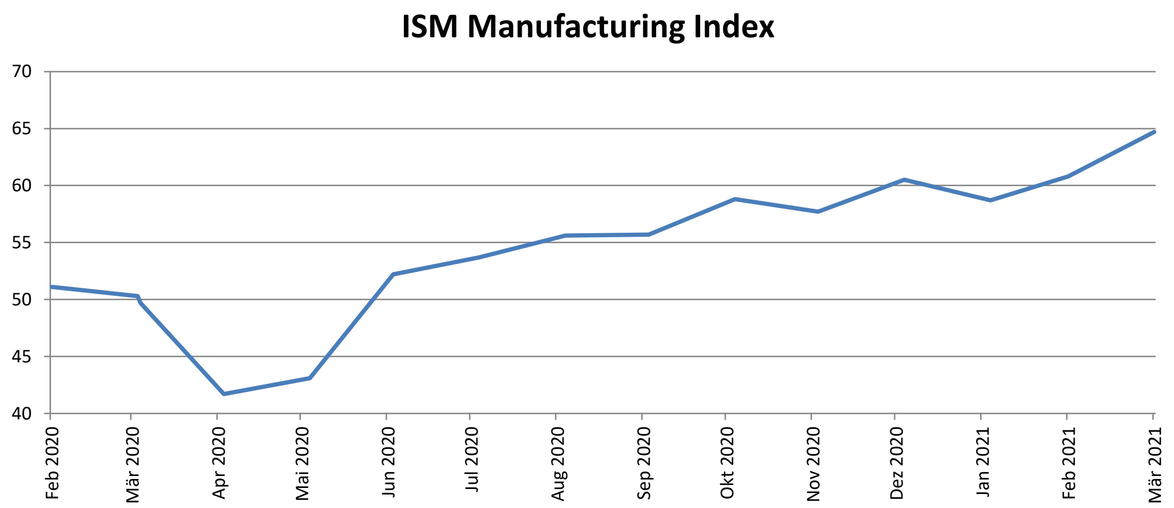
REVIEW OF THE FIRST QUARTER 2021

The road to normal

More than a year has passed since the outbreak of the Corona pandemic and it remains the single most important factor shaping the trajectory of the economy. Although new and more contagious mutations of the virus are spreading due to the progress of vaccinations the situation is showing signs of significant improvements towards the early summer. In the USA, 30 percent of the population have already been vaccinated.

The International Monetary Fund (IMF) recently raised its forecast for global economic growth this year to +6%. In mid-March, the US Congress finally approved President Biden's proposed USD 1.9 trillion economic stimulus package. Subsequently, Biden announced an infrastructure spending bill exceeding USD 2 trillion. The stated intention of the program is to renew America's infrastructure over a period of 8 years and to combat climate change. The Biden administration announced that the infrastructure bill will be partially financed by tax increases. They intend to raise corporate taxes to 28% from 21%. Under President Trump corporate taxes had been cut from 35% to 21%.



In the USA, the IMF is expecting strong economic growth of +6.4%. In the first quarter, more than 1.6 million new jobs were created, bringing the unemployment rate down to 6%. However, it is still too early to speak of a complete recovery in the US labour market, as the number of jobs is still about 8 million below the level of the previous year. Rising leading indicators at the end of the first quarter point to a strengthening of the recovery in the US economy. ISM Purchasing managers indices for the services sector and industry rose to 63.7 and 64.7 respectively.

China was the only major economy to show a positive economic development last year, growing +2.3%. Economists are expecting economic growth of up to +8% in 2021.
In the Eurozone, on the other hand, progress is slower due to delays in the vaccination rollouts and new lockdowns. The IHS Markit Purchasing Managers' Index rose significantly to 62

