



Edwards Wealth
Management AG
Switzerland



Investment Policy

June 2021

Our market view in a nutshell – June 2021

- During the last month, **financial markets have been largely moved by macroeconomic data**, and particularly those referring to inflation. Consumer **prices have jumped in the past two months to levels not seen in decades**. But this has been anything but a surprise, since the **comparisons are distorted by base effects and transitory factors**; caused by a faster-than-expected reopening of the economy, after a forced shutdown last year
- As there is great **uncertainty when interpreting the data**, investors are practically forced to make macro bets. There are basically two camps here, one championed by central banks, which considers that **most of these effects are transitory** and, therefore, ignores the risk of a sustained acceleration in inflation; and the other, who perceives the **shortages in labor and raw materials as the beginning of an inflationary spiral**, fueled by an extraordinary monetary and fiscal largesse
- In our opinion, the first of the two hypotheses carries more weight, given that shortages in some parts of the economy are due more to **bottlenecks in the production and transportation chain than to structural changes**. In addition, there are **still many lost jobs to be recovered**. In fact, the **low growth and low inflation problems of recent decades are likely to be aggravated** as a consequence of the pandemic; given the increase in debt and the push towards further digitization of the economy
- **The Federal Reserve's reaction to higher inflation and a stronger economy remains critical for markets**. If Fed members continue to be patient and the above effects turn out to be short-lived, asset prices will remain on a strong footing. However, **if they tighten prematurely, or react late, when inflation is already out of control, there is a risk of experiencing a sharp correction**, which could affect both equity and fixed income markets
- **Managing the current macroeconomic uncertainty is notoriously difficult, so we recommend positioning the portfolios for the long term**. On the one hand, avoiding timing interest rate movements in excess, given that the latter are still strongly anchored by secular factors and the strong demand for yield. And on the other hand, investing in innovative and high-quality companies that will be able to increase their income regardless of economic cycles



EWM Investment Policy

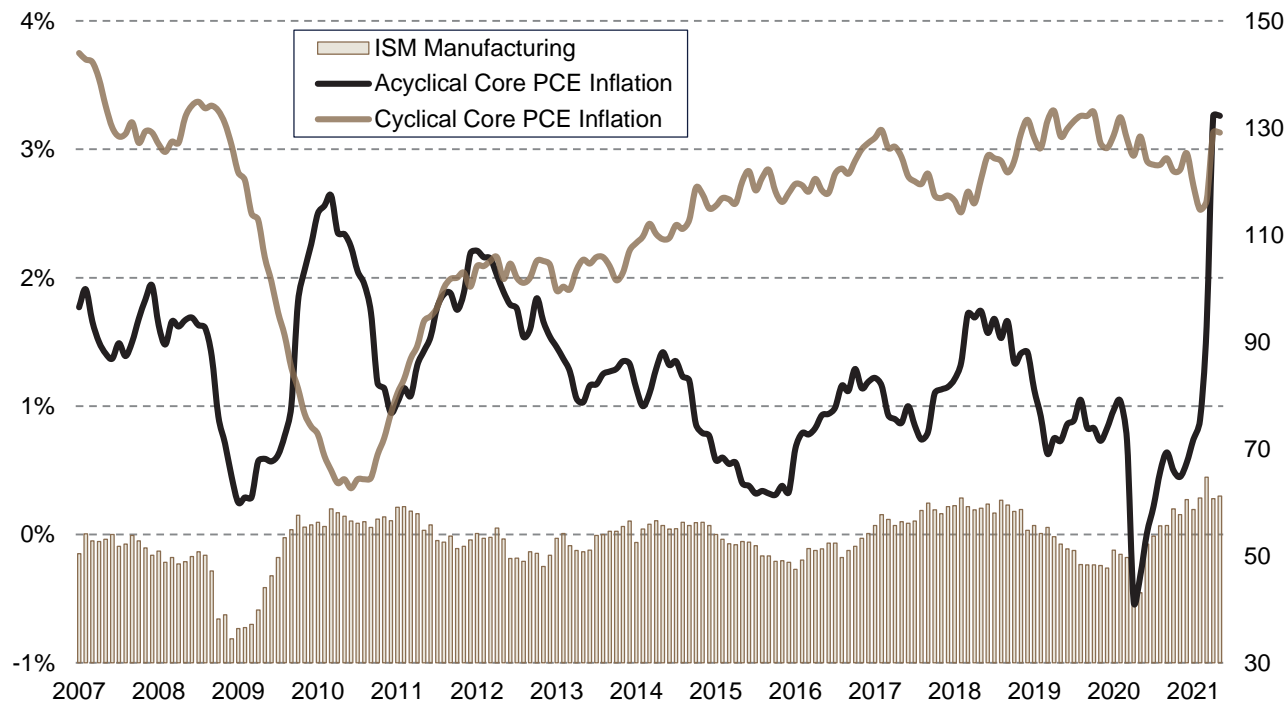
	Asset Class	View	Rationale
Fixed Income	US Treasuries	+	Treasury bonds offer protection against an economic slowdown and / or increased risk aversion. With interest rates anchored at current levels, and credit spreads that have narrowed massively, we favor long-term US Treasuries
	US Credit	-	The crisis 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 exposure 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 Biotechnology and Fintech
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

