Edwards Wealth Management AG
Switzerland

BOREAL
CAPITAL MANAGEMENT

Investment Policy

April 2021

Our market view in a nutshell – April 2021

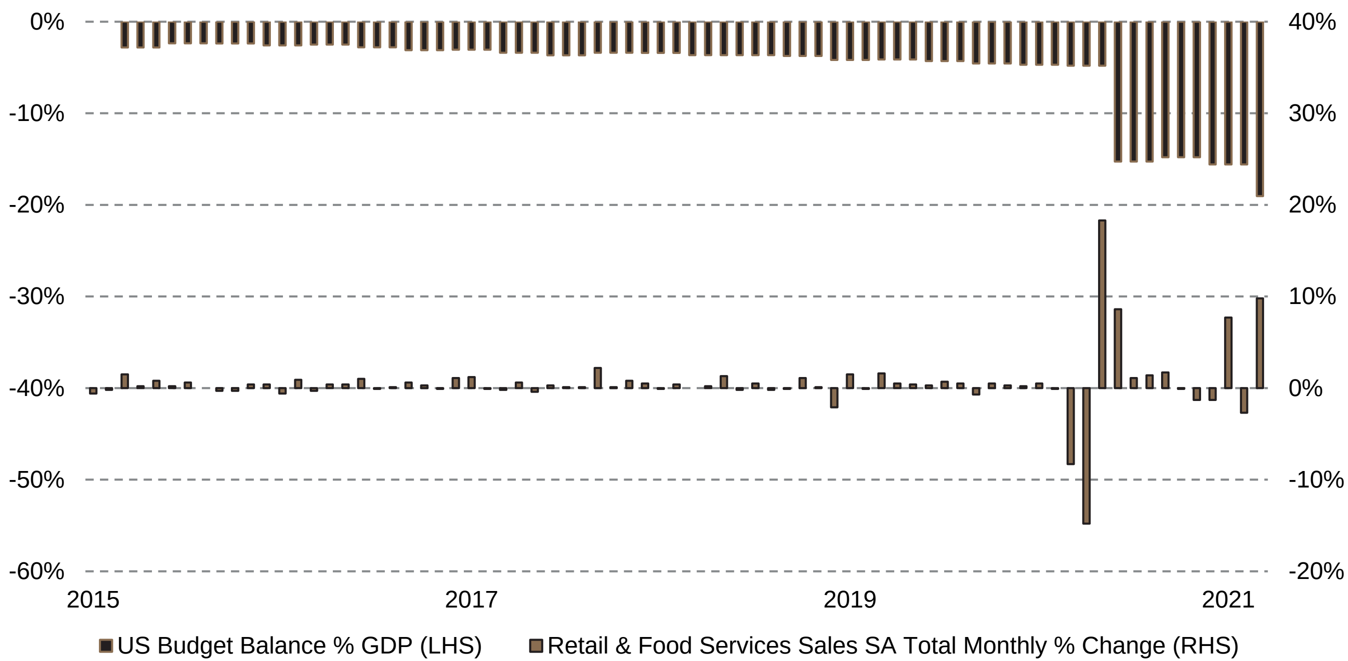
- **The initial excitement, caused by the latest relief package as well as progress in vaccinations, has begun to fade**. As happened after each of the previous rounds of stimulus, retail sales soared after households received an extraordinary income. But the **reality remains that of a job market that has yet to recover many millions of lost jobs**, which continues to weigh on consumer confidence. Equally onerous is the **gargantuan fiscal deficit**, which serves as a reminder that support measures must necessarily decrease, while the tax burden will increase
- **The reflation narrative has also run out of steam**, with **Treasury yields falling** from their recent peak, and the performance **gap between cyclical and growth stocks narrowing down** progressively. Sooner or later, a return to the **"Goldilocks" scenario** seems almost inevitable; or even a **"W" shaped recovery**. After all, the various support measures implemented by governments have only served to replace lost income but, so far, have not addressed any of the structural challenges of their economies
- **From a valuation perspective, the equity market is no longer cheap**; although it continues to be supported by strong flows in the absence of better alternatives. With the earnings season about to begin, **stock prices are increasingly dependent on meeting analysts' expectations**
- As for bond markets, **credit spreads remain at record lows**, as if corporate bankruptcies were totally unrelated to the disruption caused by the pandemic. Whereas **Treasury yields seem to have reached a level that manages to attract enough demand to halt the rally in rates**, as the yield pickup offered by longer maturities is currently very attractive
- Therefore, **we are entering a potentially more volatile market environment**, with the global economy recovering but with **still many unknowns about the shape of the recovery; and vulnerable to new shocks** given that the capacity for fiscal and monetary stimulus is largely exhausted

EWM Investment Policy

Asset Class		View	Rationale
Fixed Income	US Treasuries	+	Treasury bonds offer protection against an economic slowdown and / or increased risk aversion. With interest rates anchored at current levels, and credit spreads that have narrowed massively, we favor long-term US Treasuries
	US Credit	–	The crisis caused by the pandemic will lead to an increase in the number of corporate defaults. Credit spreads hardly reflect this risk currently
	European Sovereign	–	High quality debt in Euros presents a very unattractive combination of risk and return as current yields offer very little cushion to weather potential interest rates increases
	European Credit	–	In European credit we only see value in subordinated debt and Investment Grade
	Emerging Markets	–	A weaker dollar should help emerging markets, but both currencies and credit spreads have only partially reacted to the risk that the Covid outbreak represents for these countries. In addition, the oil price war will harm exporting countries
Equities	US	+	After a sharp sell-off, valuations have improved. We have therefore increased our exposer to US equities, mostly through quality and growth oriented companies
	Europe	–	The European economy has been more affected by Covid than that of the US or Asia. Relaunching it will require a greater fiscal effort, which will have to be financed by new debt. A repeat of the sovereign debt crisis is a real risk
	Japan	+	We recommend investing selectively in the region; favoring high growth stocks
	Emerging Markets	–	Emerging markets are expensive, in general. We only recommend to allocate to Chinese government bonds in Renminbis
	Sectors & Themes	+	We favor Cybersecurity, Infrastructure, Biotechnology, Fintech and Clean Energy
Alternative Investments	Multi-Strategy Hedge Funds	–	Multi-strategy / multi-manager hedge funds with daily liquidity are having disappointing performance, particularly when compared with other less risky alternatives, like short-term corporate bonds
	Commodities	–	In the present late-cycle environment, with inflation pressures remaining subdued, we see limited upside for commodities. However, we favor gold in the current negative real interest rates environment
	Private Equity	=	Investing in late-stage private equity provides access to the asset class with liquidity provision up to a certain degree

