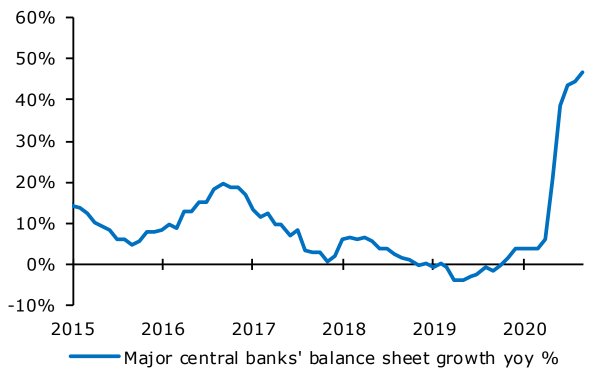
Quarterly Investment Letter – Q4 2020

In a sea of money, fundamentals take a backseat

In the first half of 2020, the US Fed, along with the European Central Bank, Bank of England and Bank of Japan, **purchased USD 6 trillion in public and private sector debt**. In comparison, the same central banks spent USD 1.5 trillion on quantitative easing measures after the Global Credit Crisis in 2008. However, this was over a time span of 5-years. The massive intervention of central banks is **diminishing the importance of fundamentals** in determining the price of risk assets and bubbles can build. For investors, this means that the role of **momentum investing and psychology** is increasing. The negative real rate in government bonds and large parts of investment grade bonds forces investors to deploy their cash in **riskier higher yielding assets**, **niche strategies** and **alternative investments**. This will likely remain the case over the medium term.

Chart 1: Massive expansion of central banks' balance sheets



Source: Bloomberg Finance L.P., Alpinum Investment Management

United States

Market consensus expects US GDP growth to drop by **-4.4% in 2020** and to recover by **+3.8% in 2021**. The downside risks to that forecast over the next 3-6 months are escalating US-China geopolitical tensions, the presidential election in November 2020 and a potential second wave of COVID-19 cases. While the virus remains a lingering problem,

Summary Points

- Over the next 3-6 months we expect global economic growth to be reasonable, based on the outlook for a viable vaccine, central banks' ultra-loose monetary policy and governments' fiscal stimulus measures reaching over USD 13 trillion or 15% of global GDP.
- To maintain growth momentum in the US, it will be key for Congress to bridge the gap to a "post-COVID-19 economy" with another fiscal stimulus bill. The bill must pass before the election in November 2020.
- The European fiscal response has been adequate, but the European Central Bank (ECB) needs to do more to support the extra fiscal stimulus. Otherwise the ECB's inflation target of 2% loses further credibility.
- China is the only major economy likely to achieve positive GDP growth in 2020 and the upswing is confirmed. With the 100th anniversary of the Chinese Communist Party next year, Beijing is unlikely to allow growth to relapse.
- **Conclusion**: Central banks' monetary policy and governments' fiscal stimulus measures remain a tailwind for global equities and fixed income, while the whole yield curve will stay depressed. To achieve a reasonable return, investors will either need to downsize their return expectations or increase their allocations to higher risk assets and more risky bond segments. This will lead to a momentum and psychology driven market, while valuations take a backseat. Until year-end, investors should expect spikes in volatility and larger swings in asset prices. The tolerance for losses is particularly small for investors with a negative year-to-date performance.

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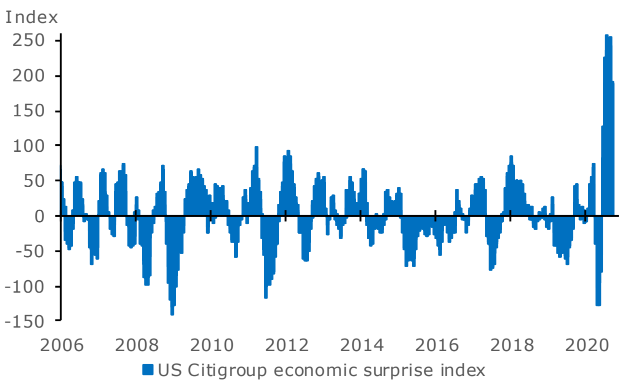
three leading vaccine candidates from the University of Oxford, Moderna Therapeutics and BioNTech, are racing for final approval before year-end 2020. That said, the time required for **manufacturing and distribution would last well into Q1/Q2 2021 (best case)**. Nevertheless, sentiment would get a major boost and the pandemic's most affected sectors, such as leisure, food, hospitality and travel could recover sustainably. Combined, these sectors account for 10% of GDP and represent 25% of employment. During the **first phase of the recovery**, the **US has surprised on the upside** (chart 2). The unemployment rate declined to 8.4%, retail sales recovered, and manufacturing PMIs returned to 54.6 points. The **key over the next 3-6 months** will be Congress needing to bridge the gap to a "post-COVID-19 economy". The **next phase of the recovery** will likely be **more uneven**, and Congress needs to **pass another fiscal stimulus bill** ahead of the presidential elections on November 3 2020 to reach the consumer. For our base case scenario to hold, (page 6) another relief programme is required (market expectations amount to **USD 1 to 2 trillion**). Speaking of the US presidential election, we do not want to speculate, whether Biden or Trump will win. That said, one should not underestimate Donald Trump's determination to be re-elected at all costs and, to bring change, Democrats need to win the presidency and control the Senate.