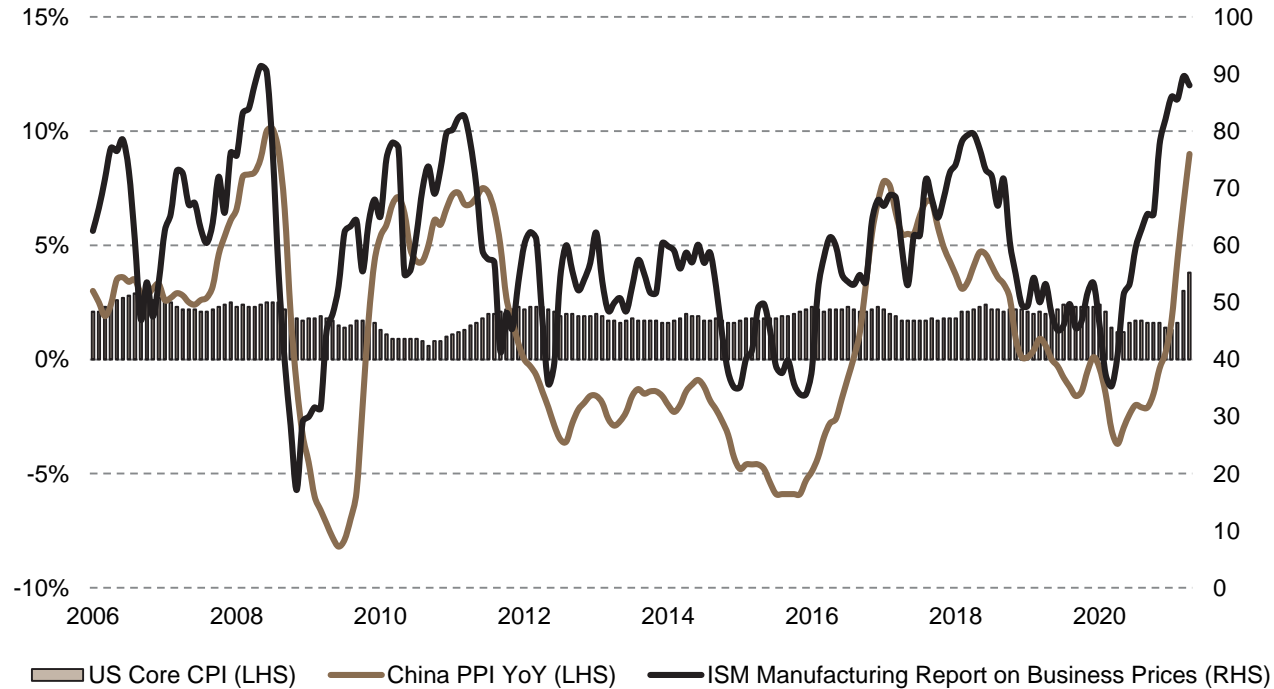
= Neutral

Transitory or sticky?



