LimmatWealth

Investment Strategy – December 2020

Data & Forecasts

Developed Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs CHF)		
	GDP 19	GDP 20	CPI 19	CPI 20	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Switzerland	0.8	-4.9	0.4	-0.7	12'877	↗	↗	-0.54	-0.50	-0.40	-	-	-
Germany	0.6	-5.6	1.4	0.5	13'250	↗	↗	-0.54	-0.45	-0.30	-	-	-
Eurozone	1.2	-7.3	1.2	0.3	3'517	↗	↗	-	-	-	1.08	1.08	1.10
United Kingdom	1.3	-11.2	1.8	0.9	6'485	↗	↗	0.33	0.20	0.40	1.20	1.20	1.21
United States	2.3	-3.6	1.8	1.2	3'669	↗	↗	0.93	0.90	1.10	0.89	0.91	0.90
Japan	1.0	-5.3	0.5	0.0	26'809	↗	↗	0.03	0.00	0.00	117	115	115

Emerging Markets	Growth (%)		Inflation (%)		Equities			Bonds (10 Years)			Currencies (vs USD)		
	GDP 19	GDP 20	CPI 19	CPI 20	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths	Actual	3 Mths	12 Mths
Asia ex Japan	1.7	1.7	2.4	2.4	803	↗	↑	-	-	-	-	-	-
China	6.1	2.0	2.9	2.7	3'442	↗	↑	3.30	3.20	3.10	6.55	6.70	6.60

Review – Equities rise worldwide on positive vaccine news

The US presidential election took place at the beginning of November and the democratic candidate Joe Biden was able to defeat the incumbent president Donald Trump. He will be sworn in as the 46th president of the United States on January 20, 2021. In the aftermath of the election, as the counting dragged on for several tense days, Donald Trump insisted the election had been rigged against him and accordingly the world continues to wait for him to publicly admit his defeat. However, the positive vaccine news presented by three companies had a much bigger impact on markets last month. After BioNTech/Pfizer and Moderna reported high efficacy at the beginning of the month, AstraZeneca/Oxford also reported good data towards the end of the month. The euphoria over these reports led to the best month for many equity indices in years:

Country/Region	Return 2020	Return November	Best Month since
Switzerland	1.3%	8.4%	Jul 2009
Germany	0.3%	15.0%	Apr 2009
Eurozone	-6.8%	18.1%	-
United Kingdom	-17.4%	12.4%	Jan 1989
United States	12.4%	10.8%	Apr 2020
Japan	11.7%	15.0%	Jan 1994
Asia ex Japan	14.9%	8.0%	Jul 2020
China	11.2%	5.2%	Jul 2020

Source: Bloomberg, Limmat Wealth

Yields on ten-year government bonds worldwide barely moved in November. Interest rates rose a few basis points in Germany (+0.06% to -0.57%) and the United Kingdom (+0.04% to 0.31%), but decreased a bit in the United States (-0.03% to 0.84%). Rates in Switzerland barely moved as well and remained unchanged (+0.01% to -0.52%).

Currency markets moved within their normal ranges in November. The Swiss Franc strengthened slightly against the US Dollar (+0.9% to CHF 0.91), but weakened against the British Pound (-2.0% to CHF 1.21) and the Euro (-1.5% to CHF 1.08). The Euro strengthened against the US Dollar (+2.4% to USD 1.19).

Alternative investments performed differently last month. Gold declined (-5.4% to USD 1,777 per ounce), while oil (WTI, +26.7% to USD 45.34 per barrel) and hedge funds (+2.8%) benefitted from the euphoria and appreciated significantly.

Outlook – The future belongs to China

At Limmat Wealth, we focus our investments on three regions: Europe (including Switzerland), the United States, and Asia. Up until today, our investments concentrated mainly on Europe and the United States with a smaller allocation to Asia. Looking back on the past ten years, this was the right decision. We now believe that we need to increase our allocation to Asia and specifically China going forward. The main reasons for this change are the following:

- Market size (Number of companies, market capitalization…)
- Political and economic significance of Asia/China
- Growth (GDP growth, profit growth of companies…)

Having suffered through the worst of the outbreak at the beginning of 2020, China showed strong leadership. This was manifested in its disease control strategies, policy priorities, and support for the private sector. After businesses and factories reopened and internal movement relaxed, China proved itself to be a reliable investment destination.

China has taken the lead, globally, in achieving an economic rebound, having benefited from the restart of production activity, and reopening of logistic links. In the second quarter of 2020, China's economy bottomed out and rose by 3.2%, making it the only G20 country showing positive growth. In the third quarter, China achieved a 4.9% year-on-year growth. Experts expect China to register positive growth of 1-2% in 2020 and 7-8% in 2021.