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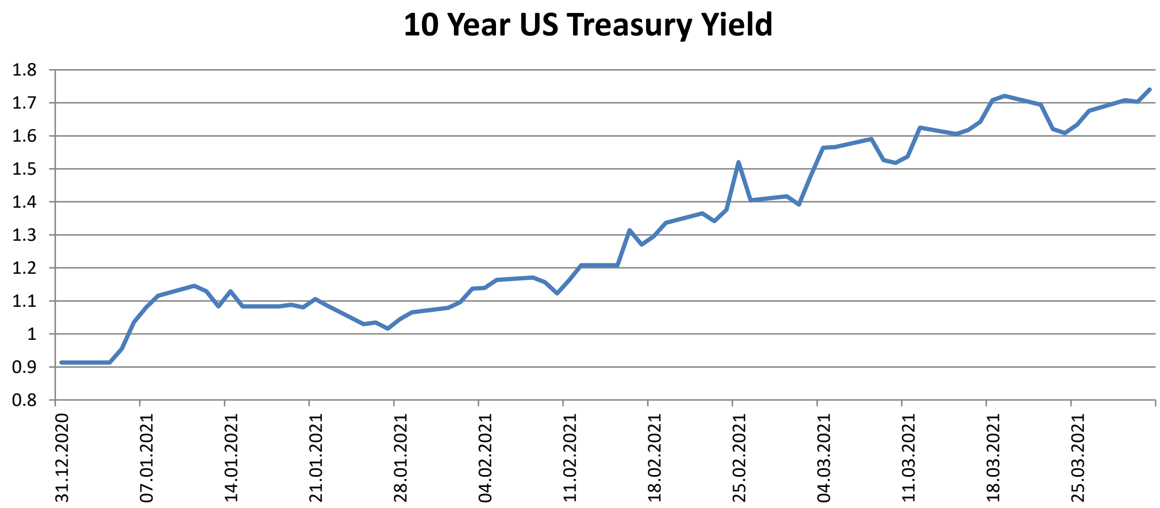
points, reflecting the benefitting of the industrial sector from booming global trade. The index for the service sector, at 48.8 points, is still below the important growth threshold of 50. The IMF forecasts economic growth of +4.4% for the Eurozone this year, following the -6.8% slump in 2020.

Rising interest rates at the long end

As markets expect the inflation rate in the USA to rise to 2.5% this year, the prices of long-term bonds came under increasing pressure. The yield on the ten-year US Treasury rose from 0.9% to 1.75% in Q1, approaching pre-covid levels. This has led to a much steeper yield curve with interest rates remaining at 0% at the short-end. As a result, the ten-year US Treasuries have declined by approximately 7% since the beginning of the year.



Despite rising inflation expectations, the Federal Reserve left key interest rates at the low level of 0% - 0.25%. The Fed will also continue the QE bond-buying programme of USD 120 billion per month. President Powell has stated that the Federal Reserve's employment and price targets have not yet been attained. The ECB also decided to leave the interest rates unchanged, although the inflation rate has shown an increase from -0.3% to +1.3% since the beginning of the year, mainly due to recovering commodity prices. Although inflation has increased from - 0.3% to +1.3% in 2021, the ECB decided to leave their key interest rate unchanged. Rising commodity prices are the main component of the increase in inflation.

President Lagarde also announced that she would accelerate bond purchases under the EUR1.85 trillion PEPP bond-buying programme in the second quarter in order to counteract a rise in long-term interest rates in the euro zone and to maintain favourable financing conditions.

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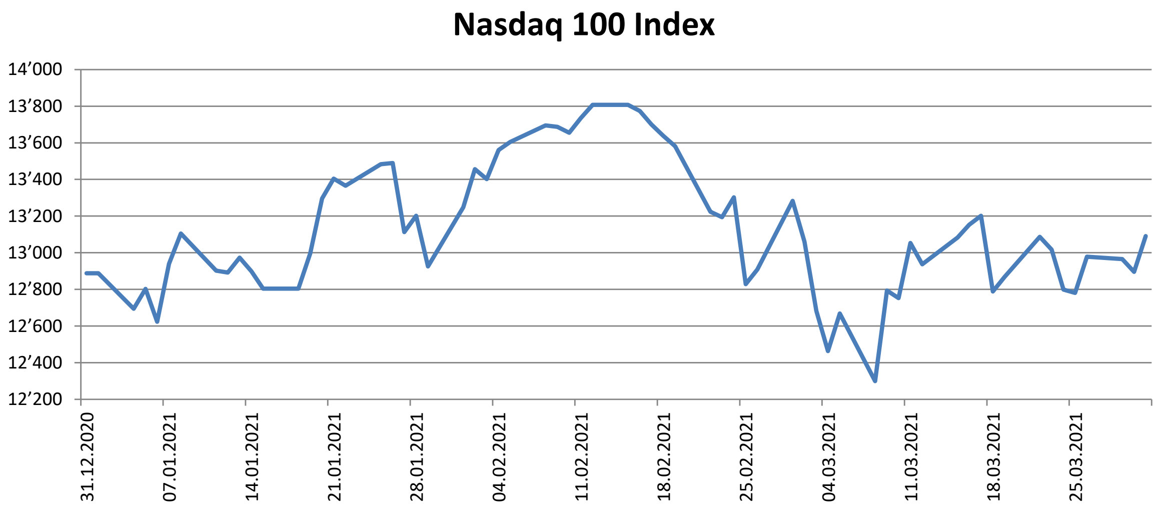
Sector rotation in the equity markets

Against the backdrop of rising long-term interest rates there was a profound sector rotation in the equity markets in Q1. Richly valued growth stocks and defensive sectors such as utilities suffered most. In contrast, cyclical industrial stocks and small-caps benefited most from the rotation. Stocks in the energy and commodities sectors offering deep-value also performed well. The MSCI World Index profited from the continued expansive monetary policy of the central banks. TINA (**T**here **i**s **n**o **a**lternative) as well as the improved growth outlook, enabled the index to rise by 4.2% in the first quarter.