At the end of August 2020, the **US Fed announced its plan to adapt** its approach to its dual role of achieving maximum employment and stable prices. The Fed's new policy of **"average inflation targeting"** means that it will be more focused on maximum employment and it **will allow inflation to overshoot** its 2% target. Hence, monetary policy will stay loose for longer and it is not clear how much inflation would prompt the Fed to raise rates.

Chart 2: Citigroup economic surprise index



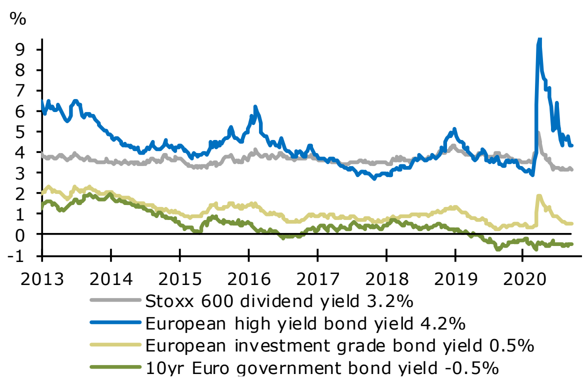
Source: Bloomberg Finance L.P., Alpinum Investment Management

Europe

Compared to the US, trade and manufacturing make up a larger share in the European economy and, hence, make it more volatile. For **2020, GDP** growth is expected **to fall by -8.1%** and to recover by **+5.5% in 2021**. The extent of the rebound will depend on 1) Europe's continuing fiscal response 2) the ECB's monetary policy 3) the risk of a second wave of COVID-19 infections and 4) China's industrial cycle.

Our assessment of the European economy shall focus on the first two points. Overall, the European **fiscal response was adequate**. Even more so, at the end of July 2020 EU leaders reached an **historic agreement** on a EUR 750 billion "Next Generation EU" recovery fund. Part of the fund will be financed through joint borrowing, which was a breakthrough and **first step towards a fiscal union**. If the **ECB** wants the extra fiscal stimulus to have the desired effect, **it is urged to do more**. That is what is happening in the US. Back in September 2020, the central bank still held back on injecting new stimulus, although **Eurozone prices fell into negative territory** for the first time in four years. Hence, the pressure on the ECB to act is mounting. If not, the Euro's strength and disinflation is likely to continue. **Central banking is about confidence** and the more the ECB's inflation target of 2% loses credibility, the harder it will be to reach it. Today, **hardly anyone believes the ECB** will reach its inflation target anymore. Hence, going forward, the central bank may be forced to adopt something like the US Fed. Needless to say, **interest rates in Europe will stay lower for longer**. As a result, investors will **either have to adjust their return expectations downwards** or increase their allocations **to higher risk assets and more risky bond categories** (chart 2).

Chart 3: Forcing investors into higher risk assets



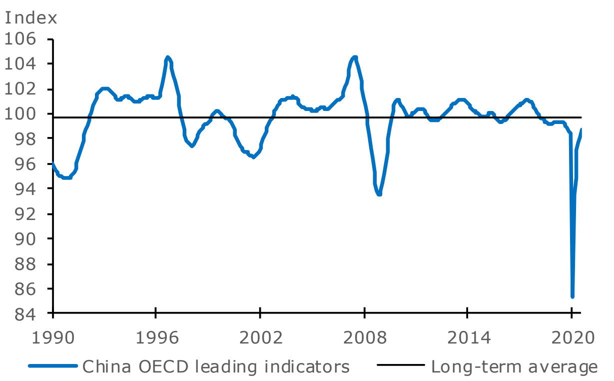
Source: Bloomberg Finance L.P., Alpinum Investment Management