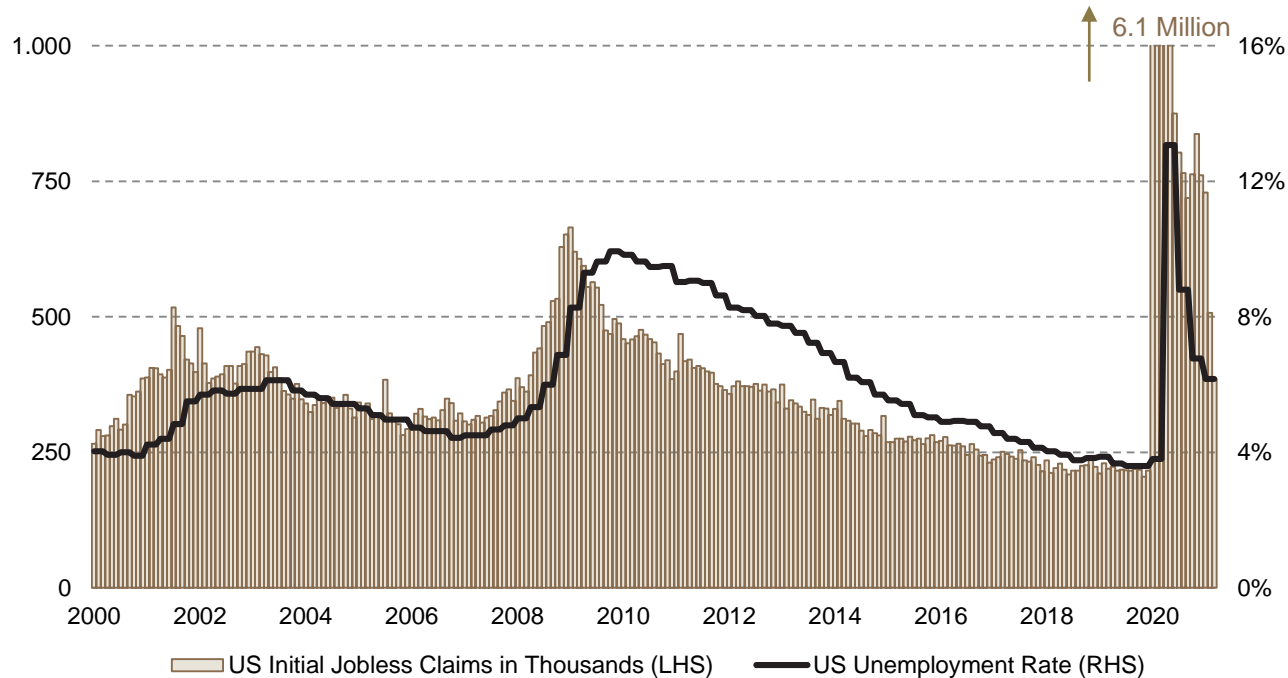
- **Inflation increased 5% year-on-year** in May, while core inflation (excluding food and energy) increased by 3.8%. Both are **levels that have not been seen in the last decades**; although we have not had a pandemic during that time either
- **Discerning between temporary and permanent price increases** is not easy, since the former can lead to the latter, but so far the key components (housing, education, health) seem well anchored

Not so different from other cycles



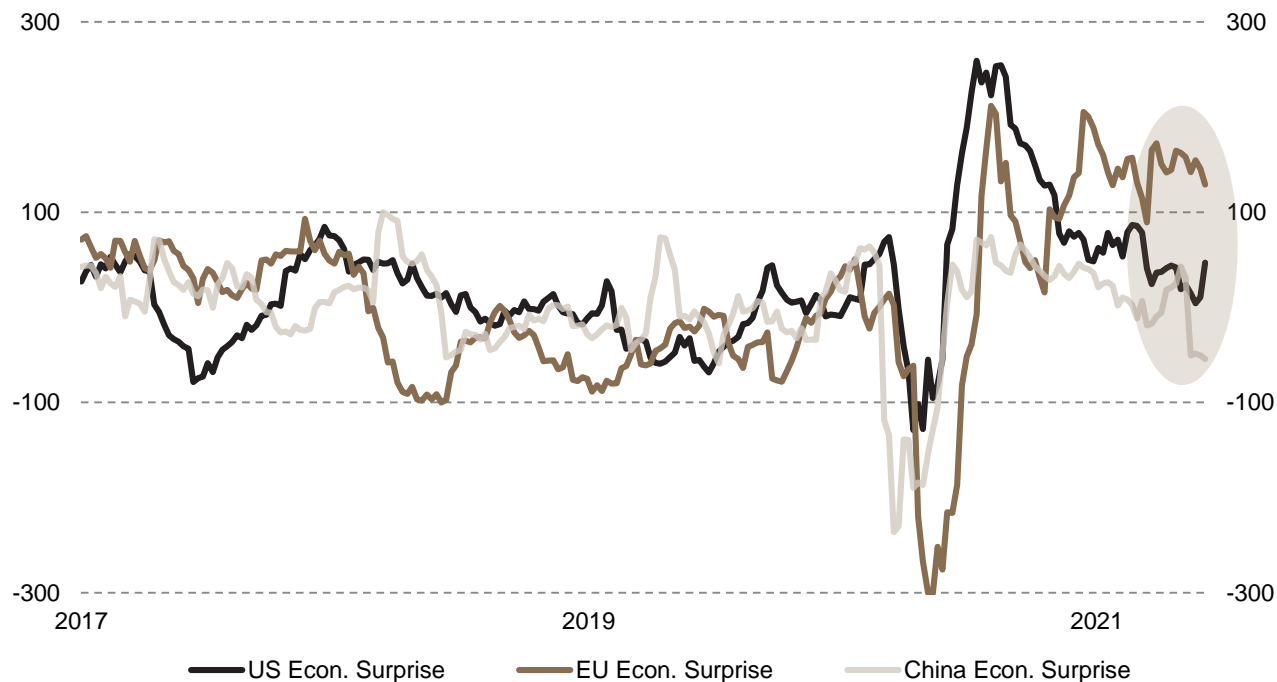
- Prices are rising as a result of the **adjustments needed to quickly reopen the economy after a forced halt**. Product shortages are observed, from raw materials to microchips, due to bottlenecks in production and transportation
- Although **it will take time for the economy to fully normalize**, there is no indication that we will see a repeat of the China-led commodity boom of previous decades