+ Overweight – Underweight = Neutral

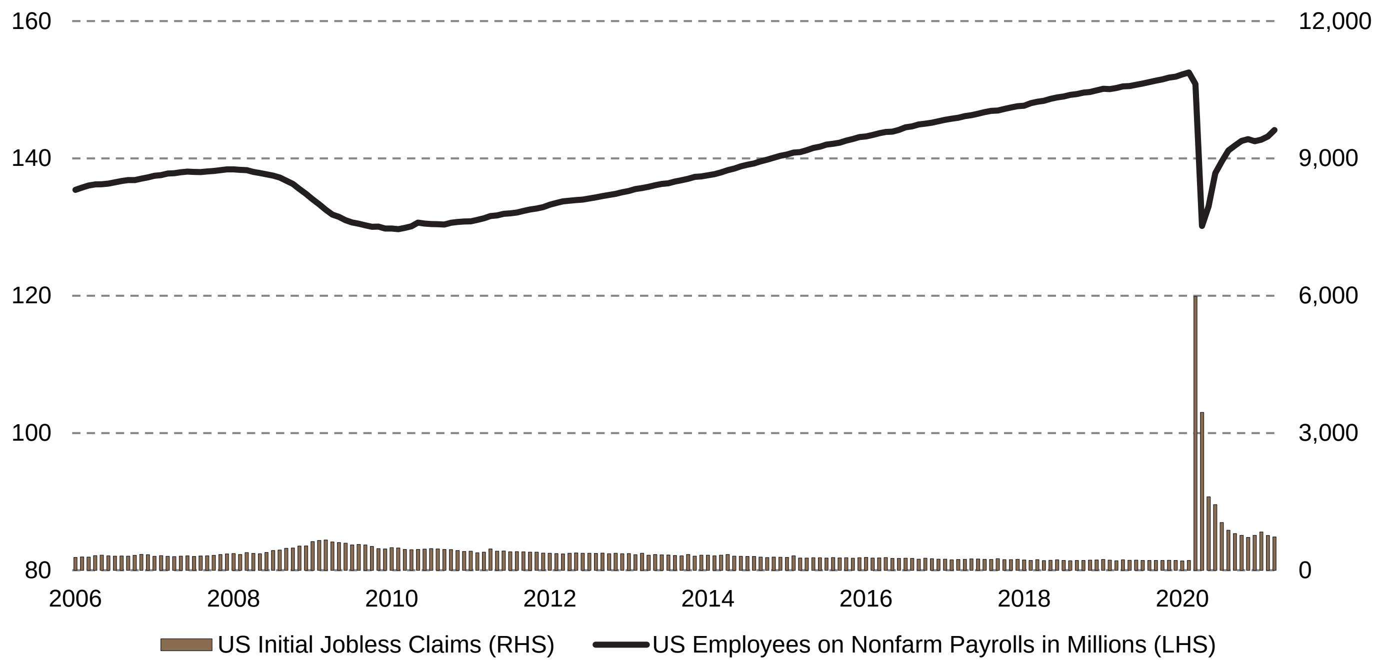
The fiscal party is over



- The latest round of fiscal stimulus has translated, once again, into **extraordinary retail sales figures, stoking hopes of a strong recovery**
- However, the **fiscal deficit has reached levels not seen since the last great war**, opening the debate on how **to raise the corporate tax rate** in the context of a global fiscal harmonization