China

China is forecast to be the only major economy to achieve **positive GDP growth** this year with **+2.1%** (World GDP growth 2020e -3.9%). The upswing is confirmed by the Caixin manufacturing PMI, which rose to 53.1 points (July 52.8 points) and China's industrial production, which strengthened further to +5.6% yoy. The **weakest link** in the Chinese economy **remains consumer spending,** as the pandemic has led real incomes to fall by -1.3% yoy. The Chinese government is aware of that and has rolled out various measures to protect jobs for its rapidly growing **middle class of over 400 million people** (population 1.4 billion). To become more immune to external demand and in response to the accentuating rivalry with the US, Beijing recently announced a **new strategy, called "dual circulation"**. The goal is to cut China's dependence on overseas markets such as for technology ("external circulation") and to **build a more closely integrated domestic market** ("internal circulation"). To jump-start "internal circulation", China needs to boost household incomes and consumption. As a comparison, China's domestic consumption expenditure as a percentage of GDP stands at 55%, while it amounts to 82% in the US.

China's economic outlook remains consistent, with a **rebound in global manufacturing activity, a weaker US Dollar and firmer commodity prices**. The time lag between economic policy and activity is typically between six to nine months. As **China continues to stimulate its economy**, cyclical asset prices should have another six to nine months of positive momentum. Finally, there is the **100th anniversary of the Chinese Communist Party** next year. The likelihood for Beijing to allow growth to relapse in 2021 is low. In the end, the party secures its power through economic prosperity.

Chart 4: China OECD leading indicators



Source: Bloomberg Finance L.P., Alpinum Investment Management

Investment conclusions

Over the **next 3-6 months** we expect **global economic growth to be reasonable**, considering the outlook for a viable vaccine, central banks' ultra-loose monetary policy and governments fiscal stimulus measures reaching over USD 13 trillion or 15% of global GDP. The above-mentioned combination is a tailwind for global equities and certain fixed income segments, while the whole yield curve will stay depressed. To achieve a reasonable return, investors will **either need to adjust their return expectations** or increase their allocations to **higher risk equities and bond segments.** The **immediate risks** are that future fiscal stimulus measures fall short of expectations, the pandemic leads to renewed lockdowns and the US election outcome ends in a mess and is contested. In a **momentum and psychology driven market**, **volatility will naturally spike** from time to time and lead to larger swings in asset prices. In the end, everyone wants to participate on the way up but protect gains (if any) until year end. The **tolerance for losses is particularly small** for investors with a negative year-to-date performance.

Bonds: With Western 10-year government bond yields close to 0% or negative, investors are **running out of effective hedges**. The US 10-year treasury at 0.6% remains the only liquid safe haven during drawdowns. The global monetary and fiscal framework will keep **default rates (although rising) in check** and underpin prices of higher risk bond segments. The **sweet spot in credit** remains **European and US loans,** followed by **US and Scandinavian short-term high yield** bonds. Within emerging markets, default expectations are lowest in Asia. Hence, we prefer **Asian investment grade and selective high yield bonds**. In the search for yield, **alternative investments**, such as **structured credit**, gain popularity again and add value to a diversified portfolio.

Equities are **attractive relative to low yielding bonds**. This will not change as long as 1) dividend yields are far above 10-year government bonds and 2) high rated bonds bear negative real rates. In a momentum and psychology driven environment, **valuations can move into bubble territory** and investors should prepare for **more volatility ahead**. With the US Dollar expected to weaken, the **rebound in the global industrial cycle** and commodities have further to run. **US stock momentum remains in the lead, followed by emerging markets.** Europe is more of a tactical play. Cyclical sectors should outperform growth sectors.

Market Consensus Forecasts

GDP growth (%)	2018	2019	2020e	2021e
World	3.6	2.9	-3.9	5.2
United States	3.0	2.2	-4.4	3.8
Eurozone	1.8	1.3	-8.1	5.5
Germany	1.3	0.6	-6.0	4.8
France	1.8	1.5	-10.0	6.5
Italy	0.9	0.3	-10.0	5.6
United Kingdom	1.4	1.5	-10.0	6.4
Switzerland	3.0	1.2	-5.1	4.0
Japan	0.3	0.7	-5.7	2.5
Emerging economies	4.9	n.a.	-1.0	4.9
Asia Ex-Japan	6.1	5.3	0.8	5.4
Latin America	1.5	1.1	-6.6	4.2
EMEA region	4.8	2.8	-4.6	3.9
China	6.7	6.1	2.1	8.0
India	7.0	6.1	4.2	-8.0
Brazil	1.3	1.1	-5.3	3.5
Russia	2.5	1.3	-4.4	3.3