Labor market recovery far from complete



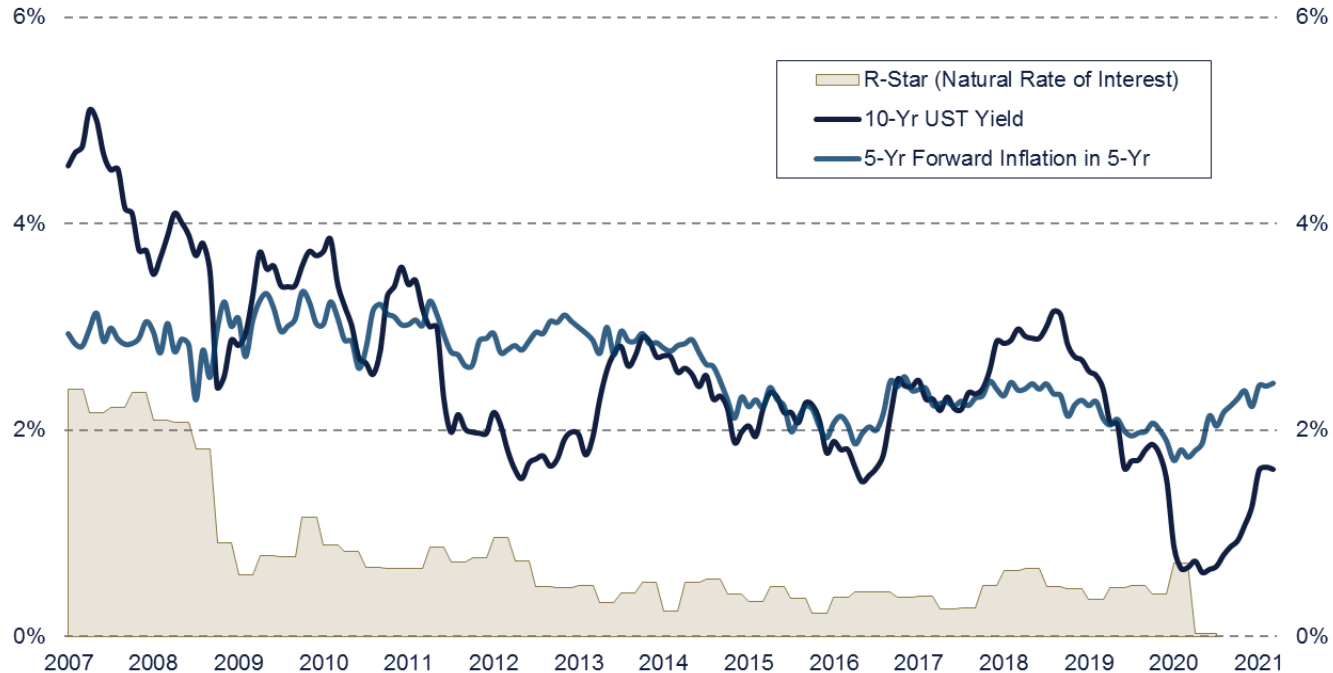
• The **labor market continues to make great strides**, but job creation is slowing, and jobless claims are still at crisis levels

Peak recovery?