Source: Bloomberg

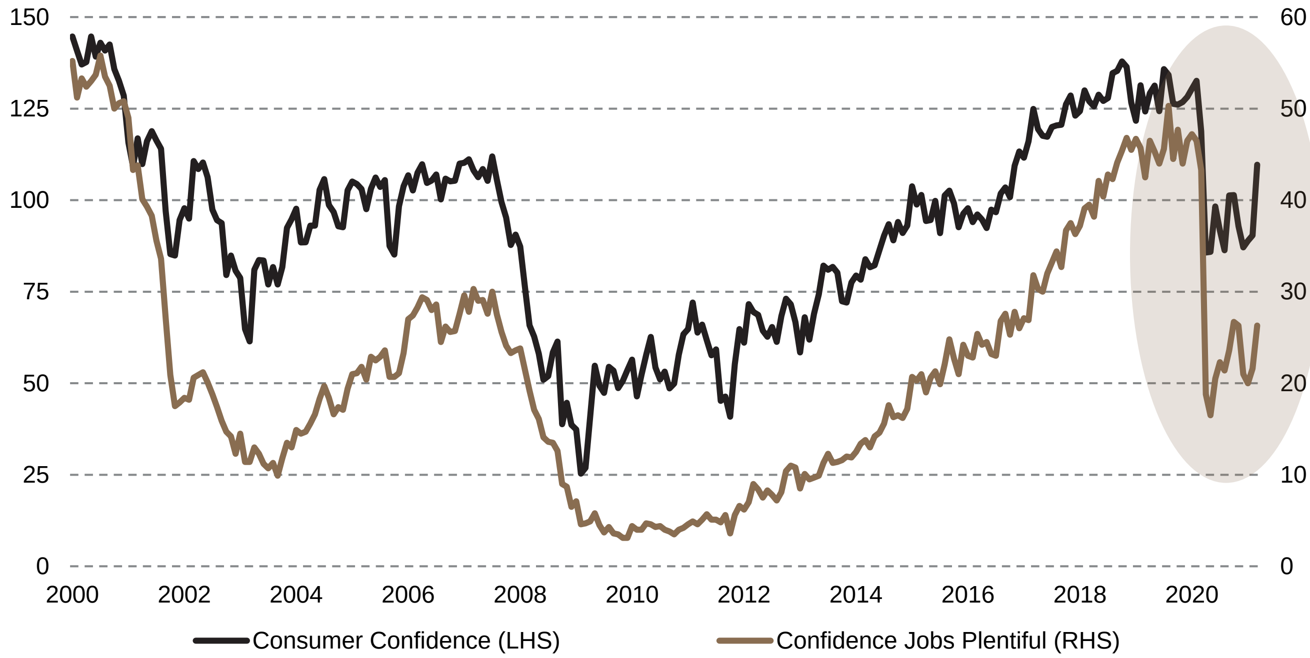
Economic scarring is still a risk



- Despite the sharp economic bounce back thanks to policy support and the progress with the vaccination effort, there is **still considerable risk of long-term economic scarring**
- The level of job destruction has been unprecedented, while the pace of **recovery in the labor market has started to slow down**. According to a McKinsey & Co report, more than 100 million workers in advanced economies may need to switch jobs by 2030

Source: Bloomberg

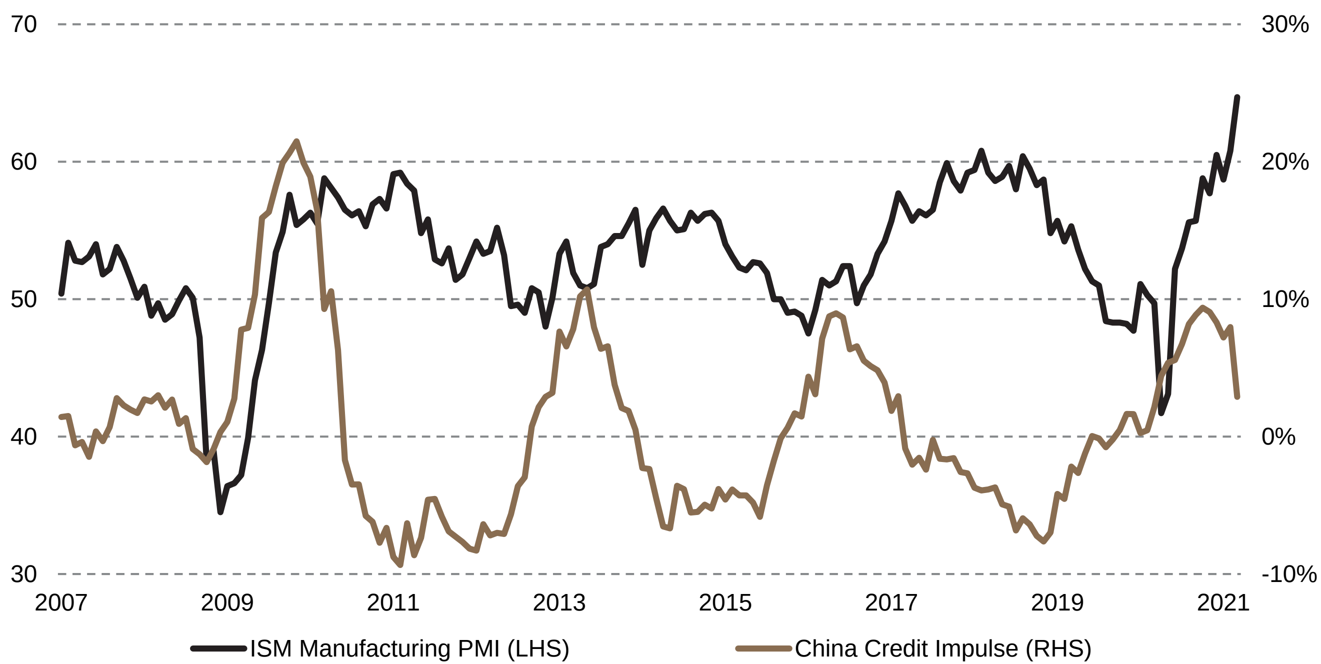
The economy is still dangerously close to a tipping point



- **Job security is the strongest contributor to consumer confidence**, and even though thanks to support policies the fall experienced fell short of what happened in 2008, it has **barely recovered since last year's bottom**
- Furthermore, it **remains to be seen to what extent consumption patterns will change due to the pandemic**, particularly in the service sector (retail vs. online shopping, home office, home entertainment, etc.)

Source: Bloomberg

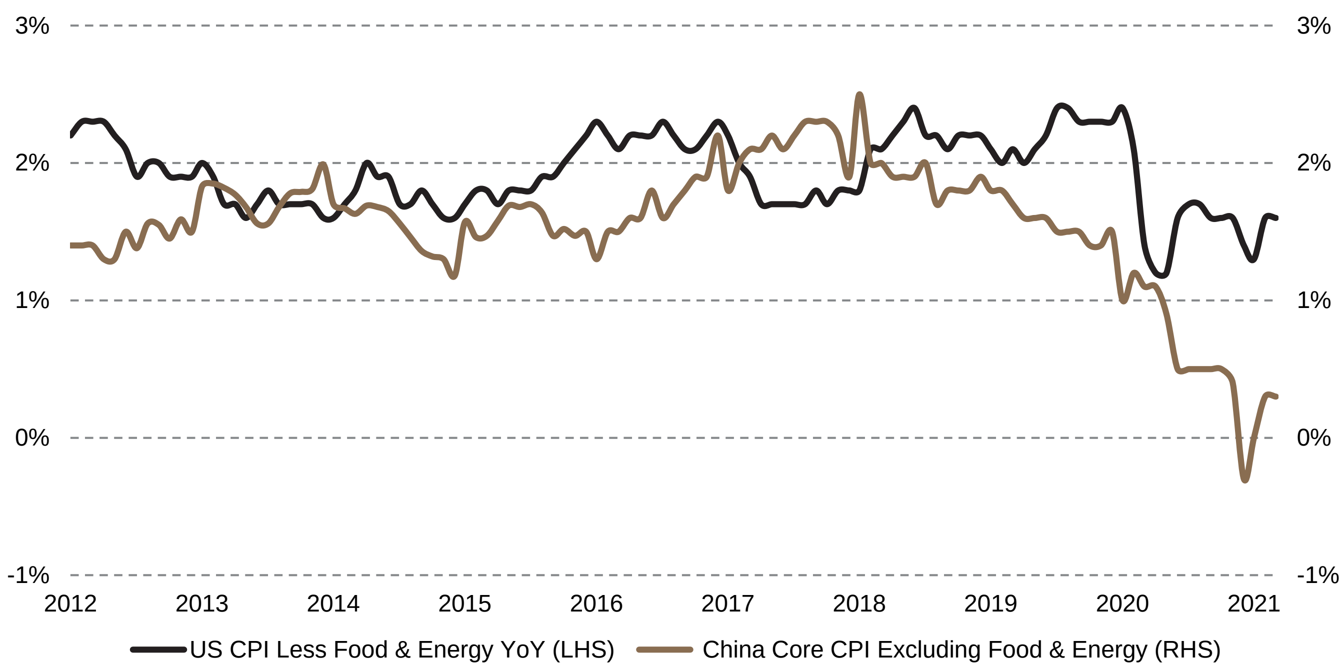
China is the central bank for manufacturing