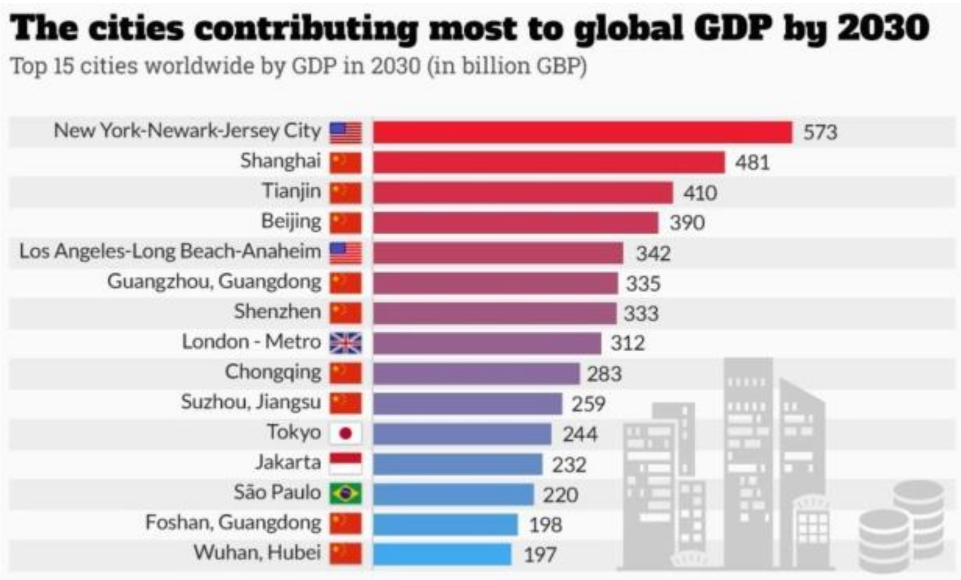
Beyond the swift measures taken to contain the economic fallout of COVID-19, China offers other advantages to back up its favorable position in the global market and maintain investor confidence:

- **Supply chain**: China's sophisticated manufacturing and logistics infrastructure ensures it will not be replaced in the global supply chain easily. Chinese companies can source goods easily. China also boasts a large network of high-speed rail and expressways, which allows products to be transported efficiently. The importance of these transport advantages has become fully clear right from the start of the pandemic when global supply chains were seriously disrupted due to the aggressive implementation of infection control measures. From the production and supply of masks, protective suits, and medical equipment in the early stage of the outbreak, to consumer electronics, household goods, and other products during later months, China's exports have made up for overseas shortages in all kinds of goods segments.

- **Domestic market**: Being the world's second largest economy, China's rising purchasing power, expanding middle class, and a population approaching 1.4 billion, touts it to become the largest retail and online market in the near future. This trend has remained in the wake of COVID-19. The strong domestic market performance will benefit from China's «dual circulation» strategy, which intends to spur China's domestic demand and simultaneously create conditions to increase foreign investment and boost production for exports. The focus on China's domestic markets will also buffer the impact of global economic headwinds on the country's economic and financial stability. This is why China's government has sped up market opening reforms to make it easier for businesses to scale up, innovate, and boost economic activity, and as a result, fuel consumption growth.

- **China's market reforms and opening**: China tries to attract greater foreign investment by relaxing more market access restrictions and continuously introducing improvements to the business and regulatory environment. With the Foreign Investment Law and supporting regulations coming into effect this year, together with other reforms in the areas of company establishment, tax, finance, reporting and compliance management, foreign investors in China are playing on a more even ground with domestic competitors.

China is already an important global trade partner and should significantly expand its significance in the future. For example, Oxford Economics forecasts that in the year 2030, 9 out of the 15 cities contributing most to global GDP, will be in China.



Source: Oxford Economics, Statista

The recently published news with regards to the development of a vaccine for COVID-19 are very positive for the global economy as well as financial markets worldwide. However, the pandemic is not over yet and especially the winter will lead to severe restrictions in many parts of the world. We are generally positive for equity and bond markets over the next 12 months. We favor Switzerland, the United States, and China over Europa and continue to focus on equities of high-quality companies with strong balance sheets in the healthcare, technology, and consumer goods sectors.

Market participants do not expect any further rate changes by the US central bank Fed over the next 12 months but they do expect a rate cut by the European Central Bank ECB. 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 which should provide for good opportunities over a longer period of time (in particular distressed, structured credit, and global macro funds). We maintain our gold position for diversification reasons.

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Limmat Wealth Ltd.