7%) in August.

[Outlook – China at a turning point?](#)

The longer-term fundamental outlook is generally friendly, but increasingly shows symptoms of fatigue typical of the mid-cycle and opposing effects. The economy should in principle remain robust in the next few years, but financial markets have already processed this in detail and priced it in sufficiently. Financial stocks in particular are likely to benefit disproportionately from rising interest rates due to their low valuation. The vaccination campaigns are gaining pace on a global level, but will not ensure herd immunity for the near future, especially in many emerging countries. On the other hand, both monetary and fiscal policy in industrialized countries will remain stimulating in the second half of 2021. However, investors are likely to increasingly look to the year 2022 and begin to price in a possible tightening of monetary policy, which can lead to temporary phases of weakness. The main medium-term risk is the current monetary and regulatory tightening in China. However, Chinese macro data have recently clouded over so much that financial market players expect at least an imminent monetary policy change, purely according to the motto: «Bad News = Good News».

We expect equity markets to trend sideways in the further course of the year. We continue to favor Switzerland, the United States, and China over Europe and we continue to focus on good quality companies with strong balance sheets. After the setbacks in summer, China offers an interesting entry or top-up opportunity.

Market participants do not expect any rate changes by the US central bank Fed and the European Central Bank ECB before the end of 2022. 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 benefit from a normalization of correlations, volatilities, and dispersion. Hedge funds typically thrive when the dispersion is high and correlations are low because then they can take full advantage of their trading techniques and skillset.