NOVEMBER 2021

INVESTMENT OUTLOOK

UBP Investment Advisors S.A.

GLOBAL MACRO OUTLOOK

BY VANGHELI LAKIOTIS, CHIEF INVESTMENT OFFICER

As we approach year end, an increase in aggregate demand from reopening economies and the effect of stimulus plans are accelerating growth and stoking inflation around the world. However, as economies move closer to full employment and capacity utilization, a variety of outcomes become possible, especially if we take into account the transition to a low carbon economy, now considered a necessity by consensus, as well as production re-shoring in sectors as diverse as healthcare and semiconductors. Both of the above trends involve abandoning existing efficient and profitable infrastructures in favour of more sustainable, albeit potentially costlier, alternatives.

So, if we consider a rise in energy/input prices in isolation, it can definitely hurt the economy by creating cost-push inflation resulting in reduced growth and potentially even in a stagflation environment, painful to escape from, in the medium term. On the other hand, if demand for related investments is sufficiently strong to create an excess demand environment, higher inflation may be combined with above-potential growth for some time. As a result, we will most probably need to live with higher inflation in the short run in most scenarios. This can also help reduce the huge government debt pile accumulated before and during the pandemic, as long as bond yields remain below nominal growth rates.

In the longer term, however, if overall production capacity is reduced or remains steady, overheating will become inevitable in the context of persistent excess demand. Restrictive fiscal and monetary policies will then be required to keep inflation under control but may eventually lead to recession under the rules of standard business cycles.

In conclusion, if the effectiveness of current investment plans results in an increase of overall production capacity, this will result in a higher potential growth rate while keeping inflation under control, promising a longer cycle and increased prosperity. In other words, almost independently of short-term frictions due to temporarily stretched supply chains and monetary accommodation pullback, in the longer term, it is the impact of current and future changes in aggregate supply that will determine the sustainability of economic growth and stability of the price level.

United States

GDP displays sustained above-trend growth in the USA and should grow by roughly 6% in 2021, before moderating to 5% in 2022. From a labour market perspective, Nonfarm Payrolls surprised negatively in August and September, mainly due to COVID-sensitive sectors. They may benefit from a recovery against reduced expectations over the next couple of months but a more uncertain period may follow due to the threat of COVID case resurgence in the coldest States. The Personal Consumption

Expenditure Index appears poised to stabilise at around 3.6% YoY. Supply chain bottlenecks and labour market frictions putting pressure on wages may make this less of a temporary peak but rather a plateau, slowly deflating into 2022. The Federal Reserve has signalled that conditions are close to being met in order to taper asset purchases. In the absence of an unexpected slowdown, tapering should be announced by the end of the year and be implemented during the first half of 2022. The first Federal Funds rate hike may follow in the second half of the year.

Europe

GDP Growth in the eurozone is also solid and expected to remain above trend due to policy support. Around 5% growth is expected in 2021 and 2022. The ECB appears to be the most dovish among major central banks against the backdrop of lower inflation pressures. However, the significant energy price spike and its impact need to be monitored carefully.

Following the outcome of the German election, two government coalitions are likely going forward: traffic lights (SPD/FDP/Green) or Jamaica (CDU/CSU/FDP/Green) with the former constituting the most probable outcome. Both appear centrist and environmentally friendly with a relative pro-deficit fiscal tweak for the former and a more balanced budget approach for the latter.

The UK economy has been recovering strongly but is facing supply-chain disruptions related to Brexit, which may hurt output in the near term. Switzerland's GDP is rising fast as well and inflation remains benign with the SNB sticking to the negative rate policy and foreign asset purchases.

Emerging Markets

Chinese economic growth may not hit the 8% expectation for 2021 for several reasons. First, the delta variant in conjunction with the country's zero COVID strategy implies drastic measures affecting production. Second, the crackdown on local internet and private education champions followed by potential default of Evergrande (north of 300 bn USD debt outstanding) hurt sentiment and increase awareness of potential pitfalls in the Chinese economy and financial markets. Finally, reduced shipping capacity and soaring associated costs and energy prices hinder deliveries and/or production.

Latin America is struggling with COVID as it is only now exiting the cold season and vaccination rates are low, with most countries experiencing a three to six-month lag with respect to the USA and Europe in achieving a 70% full vaccination of their adult population. However, this delay also implies a staggered recovery potential.

Emerging Europe has been quite strong against the backdrop of strong recovery in the eurozone. In Russia, the ruling party United Russia has weakened its grip on power while securing roughly 50% of the votes and a comfortable majority in the Duma at the most recent election. Moreover, oil and natural gas prices, crucial for the country's trade balance, have rallied substantially underpinning the ruble.