Inflation (%)	2018	2019	2020e	2021e
World	3.6	3.6	2.3	2.6
United States	2.5	1.8	1.1	1.9
Eurozone	1.8	1.2	0.4	1.0
Germany	1.9	1.4	0.5	1.4
France	2.1	1.3	0.6	1.0
Italy	1.3	0.7	-0.1	0.6
United Kingdom	2.5	1.8	0.9	1.5
Switzerland	1.0	0.4	-0.7	0.1
Japan	1.0	0.5	0.0	0.2
Emerging economies	3.6	3.1	3.6	3.6
Asia Ex-Japan	2.3	2.6	2.2	2.5
Latin America	7.5	3.2	7.2	8.0
EMEA region	5.7	6.1	5.1	5.2
China	2.1	2.9	2.8	2.2
India	4.0	3.7	4.8	5.5
Brazil	3.7	3.7	2.6	3.1
Russia	2.9	4.5	3.3	3.6

Central bank rates (%)	2018	2019	2020e	2021e
US Fed Funds	2.50	1.75	0.25	0.30
ECB Main Refinancing	0.00	0.00	0.00	0.00
China 1yr Best Lending	4.35	4.35	4.30	4.30
Bank of Japan Overnight	-0.06	-0.07	-0.10	-0.10
UK Base Rate	0.75	0.75	0.10	0.10
Swiss 3mth CHF Libor	-0.75	-0.75	-0.75	-0.75

Commodities	2018	2019	2020e	2021e
NYMEX WTI oil USD/barrel	50	57	38	43
ICE Brent oil USD/barrel	56	62	41	45
Iron Ore USD/metric ton	71	91	103	94
Copper USD/metric ton	5965	6174	6077	6583
Gold USD/troy oz	1277	1518	1789	1903
Silver USD/troy oz	15.5	17.9	20.6	24.0

Major interest rates (%)	2018	2019	2020e	2021e
USA 3mth rate	2.8	1.9	0.3	0.4
USA 10yr Gov't Bonds	2.7	1.9	0.8	1.2
Eurozone 3mth rate	-0.3	-0.4	-0.5	-0.4
Eurozone 10yr Gov't Bond	0.2	-0.2	-0.4	-0.2
China 3mth rate	3.3	3.0	2.6	2.7
China 10yr Gov't Bond	3.3	3.1	3.0	3.0
UK 3mth rate	0.9	0.8	0.1	0.2
UK 10y Gov't Bond	1.3	0.8	0.3	0.6
Swiss 3mth rate	-0.7	-0.7	-0.7	-0.7
Swiss 10y Gov't Bond	-0.3	-0.5	-0.5	-0.4

Exchange rates	2018	2019	2020e	2021e
EURUSD	1.15	1.12	1.19	1.23
EURCHF	1.13	1.09	1.08	1.12
USDCHF	0.98	0.97	0.91	0.91
EURJPY	125.81	122.20	125.00	131.00
EURGBP	0.90	0.85	0.91	0.90
USDJPY	109.70	108.72	106.00	105.00
GBPUSD	1.27	1.33	1.30	1.35
USDCNY	6.88	6.96	6.85	6.72
USDBRL	3.88	4.02	5.30	5.02
USDRUB	69.72	62.49	74.25	70.12

Performance table

		Performance		
Global equity markets	Price	Q3	Ytd Q3	Div.yld
MSCI World (USD)	2366	7.5%	0.3%	2.1
MSCI World (USD) hedged	1143	6.9%	1.6%	n.a.
HFRX Global Hedge Fund	1307	2.3%	1.1%	n.a.
S&P 500	3352	8.1%	3.7%	1.8
Russell 1000	1867	8.7%	4.6%	1.7
Nasdaq 100	11364	11.9%	30.1%	0.8
Stoxx Europe 600	363	0.6%	-12.8%	2.9
MSCI Emerging Markets	1070	7.5%	-4.0%	2.3
Nikkei 225	23539	5.6%	-0.5%	1.7
China CSI 300	4592	10.3%	12.1%	2.0

	Forward		EPS growth	
Equity market valuations	PE	PB	2020e	2021e
MSCI World (USD)	24.0	2.5	-14%	29%
MSCI World (USD) hedged	n.a.	n.a.	n.a.	n.a.
HFRX Global Hedge Fund	n.a.	n.a.	n.a.	n.a.
S&P 500	25.5	3.6	-14%	27%
Russell 1000	26.7	3.6	-12%	28%
Nasdaq 100	31.5	7.2	10%	20%
Stoxx Europe 600	22.1	1.7	-15%	39%
MSCI Emerging Markets	17.3	1.6	-12%	31%
Nikkei 225	23.6	1.7	-11%	27%
China CSI 300	15.7	1.9	4%	17%

		Performance		
Global gov't bonds	Yield	Q3	Ytd Q3	YtW
10yr US Treasury	0.65	0.4%	11.6%	n.a.
10yr Euro gov't bond	-0.54	1.4%	3.3%	n.a.
10yr German gov't bond	-0.54	0.3%	2.6%	n.a.
10yr Italian gov't bond	0.85	4.1%	6.2%	n.a.