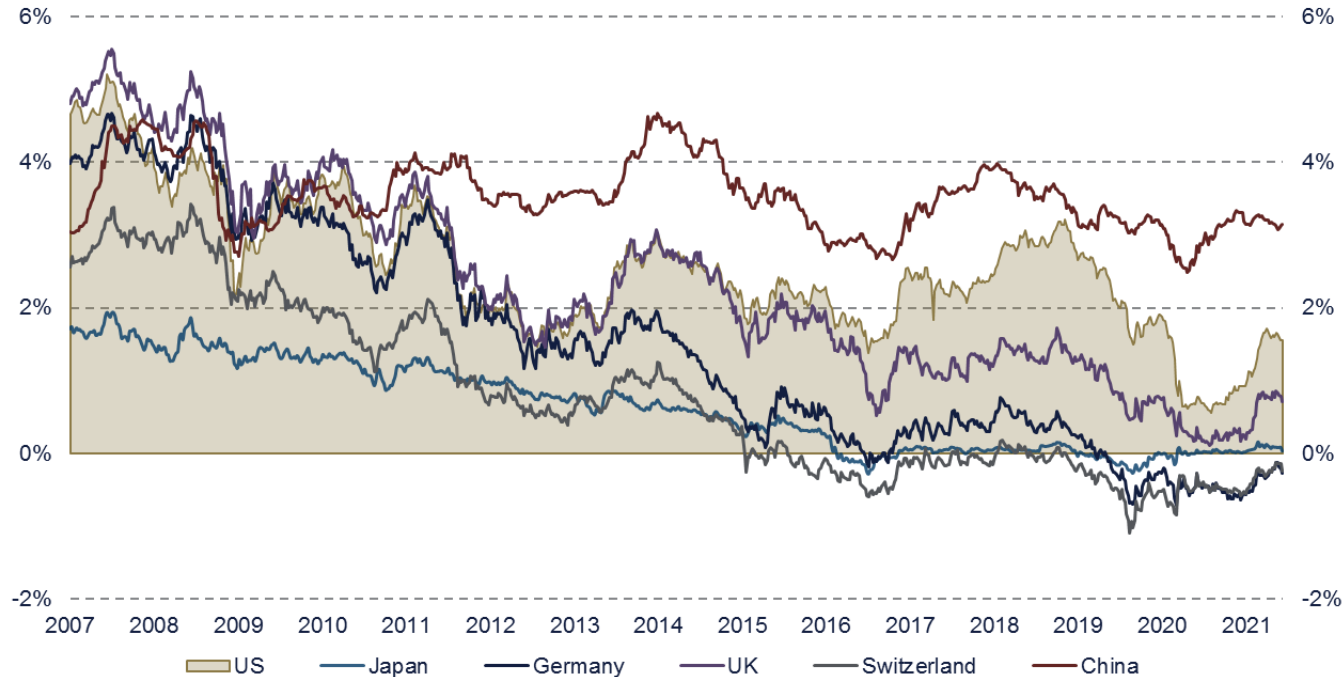
- As expected, the **pace of economic recovery is moderating**, reducing the risk of the economy overheating
- After the initial impulse caused by the reopening, the reality will be an **economy still subject to restrictions for a long time**, and with great divergence in performance at sector and country level

Inflation is only one part of the puzzle



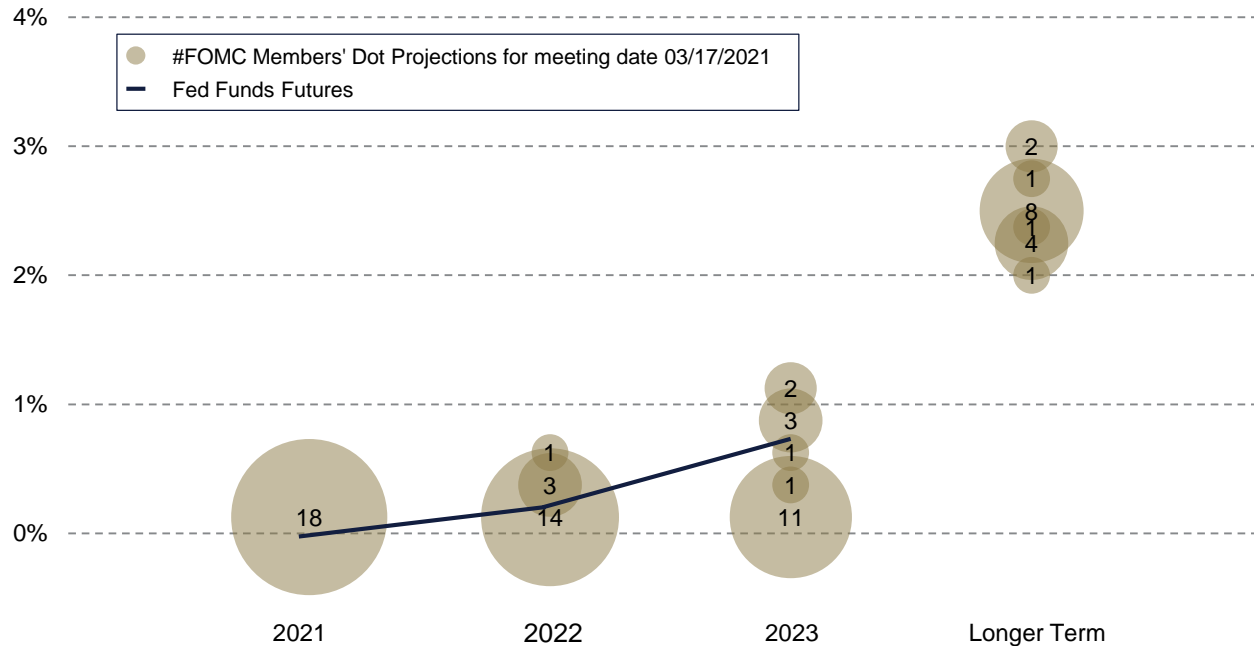
- Interest rates are influenced by inflation expectations, but there are **other variables that also play an important role**
- The **"Natural Rate of Interest" has been declining over the past decades**, and in particular after the Financial Crisis. The impact of the pandemic points towards a new slump. This would mean that interest rates can remain low despite higher inflation