- **Purchasing manager indices in developed economies have skyr**ocketed; in the case of the US to levels not seen since the 1980s
- But beyond the natural "base effect," **global demand remains weak, and more importantly, China is once again reigning on credit growth**

Source: Bloomberg

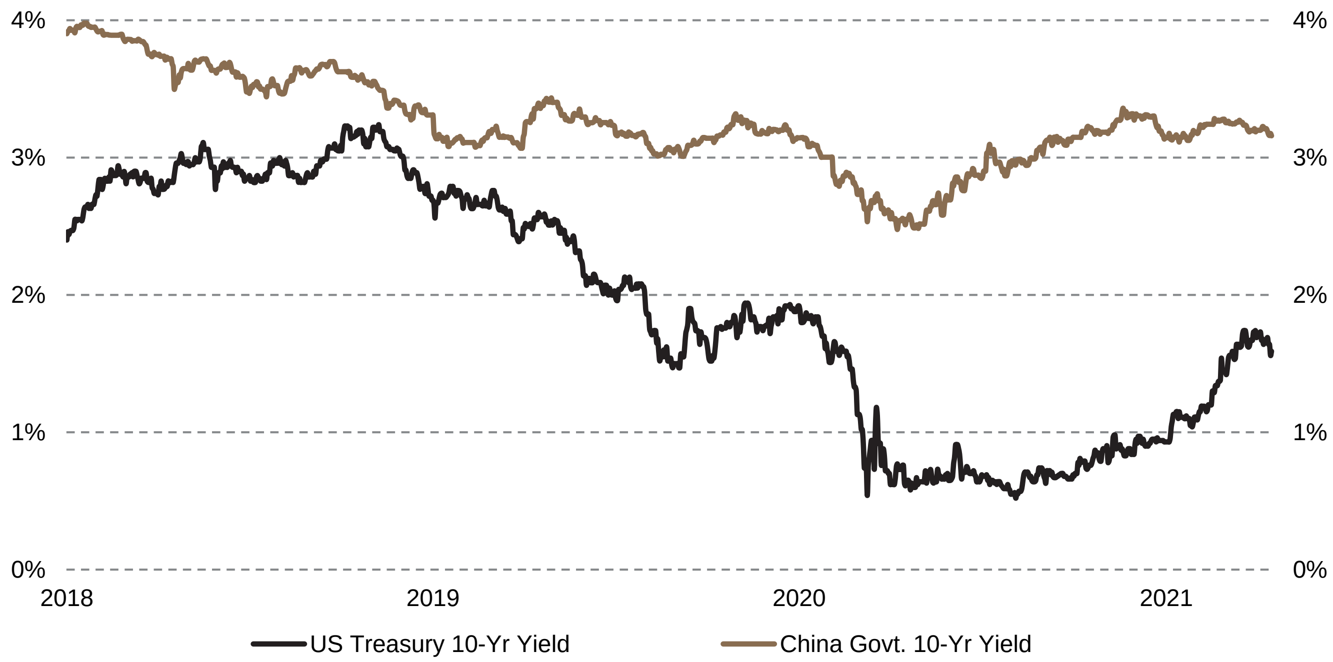
The inflation narrative deflates



- **China is months ahead of us in exiting the pandemic**, and offers us clues on how the main macroeconomic variables may evolve
- With regard to consumer prices, there is a clear downward trend, with **no signs of overheating in the economy**