BY VANGHELI LAKIOTIS, CHIEF INVESTMENT OFFICER

Developed market equities

Risks appear balanced going forward with regards to the asset class. On the one hand, rising yields and increasing uncertainty regarding future cash flows due to energy price inflation and supply chain disruptions would tend to compress valuations. On the other hand, still robust economic growth and fiscal stimulus plans provide support.

Emerging market equities

Emerging markets should benefit from a staggered recovery as spring draws in for the South and vaccination rates catch up their lag with respect to developed economies. However, as inflationary pressures mount and global liquidity is expected to decline, uncertainty with respect to company earnings increases, challenging equity valuations. We adopt a neutral stance.

US bonds

US Treasury yields are on a positive trend and may still have room to rise further. As a result, our approach of keeping sensitivity to associated moves relatively low is maintained. Historically tight spread levels of investment grade bonds do not allow the segment to appear more attractive on relative terms. However, inflation-linked bonds may be more adequately priced despite their appreciation, especially as inflation expectations adjust slowly to the gradually revealed persistence of inflationary pressures.

Emerging market local currency bonds

The potential for a strong US Dollar going forward implies limited potential for appreciation for Emerging Market currencies. On the other hand, the 5.5% average yield to maturity appears compelling in the current environment. We maintain our neutral view.

Emerging market hard-currency bonds

Emerging Market hard currency bonds are not immune to rising US Treasury long-term yields. They offer nonetheless a 3.3% yield pick-up on average, which compensates fairly for asset class-related risks in our view, giving rise to a balanced outlook.

Global high yield

We remain wary of high yield bond spreads hovering at very tight levels, implying a low yield pick-up and a protection buffer against rising yields. The expected tightening of financial conditions also reduces the appeal of the asset class.

Alternative investments

As credit conditions are expected to tighten and uncertainty surrounds company cash flows going forward, alternative funds may continue to struggle, especially with short-term rates remaining close to zero. The illiquidity premium is not expected to increase as long as inflation expectations remain relatively tame. We continue to believe convertible bonds constitute an appealing investment at this point of the cycle due to some degree of downside protection, as well as upside participation optionality.

Commodities

The supply-demand dynamics continue to be favourable for the asset class. Chronic underinvestment due to declining prices over the last several years constitutes a tailwind for prices by limiting supply. Reopening of economies, withdrawal of COVID-related restrictions and fiscal stimulus plans add to this effect by increasing related demand.

Gold

The Federal Reserve's forthcoming bond buying tapering and the potential for persistently rising long-term US Treasury yields reduce the appeal of gold by increasing the opportunity cost of holding it. However, against a backdrop of still simmering geopolitical tensions and still relatively low yield levels, we believe that the metal remains one of the most effective safe havens. We adopt a neutral stance.

Cash and equivalent investments

The Federal Reserve appears engaged on a path to monetary policy tightening, against a backdrop of relatively high inflation readings and a decelerating albeit still functional labour market. However, short-term rates are expected to remain low for some time while longer-term yields continue on their rising trend. We appreciate the principal protection the extended asset class provides and maintain our positive view.

OUTLOOK FOR SWISS & GERMAN SMALL-TO-MID-SIZED COMPANIES

BY ANGELIKA STÜCKLER, SENIOR INVESTMENT MANAGER

Slower growth ahead?

The strong equity rally of was interrupted in September, as inflation and growth fears caused investors to take profits. At the end of September, SME companies in Switzerland rallied 17.5% (SPI Extra, CHF) until the end of September, while German indices were lagging but posted solid gains with 11.6% (Mid-Cap DAX Index, EUR) and 11.8% (Small-Cap-DAX Index, EUR). While most companies generated solid results in 2021 it is obvious that the strong rebound dynamics of global growth is decelerating and global procurement frictions are curbing production and resulting in accelerating input prices. The sector performance in Q3 shows a typical “risk-off” pattern as investors bought into defensive sectors like consumer staples, utilities and healthcare. Cyclical sectors, especially consumer discretionaries were lagging overall equity performance. Also, from a long-term perspective, defensive sectors show relative strength over cyclicals, as large industries (i.e. automobiles) and their SME suppliers are changing fundamentally. In Switzerland, SME investing is further gaining attractiveness: The Swiss stock exchange (SIX) has created a new segment called “Sparks” in October for start-up SME corporations. With this platform, SIX wants to support SMEs that are interested in rapid growth. The new listing should bring advantages to the owners like more flexibility in their ownership structuring, new financing options and access to a broad base of investors.