Interest rates are global



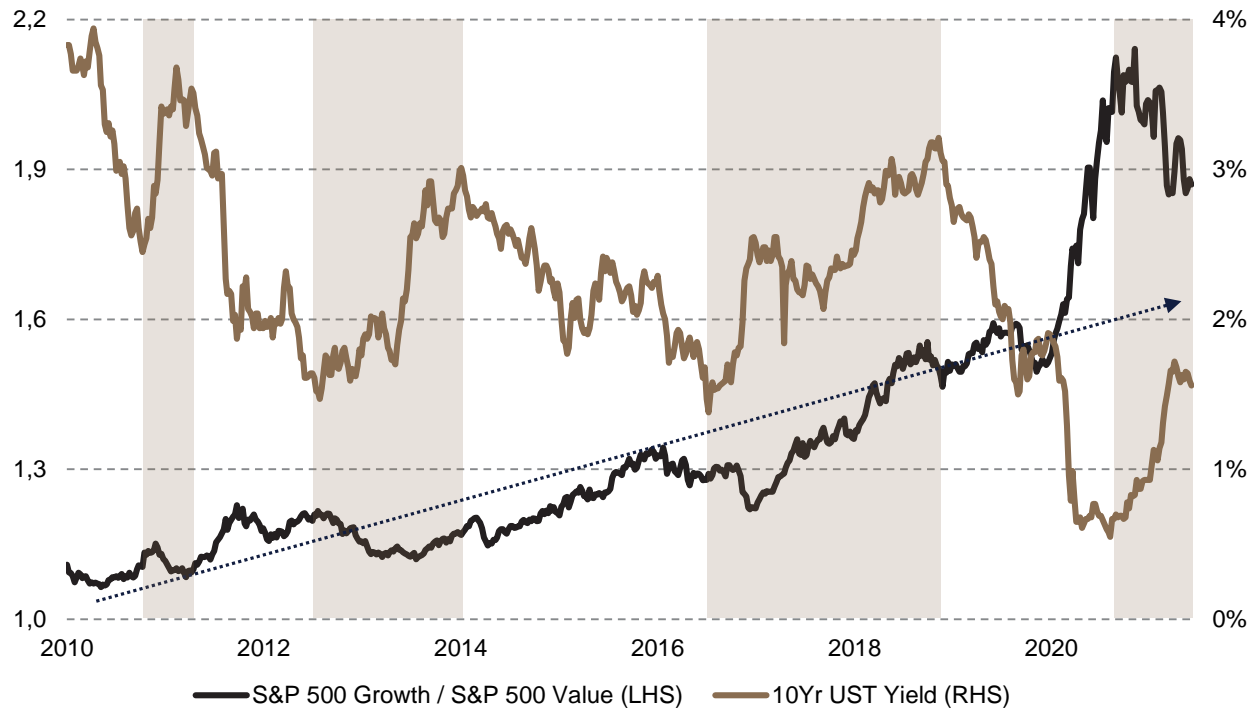
- Globalization, digitization and demographics have been weighing down global interest rates for a long time. And with capital moving freely, **rates are no longer solely determined by local conditions**
- The US has so far managed to escape the "zero interest rate trap", but **global demand limits the rise in US Treasury yields**