Source: Bloomberg

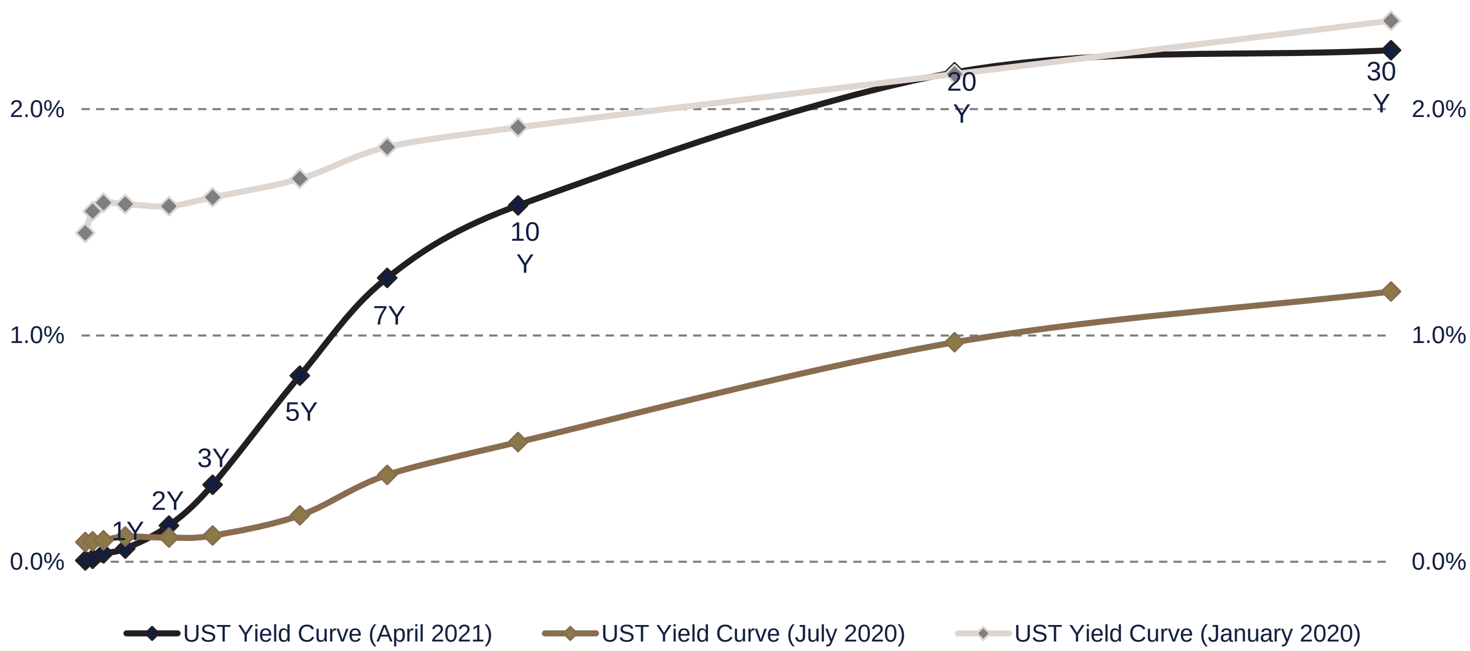
And interest rates stabilize



- Long-term **interest rates have started to stabilize** after a sharp rebound, which has brought them back to pre-pandemic levels
- But the economy will take some time to return to normal, and **the progressive withdrawal of stimulus will put downward pressure on interest rates**

Source: Bloomberg

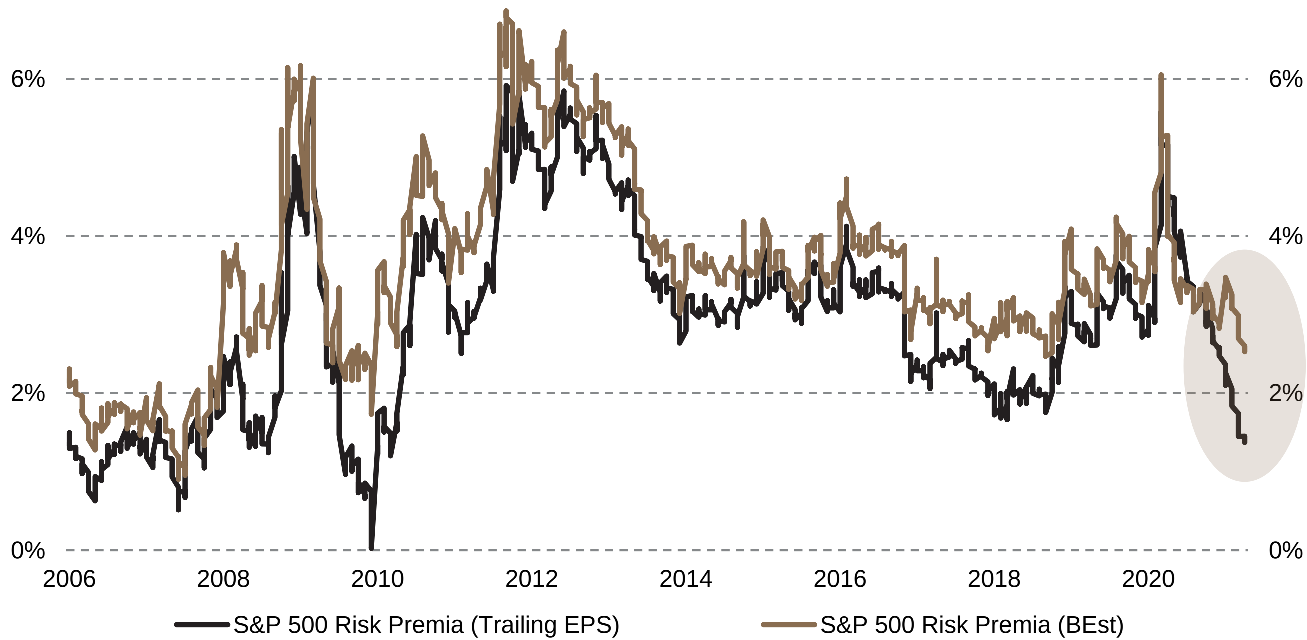
Term premium limits further upside



- Expectations about the **timing of Fed interest rates** hikes will **affect the slope of the curve, but not necessarily long-term rates**
- As long as short-term interest rates stay close to zero, **investors have an incentive to invest in long-term maturities**