		Performance		
Global bond indices	Price	Q3	Ytd Q3	YtW
Barclays Global Corporate IG	294	2.9%	5.6%	1.6
Barclays US Corporate IG	3456	1.6%	6.7%	2.0
Barclays Euro Corporate IG	261	1.9%	0.7%	0.6
Barclays Emerging Market USD	1233	2.4%	2.0%	4.1
Barclays US Corporate HY	2187	4.2%	0.2%	5.9
Barclays Pan-European HY	398	2.4%	-3.5%	5.1

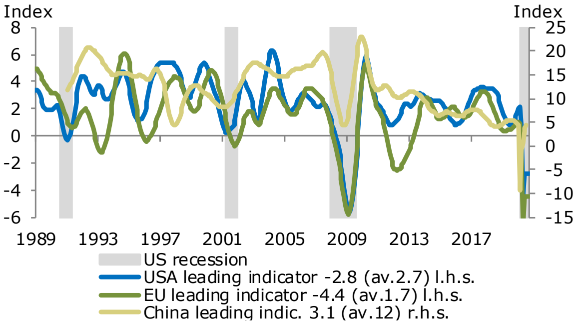
		Performance	
Commodities and currencies	Price	Q3	Ytd Q3
Brent oil	42	2.8%	-35.9%
US Energy Services	29	-13.5%	-63.1%
Copper	6568	9.3%	6.6%
Gold	1884	5.8%	24.2%
EURUSD	1.17	4.0%	4.2%
EURCHF	1.08	1.4%	-0.6%

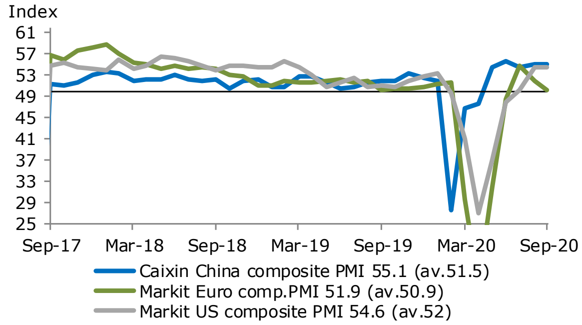
Source: Bloomberg Finance L.P., Alpinum Investment Management
Note: Q3 = data as of September 29, 2020 / PE=price-earnings / PB=price-book / EPS=earnings per share / YtW=yield-to-worst

Key Charts

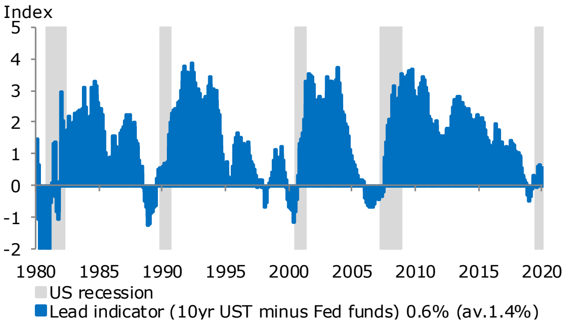
Leading indicators and manufacturing

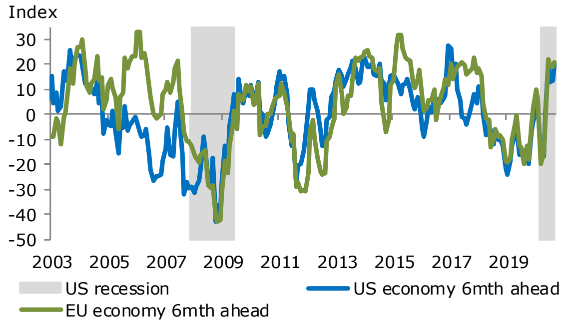
Source: Bloomberg Finance L.P., Alpinum Investment Management