The Fed's balancing act



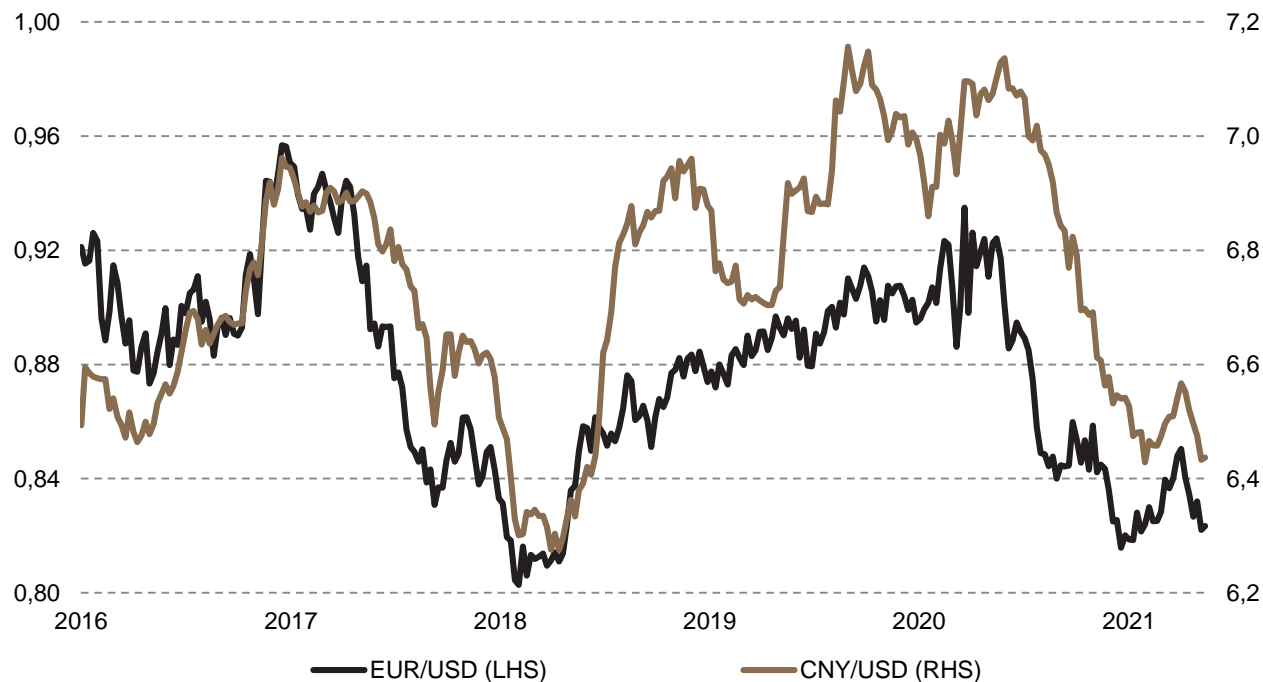
- The Fed must **balance rising inflation and a labor market** that still has room for recovery; while avoiding any communication mistakes that could cause a repetition of the "**Tapper Tantrum**"
- So far, **the Fed has managed to convince the market that they are going to remain patient**, and that they will not raise rates or reduce asset purchases until the economy is completely out of the tunnel, but the number of dissenting voices is increasing

Micro or macro risks?



- **Macroeconomic uncertainty is weighing on growth stocks**, whose valuations are seen as more affected by rising interest rates
- However, in the long run, the ability to increase earnings has a much greater impact on the performance of stocks than movements in interest rates