Source: Bloomberg

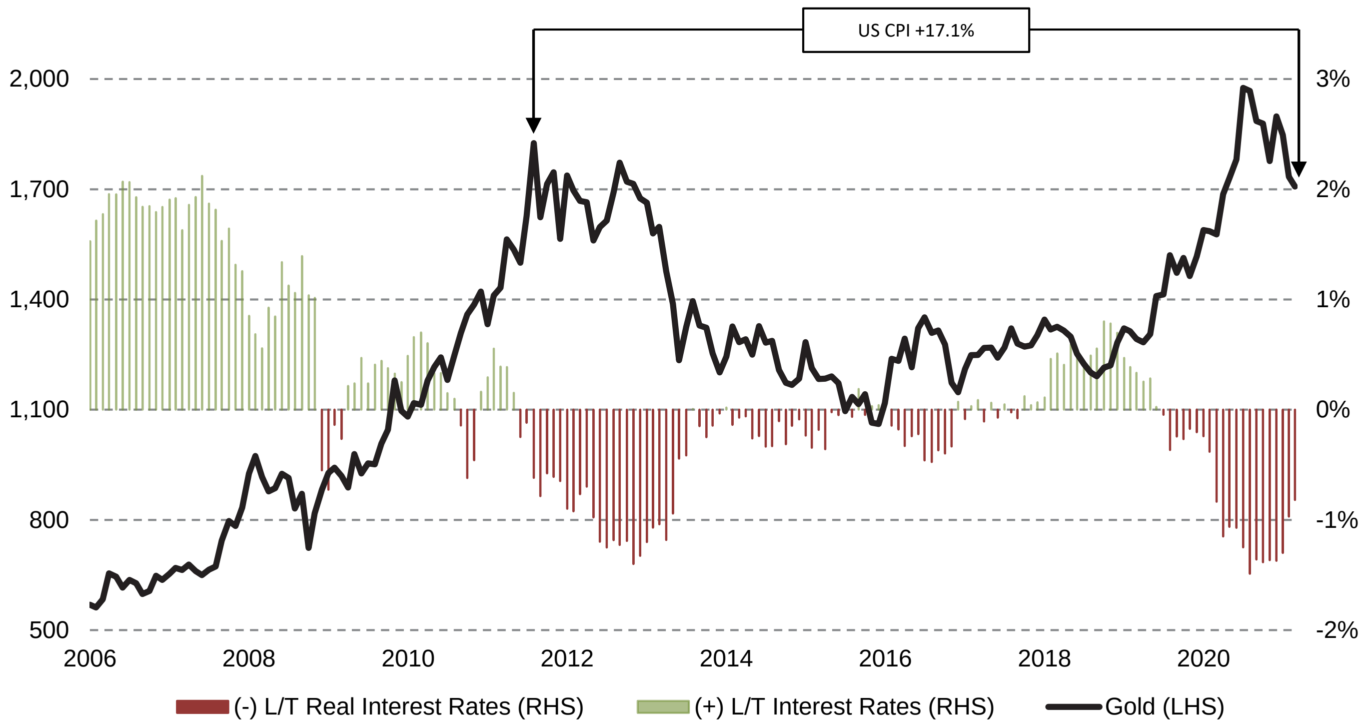
Equities have lost the valuation tailwind



- With the **equity risk premium progressively returning to its long-term average**, stocks are incresignly dependent on the evolution of corporate earnings
- The current gap between expectations and reality is not at all unusual (e.g., 2008), but it **render stocks vulnerable to earnings disappointments**

Source: Bloomberg

Negative real interest rates support gold



- **Gold has had a poor start to the year**, weighed down by rising Treasury yields, growing concerns about rising inflation, and a partial loss of appeal as a reserve asset in favor of Bitcoin
- However, **real interest rates – both in the short and long term – remain deeply negative, supporting gold**