While the Nasdaq 100 Index, which heavily-weighted towards US technology stocks, was almost unchanged at +1.6% at the end of the first quarter, the S&P 500 and the US small-caps index, Russell 2000, realized price increases of 5.8% and 12.4% respectively. The broad STOXX Europe 600, the Swiss SMI and the British FTSE 100 each posted positive performances of 7.7%, 3.2% and 3.9%, respectively. The Japanese Nikkei 225 ended the first quarter of 2021 up +6.3%, while the Chinese CSI 300 Index lost -3.1%. The decline in China is attributed to their strong performance in 2020 and the Chinese central bank attempts to curb excessive real-estate speculation through a more restrictive monetary policy. The conflict between the USA and China has continued unabated under President Biden. Ultimately, it is about global supremacy. In all likelihood, this conflict will remain a dominant feature of global events for the foreseeable future.

Investment Policy and Outlook

In the current environment, we remain overweight equities. After years of very low inflation, we do not believe that Western central banks will respond to a short-term rise in inflation with a more restrictive monetary policy. We expect key interest rates to remain at current levels for some time to come. Over the past months, analysts have been revising up their earnings expectations for 2021. We think that these inflated expectations may disappoint and lead to increased volatility in equity markets.

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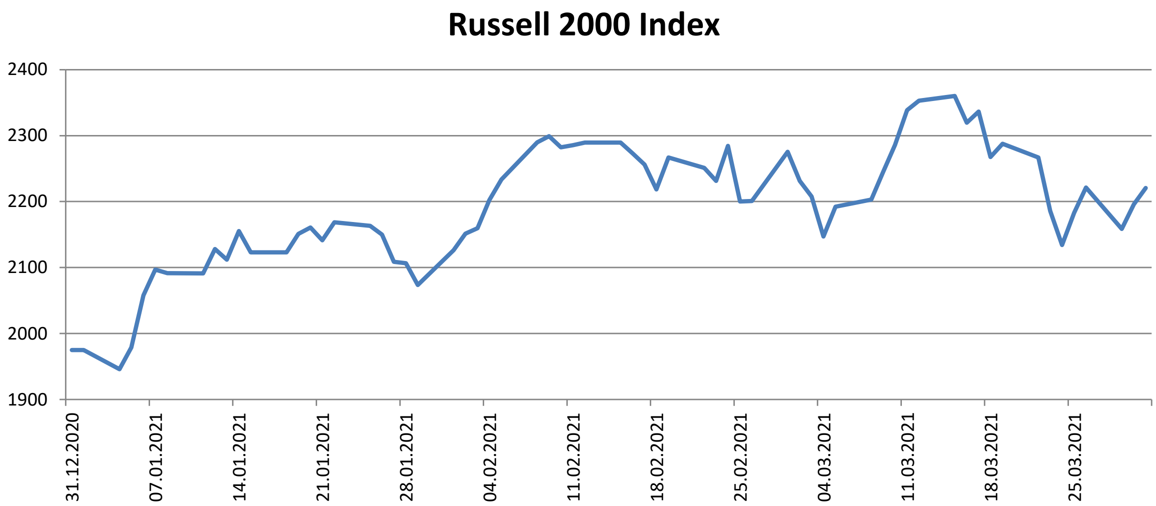
JP Morgan's global bond index fell by -5.6% in Q1 due to higher medium and long-term interest rates. In view of rising inflation, we believe that investments in bonds remain unattractive, even after the recent rise in interest rates. In our discretionary mandates, we were able to largely avoid losses by underweighting bonds and by focusing on short-term maturities.

We increased the USD currency exposure somewhat due to higher yields and the improved growth expectations in the USA. Contrary to the predictions of many experts, the USD gained 4.3% against the euro in the first quarter. Gold fell by -10% in Q1 on the back of expectations of rising interest rates. Gold was up 16% in 2020. We had already realized substantial gains on our positions in gold and gold mining stocks in the fourth quarter. Gold remains a core position because of its ability to function as a portfolio stabilizer.



In the fourth quarter, we had already added American small cap exposure with a Russell 2000 Index fund. Additionally, we added a global commodity equity fund in order to benefit from the expected economic recovery. The two investments made valuable contributions to our performance. The position in China A-Shares had a negative impact on performance due to a 5% decline in the Chinese stock market.

During the first quarter, we further increased the equity exposure in our managed portfolios by adding a global energy equity fund and a Japan equity fund. We continue to pursue a constructive investment policy with strict risk management, given the current investment environment.

Schaan, April 2021
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