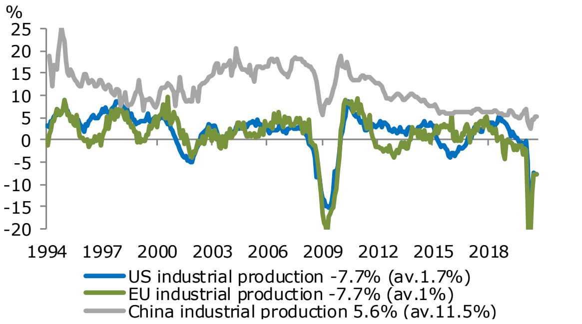


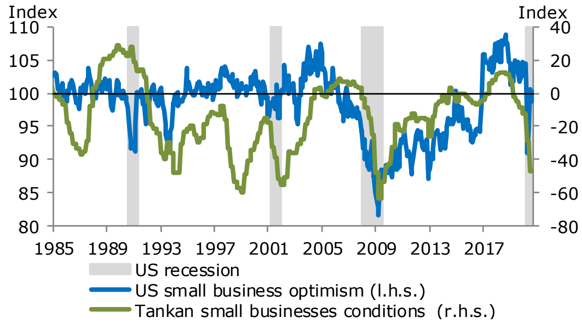
Recession indicator



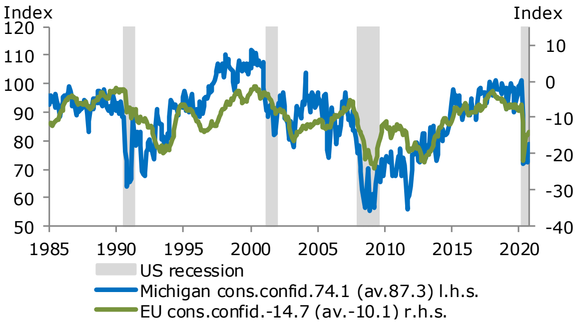


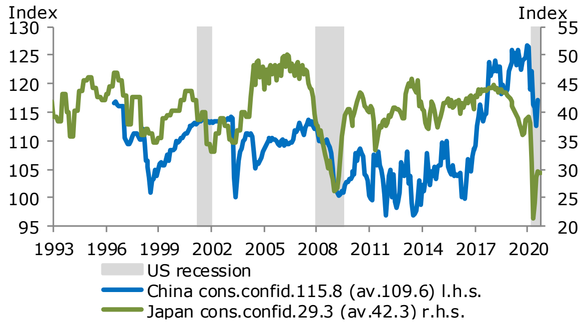
Industrial production and small businesses





Consumer confidence





Scenario Overview 6 months

Base case 75%

- **US:** U-shaped recovery; Q4 GDP level ~95% yoy. US is past the worst within a severe recessionary period. Unprecedented government and central bank support soften the damage meaningfully. H2 benefits from pent-up demand, but on-going social distancing measures prevent a full recovery before Q1 2022. Steep increase of corporate defaults (mainly energy/service sectors).
- **Eurozone** GDP growth collapses (Q4 GDP level ~92% yoy) with immense damage to Southern Europe as the tourism season was disastrous. Huge fiscal stimulus (and solidarity payments from north to south) and unprecedented actions of the ECB can avoid a financial collapse. Europe acts as the weakest link in the Covid-19 crisis.
- **China:** Negative GDP growth in H1 will be fully recouped in H2 and accumulates to +2% in 2020.
- **Oil:** Prices stabilize, but remain volatile, also in case Trump loses the presidency.

Investment conclusions

- **Equities:** Experienced a V-shape recovery and trade on 2021/22 earnings expectations. Equities are vulnerable with P/E 2021 multiples >20. If second wave infections lead to wider regional lockdowns, volatility will shoot up. Nevertheless, ultra-loose monetary policy provides further support to equities vs. high quality bonds. Asian & selective EM equities are preferred.
- **Interest rates:** Slightly negative on rates as limited scope for lower (EUR) yields. (US) Duration exposure still serves as a valid diversifier and tail hedge, but less effective at these levels.
- **Credit:** Credit spreads have room to tighten despite high corporate default rates. (European) Loan recovery has further to run. IG bonds benefit from Fed/ECB buying programs. Overweight in Asian bonds (lower defaults, higher yields).
- **Commodities/FX:** USD stops strengthening and gold benefits from negative real rates.

Bull case 15%

- **US:** V-shaped recovery with GDP resumption rate >96%. No broader regional lockdowns and Sweden acts as the role model for social distancing measures. Add-on fiscal stimulus programmes timely implemented. Recovery feeds into all parts of the economy. Service sectors recover 70-80%.
- **Europe:** Thanks to a strong recovery in 2021, the immense fiscal (incl. recovery fund) and monetary stimulus, peripheral countries avoid a collapse.
- **China/EM:** Q4-2020/Q1-2021 will be particularly strong as export markets recover (EU/USA) and interest rates remain ultra-low and help ease the pressure on local FX depreciation.