Source: Bloomberg

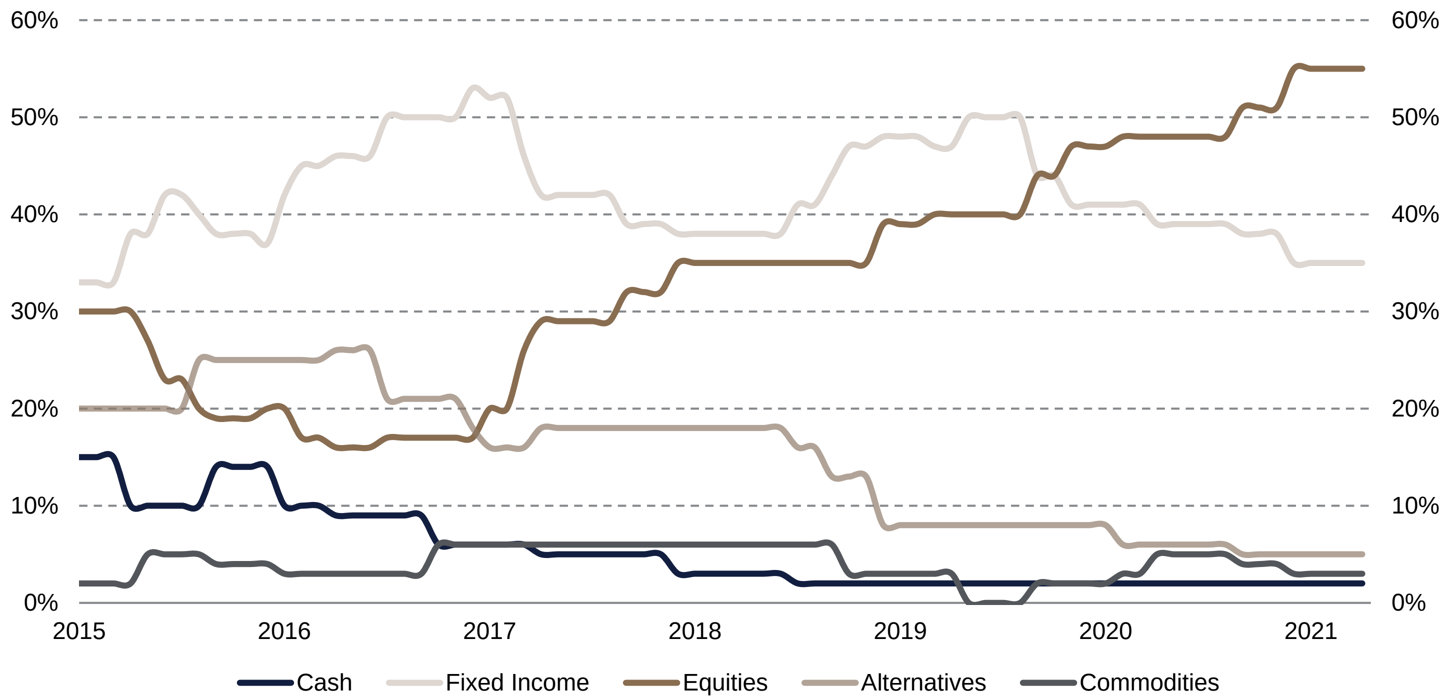
Investment scenarios

	Scenario 1 "U" Recovery	Scenario 2 "V" Recovery	Scenario 3 "W" Recovery
Drivers	• Inflation accelerates due to large fiscal stimulus combined with Infrastructure spending in the US • Commodity prices rise as the global economy bounces back strongly • Central banks try to assure markets that they will not increase interest rates, but long-term rates do increase anyway	• Global recession caused by the unprecedented sudden stop of economic activity • Strict quarantines are avoided and economic activity continues to a greater or lesser extent, depending on control measures of variable intensity • Fiscal and monetary support allow the economy to rebound strongly, while low interest rates make the debt burden manageable	• Deep recession followed by a rapid recovery, but momentum fails to be sustained • The pandemic starts to be under control by summer thanks to massive vaccination campaigns, but economic activity does not fully return to normal • Countries with a stronger fiscal position may be able to provide further stimulus and avert a "W" shaped recovery
Market impact	• Corporate earnings rise sharply, but higher interest rates negatively impact equity valuations • High-quality and sovereign bonds fall due to rising interest rates, failing to play their traditional cushioning role in portfolios • Credit performs relatively better despite higher rates, as the risk of corporate defaults remains low • The US dollar depreciates against safe-heaven currencies, as well as against gold	• Equities appreciate moderately, as TINA ("There Is No Alternative") lure investors back to stock markets, but there is wide dispersion across sectors • Credit spreads recover to pre-crisis levels as the chase for yield intensifies • Wide dispersion between both sovereign bonds and currencies, as yield curves will likely steepen as governments flood the market with new debt • Commodity prices will stabilize	• Wide dispersion in equity and credit markets, with the strongest companies recovering and the weakest lagging behind • Credit spreads widen as the market remains highly volatile and corporate defaults rise • Wide dispersion between sovereign bonds and currencies due to "flight-to-quality" • A relatively strong USD as the US economy turns the corner faster than other developed economies. Wide dispersion within Emerging Markets, as countries exit the pandemic at different speeds
Probability	20%	60%	20%

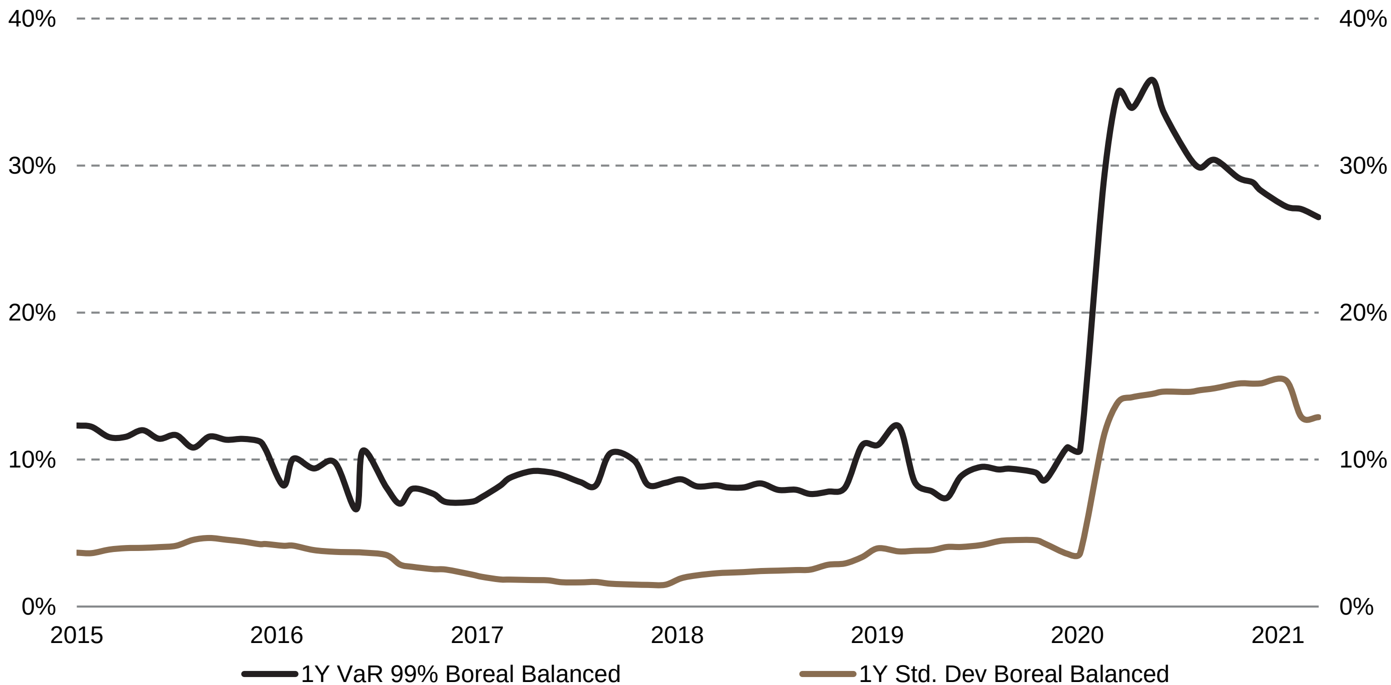
Short-term catalyzers
Fiscal stimulus in the US, improvement in macro-data globally, lower geopolitical tensions

Other risks
Trade wars, Spread of populist political parties, China slowdown, Terrorism