Sector trends

In Germany, the business climate survey (ifo-KFW Mittelstandsbarometer) has declined several times into September, mainly due to the marked deterioration in the mood of the processing industry. The demand for German industrial products is still high, but procurement problems and lower shipping capacities are burdening production. Large corporations also increasingly face stronger headwinds. Positive signs came from the construction as well as domestic service sectors, which had been impacted before due to COVID-lockdowns in Germany. SME corporations are expecting a deterioration in the coming quarters, and growth in Q4 is expected to be slower but positive. However, the rapid expansion of digital distribution channels has limited sales losses. Despite the fall in earnings, the feared deterioration of the SMEs equity base has failed to materialise. Swiss SME companies still reported increasing PMI data in September, although ongoing delivery bottlenecks persist as a headwind. Strong customer orders and well-utilised production capacities are encouraging. The Raiffeisen KMU PMI rose from 56.6 to 63.9 in September and is close to the record level of May. The pace of expansion has accelerated recently on strong demand. The outlook for exports in Switzerland is also solid: SME companies expected a record increase in exports in August. According to the latest survey by Switzerland Global Enterprise and Credit Suisse, 67% of SMEs expect their exports to increase in H2 of 2021.

Stocks in Focus

Kardex Holding AG, Swiss-based, offers static and automatic storage solutions and material flow systems. The company has two divisions: Kardex Remstar and Kardex Mlog. The Remstar division is active in the development and production of dynamic storage and retrieval systems. The Mlog division develops and produces integrated material flow systems and automated high-bay warehouses. The company benefits strongly from the shift to online retailing and supply-chain investments in the COVID pandemic.

Hornbach Group, based in Germany, operates 160 do-it-yourself (DIY) megastores and garden centres in nine European countries. In Germany, it is the largest DIY operator with a market volume of 51.5 bn EUR (2020), and in Europe, Hornbach ranks fifth given its net sales. The share of online sales has jumped during the COVID-related lockdown periods to 40%. A decisive factor in growth and competition is the high level of productivity and Hornbach management aims to grow organically and sustainably with profitable stores and fewer acquisitions to gain market share.

Disclaimer

UBP Investment Advisors S.A. (UBP IAS) is an SEC-registered investment advisor with offices in Geneva and Zurich, Switzerland. Registration as an investment advisor does not constitute an endorsement of the firm by securities regulators, nor does it indicate that the advisor has attained a particular level of skill or ability. UBP IAS offers a broad range of investment advisory and wealth management products and services. A description of our services and fees is provided in our Form ADV Part 2 Brochure available through the SEC's website at www.adviserinfo.sec.gov. Further information can be provided by UBP IAS Advisors.

This document is marketing communication. The information presented is solely for informational purposes and does not constitute an advertisement, investment advice, research, or recommendation to pursue a particular strategy or offer to purchase, or sell any securities, funds, commodities or other products, nor does it include all the relevant information an investor may wish to consider in making investment decisions.

The companies mentioned herein are not affiliated with UBP IAS.

This document is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

The information presented is based on sources believed to be reliable. We do not warrant its accuracy or completeness and expressly disclaim any liability for errors or omissions in the information presented. The opinions and views expressed herein are subject to change at any time and with no obligation on our part to provide updates. This information may not be modified, or distributed to third parties without our express prior written consent.

This document may contain certain statements that may be deemed "forward-looking statements". Any such statements are not guarantees of any future performance and actual events, results, performances or developments may differ materially from those projected. Any statements regarding the future should be considered forward-looking and thus subject to a great deal of uncertainty and risk. Any projections, market outlooks, or estimates are based upon certain assumptions and should not be construed as indicative of actual events that will occur. Prospective investors should not rely on these forward-looking statements in deciding whether to invest.

Any market, statistical, or pricing information presented is being provided for illustration purposes. Any discussion of historical performance results for investment indices and/or benchmarks is being provided for general information purposes only. Investors cannot invest directly in an index.

Investment results will fluctuate and may be highly volatile, particularly over the short term. Past performance is not a guarantee of future results and no projection or representation can be made regarding future performance results. All investments carry risk of loss. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, investment model, or product, will be profitable, prove successful, equal any corresponding indicated historical performance level or benchmark, or be suitable for a particular individual situation or portfolio. Asset allocation and diversification does not ensure or guarantee better performance or protect against loss. Any strategies or investments discussed do not constitute personalized investment advice, may not be suitable for all investors, do not take into consideration an investor's specific investment objectives or risk tolerance and may not be available in all states, countries or jurisdictions.

Foreign securities may involve the risk of loss due to political, economic, regulatory, and operational uncertainties, currency fluctuations, and generally higher credit risk for foreign issuers. Investors should be aware that all of these risks may be heightened in emerging markets.

The views, analysis, or positions shown may be different from those of Union Bancaire Privée (UBP) and UBP group affiliates.

UBP Investment Advisors S.A. | Geneva
Place Camoletti 6, 2nd floor | 1207 Geneva | Switzerland
T +41 22 317 49 60
info@ubpias.com | www.ubpias.com

UBP Investment Advisors S.A. | Zurich
Bahnhofstrasse 1 | 8001 Zurich | Switzerland
T +41 22 317 49 40
info@ubpias.com | www.ubpias.com