Investment conclusions

- **Equities:** Equities mirror the V-shape recovery of the economic activity. They reach new all-time highs in the U.S. and pre-crisis levels elsewhere thanks to ultra-lose monetary and fiscal stimulus.
- **Interest rates:** Rates remain low, but curve steepens. Avoid duration as inflation revives.
- **Credit:** Corporate default rates surge but will not reach 2008-levels. Credit in general and loans in particular benefit the most.
- **Commodities/FX:** Support for commodity bloc and precious metals, EUR accelerates, emerging market FX stabilizes.

Bear case 10%

- **US:** W-shaped recovery with GDP resumption rate <94%. More and longer local/regional lockdowns as discipline in social distancing measures eases/lessens. Recessionary environment persists as knock-on effects cannot be avoided and furlough translates into effective unemployment.
- **Europe:** Peripheral countries recover very slow (<90%) and the international tourism fallout takes its toll. Investors lose faith and Italian long-term yields rise. Germany's recovery gets meaningfully interrupted (EU confidence crisis 2.0).
- **China/EM:** Domestic China recovers, but exports suffer. Rest of EM is doing poorly as global trade is at low levels and currencies are depreciating.

Investment conclusions

- **Equities:** Equities fall but should not make new lows. Highly priced US equities will lead the correction, followed by Europe.
- **Interest rates:** Rates will go lower, but not much room left. Support for high quality assets (US Treasuries, A and AA corporate bonds or agency bonds). Cash is king!
- **Credit:** Risk of Financial crisis 2.0. Corporate default rates climb above 10% p.a., but thanks to unprecedented monetary and fiscal spending a collapse of the financial system is avoided. Favour short dated/high quality bonds.
- **Commodities/FX:** Negative for the commodity bloc, USD & CHF remain robust.

Tail risks

- Equity (Tech) bubble bursting, liquidity shock.
- An Italian sovereign debt crisis, Euro break up.
- US/China military conflict in the South China Sea.
- Inflation shock (reversion of disinflationary era)
- Iran closing the Strait of Hormuz; oil price shock.
- Emerging market meltdown similar to 1998.

Asset Class Assessment

Equities	Comment
▪ We remain neutral on equities with an upward bias. Equities get support from the cyclical recovery while inflation is not yet a concern. In addition, equities get natural support due to a scarcity of investment alternatives. ▪ Overall, we believe equity multiples can stay elevated as we disregard the earnings for 2020. Our focus is on 2021/22 earnings and a multiple of 18-20 can be well justified. ▪ A change of leadership from "Big Tech" to "Cyclicals" can mount as the valuation gap has become immense. Operating leverage will be a boost for cyclical sectors and equities in 2021 and beyond. ▪ Non-US equities have the potential to outperform. This is especially the case if the USD weakens. We hold some small overweight positions in Asia and to a smaller degree in selective European equities.	▪ US equities incorporate advanced valuations compared to other regions. However, the economy is also more resilient with a 2021/22 perspective and also supported by "Big Tech" earnings, which provide a robust floor. Hence, a valuation premium is justified. ▪ With ultra-loose central banks, high equity multiples are justified, but the air is getting thin at levels >20. For example, a U.S. P/E ratio of 20 results in an earnings yield of 5% and compares still well with a yield of 0.6% for 10 year government bonds. In Europe, this comparison leads to an earnings yield of 6.3% (P/E ratio of 16) compared to negative government bond yields. ▪ As we do not foresee another global "lockdown", the cyclical recovery will continue and export-led stock markets and EM/Asia will benefit the most.

Credit/Fixed Income	Comment
▪ **Rates**: The near-term outlook for interest rate duration is neutral to negative. On a structural basis, we still consider duration risk as unattractive, especially in Europe and hold minimal exposure only. We rather consider duration exposure as a valuable portfolio diversifier, whereas we favour US Treasuries. ▪ **IG**: We hold some US investment grade bonds and only selective European IG bonds. Asian IG bonds trade at much more attractive valuations. ▪ **High Yield:** Loans and high yield bonds offer still attractive relative and absolute yields, whereas we prefer loans. Overall, we favour selective non-cyclical US short-term bonds, European loans and EUR CLOs (B to A-rated). ▪ **Emerging Debt:** Emerging market bonds offer a relative value advantage, whereas we favour hard currency bonds as spreads are still relatively wide. We own only very selective local currency bonds.	▪ Markets are flooded with liquidity by central banks on a global basis and this will not change any time soon. On the contrary, with the recent introduction of an "Average Inflation Targeting" by the FED, the outlook for low rates got further confirmation and inflation should creep higher. ▪ The ECB is committed to keep rates low for longer to support the economic recovery. ▪ With "lower for longer", credit spreads will face a further tightening, which lifts all the boats. The general market remains benign for credit, although corporate default rates will rise substantially in 2020/21. ▪ We like the structured credit market such as US non-agency RMBS or European CLOs. ▪ Consider harvesting the illiquidity premium from direct loans (corporate/mortgage backed loans). ▪ We identify also attractive yield in "new" alternatives such as "Trade Finance", but selection and a proper liquidity management are paramount.