EWM Model Portfolio – Asset Allocation evolution

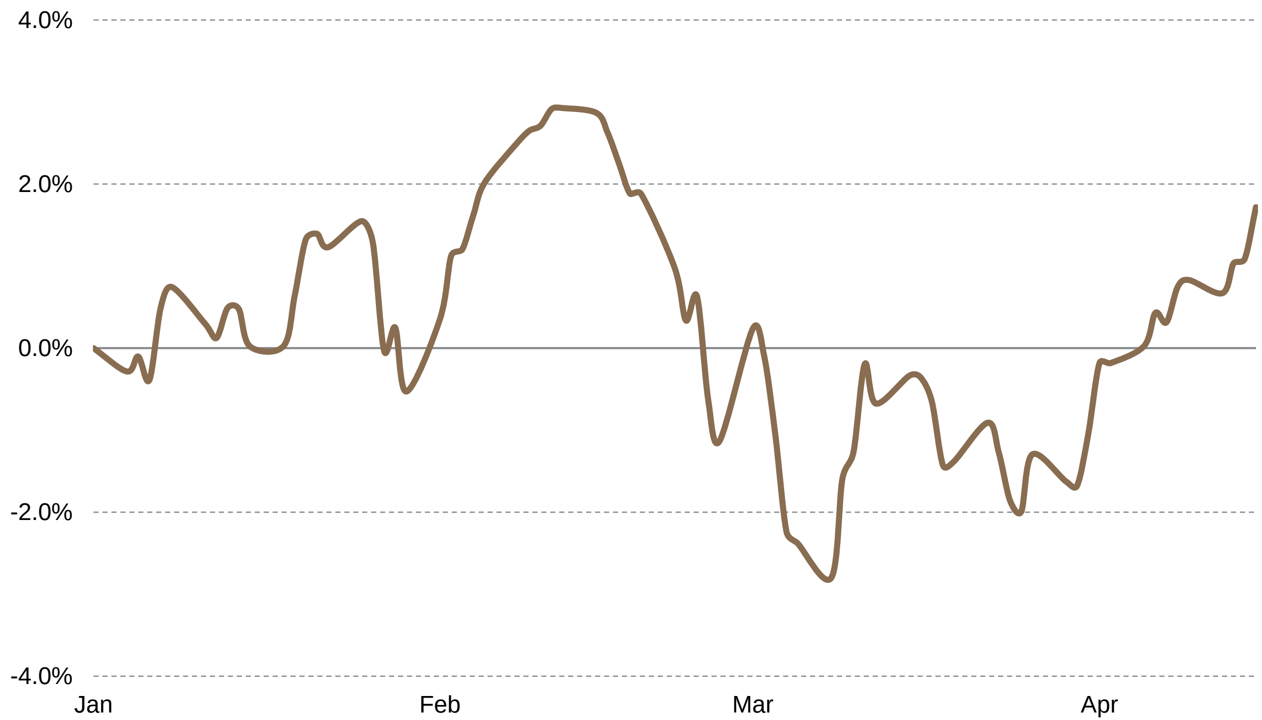


EWM Model Portfolio – VaR evolution



[1] As of April 15, 2021
Source: Bloomberg

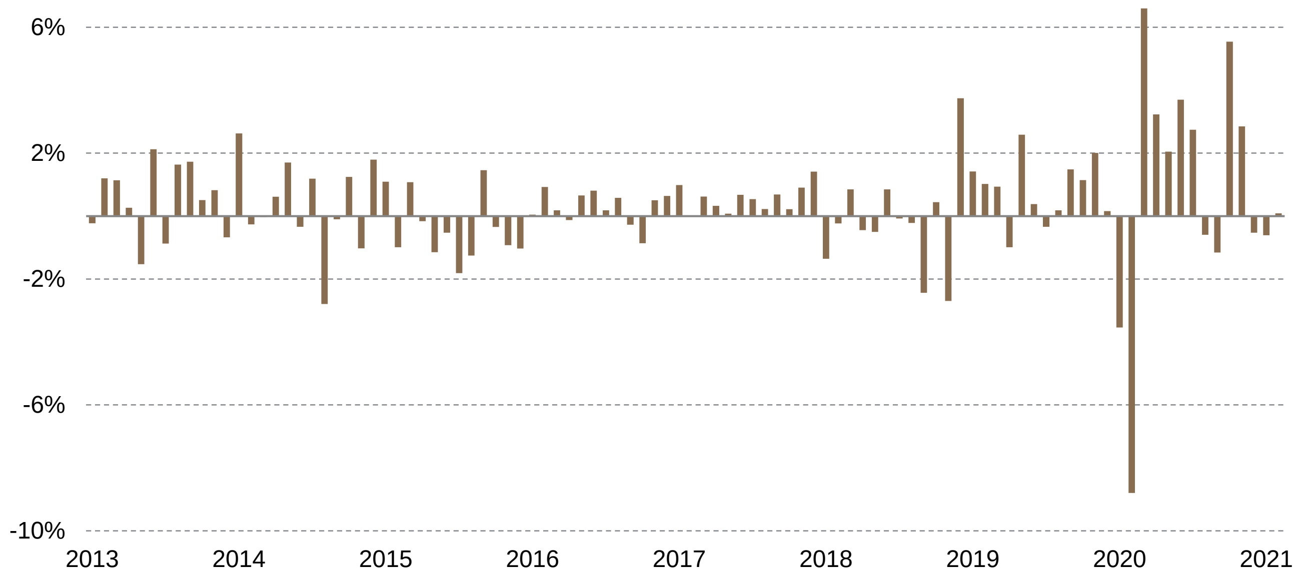
EWM Model Portfolio – Ytd performance



- **Total Return** (Ytd[1]): **1.72%**
- **Standard Deviation** (Ytd[1]): **8.88%**
- **Downside Risk** (Ytd[1]): **6.32%**
- **Sharpe Ratio** (Ytd[1]): **0.73**

[1] As of April 15, 2021

EWM Model Portfolio – Historical performance (1)



- **Total Return** (1 year[1]): **24.45%**
- **Total Return** (3 year[1]): **24.43%**
- **Total Return** (Since Jan 13[1]): **47.96%**

[1] As of April 15, 2021

EWM Model Portfolio – Historical performance (2)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return	9.58%	2.05%	-1.80%	1.57%	6.06%	-4.62%	14.67%	12.35%	1.72%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	15.18%	8.88%
Sharpe Ratio	2.54	0.58	-0.48	0.62	3.57	-1.70	3.49	0.87	0.73

Annualized Return: 4.84%
Annualized Std. Dev: 6.31%

[1] As of April 15, 2021

Boreal Balanced Portfolio – Historical performance (2)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return	9.58%	2.05%	-1.80%	1.57%	6.06%	-4.62%	14.67%	12.35%	1.72%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	15.18%	8.88%
Sharpe Ratio	2.54	0.58	-0.48	0.62	3.57	-1.70	3.49	0.87	0.73

Annualized Return: 4.84%
Annualized Std. Dev: 6.31%

[1] As of April 15, 2021

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