Alternatives	Comment
▪ Credit long-short strategies identify plenty of relative value trades, both long and short. ▪ Equity long-short strategies benefit from higher volatility and increasing performance dispersion. ▪ Alternative lending as an asset class is in the spotlight in a "low for longer" rates environment.	▪ The current crisis produces many losers and winners, which is a great hunting ground for active managers. Moreover, the "innovative disruption" also leads to more price dispersion among single securities, industries, as well as asset classes. ▪ Global macro managers benefit from sharp market movements in either direction.

Real Assets	Comment
▪ Gold benefits when real interest rates fall. Hence, the current environment with low yields and potentially rising inflation is beneficial for gold. A slightly weaker USD is also supportive for gold.	▪ The cyclical recovery is beneficial for commodity prices. Moreover, a weaker USD is beneficial for the whole commodity FX bloc.

Asset Class Conviction Levels

		Conviction Level over 6 Months			
Equities	**Underweight**	←	**Neutral**	→	**Overweight**
North America	☐	☐	☑	☐	☐
Europe	☐	☐	☑	☐	☐
Switzerland	☐	☐	☑	☐	☐
China	☐	☐	☐	☑	☐
Japan	☐	☐	☑	☐	☐
Asia - Emerging Markets	☐	☐	☐	☑	☐
Others - Emerging Markets	☐	☐	☑	☐	☐

		Conviction Level over 6 Months			
Fixed Income	**Underweight**	←	**Neutral**	→	**Overweight**
US - Treasury Bonds	☐	☐	☑	☐	☐
Euro - Government Bonds	☑	☐	☐	☐	☐
US - Investment Grade Bonds	☐	☑ ←	☐	☐	☐
Europe - Investment Grade Bonds	☐	☑ ←	☐	☐	☐
US High Yield	☐	☐	☑	☐	☐
US Short Term High Yield	☐	☐	☑ ←	☐	☐
US Loans	☐	☐	☐	→ ☑	☐
US Municipal Bonds	☐	☐	☐	☑	☐
European High Yield	☐	☐	☑	☐	☐
European Short Term High Yield	☐	☐	☑	☐	☐
European Loans	☐	☐	☐	☐	☑
US/EUR Preferred Securities	☐	☐	☐	☑	☐
US/EUR Asset Backed Securities	☐	☐	☐	→ ☑	☐
Emerging Market Local Currency	☐	☑	☐	☐	☐
Emerging Market Hard Currency	☐	☐	☑	☐	☐
Emerging Market High Yield	☐	☐	☐	☑	☐

		Conviction Level over 6 Months			
Commodities	**Underweight**	←	**Neutral**	→	**Overweight**
Gold	☐	☐	☐	☑	☐
Oil (Brent)	☐	☐	☑	☐	☐

		Conviction Level over 6 Months			
Hedge Fund: Strategies	**Underweight**	←	**Neutral**	→	**Overweight**
Equity Long-Short	☐	☐	☐	☑	☐
Credit Long-Short	☐	☐	☐	☐	☑
Event-Driven - Corporate Actions	☐	☐	☐	☑	☐
Global Macro	☐	☐	☐	☑	☐

		Conviction Level over 6 Months			
Hedge Fund: Regional Focus	**Underweight**	←	**Neutral**	→	**Overweight**
Hedge Fund: North America	☐	☐	☑	☐	☐
Hedge Fund: Europe	☐	☐	☑	☐	☐
Hedge Fund: China / Japan	☐	☐	☐	☑	☐
Hedge Fund: Emerging-Markets	☐	☐	☑	☐	☐

Note: The above conviction table reflects on the one hand our view of the relative expected return of an asset class versus well-recognized benchmarks such as BarCap Global aggregate (for bonds) and MSCI World (equities), but does on the other hand also partly incorporate our view of the absolute expected return versus "cash".

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