The rise of a new reserve currency

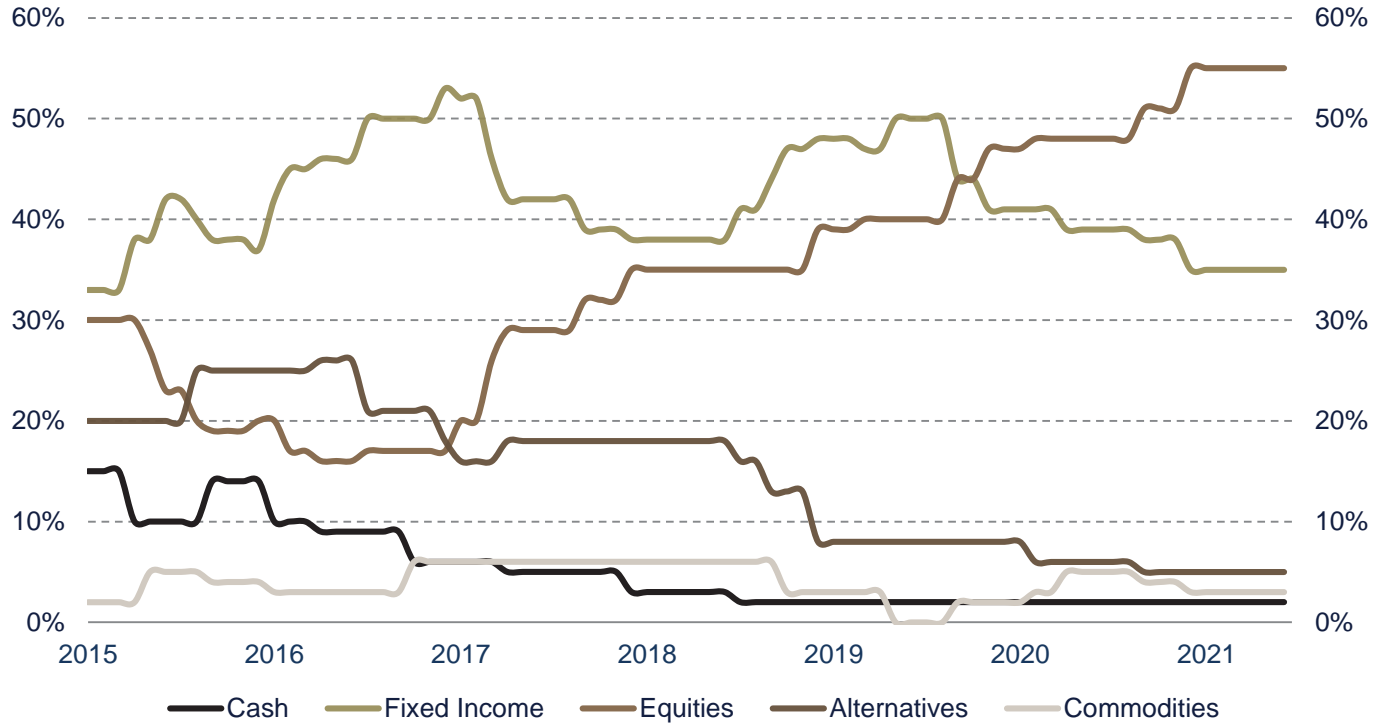


- The FX market also remains subject to macroeconomic uncertainty, since **the value of the dollar is highly dependent on the interest rate differential against other currencies**
- In this regard, we see the **Chinese Renminbi as one of the most attractive currencies**, as government bonds still yield above 3%. The Chinese authorities have also demonstrated their clear commitment to responsibly managing their currency, with the aim of enhancing its **status as a global reserve currency**

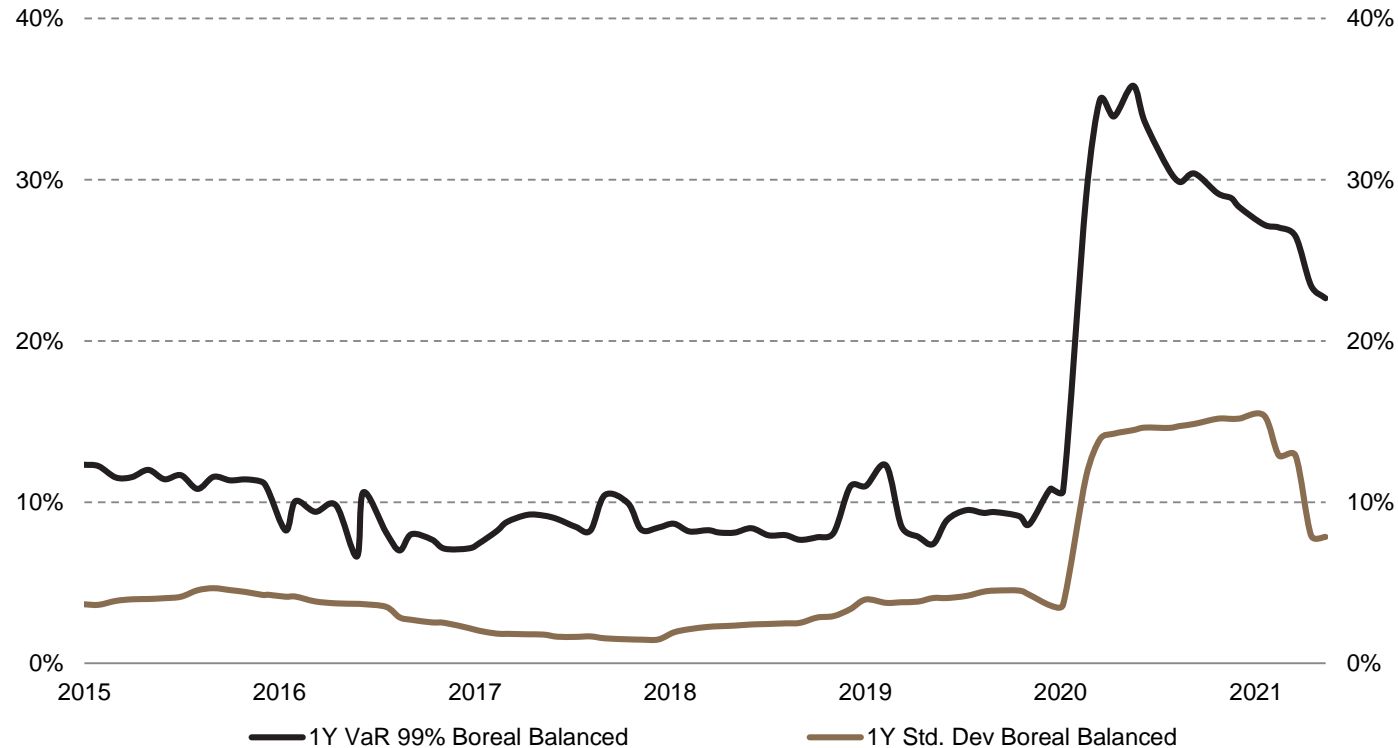
Investment scenarios

	Scenario 1 Interest Rate Shock	Scenario 2 "V" Recovery	Scenario 3 "W" Recovery
Drivers	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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	35% (+5%)	55% (-5%)	10%
Short-term catalyzers Acceleration in vaccinations or treatment for the coronavirus, normalization of activity			
Other risks Revamp of global taxation, Trade war (II), Spread of populist political parties, Geopolitical (Middle East, Russia, Iran, North Korea)			

EWM Model Portfolio – Asset Allocation evolution



EWM Model Portfolio – VaR evolution



¹ As of June 10, 2021
Source: Bloomberg

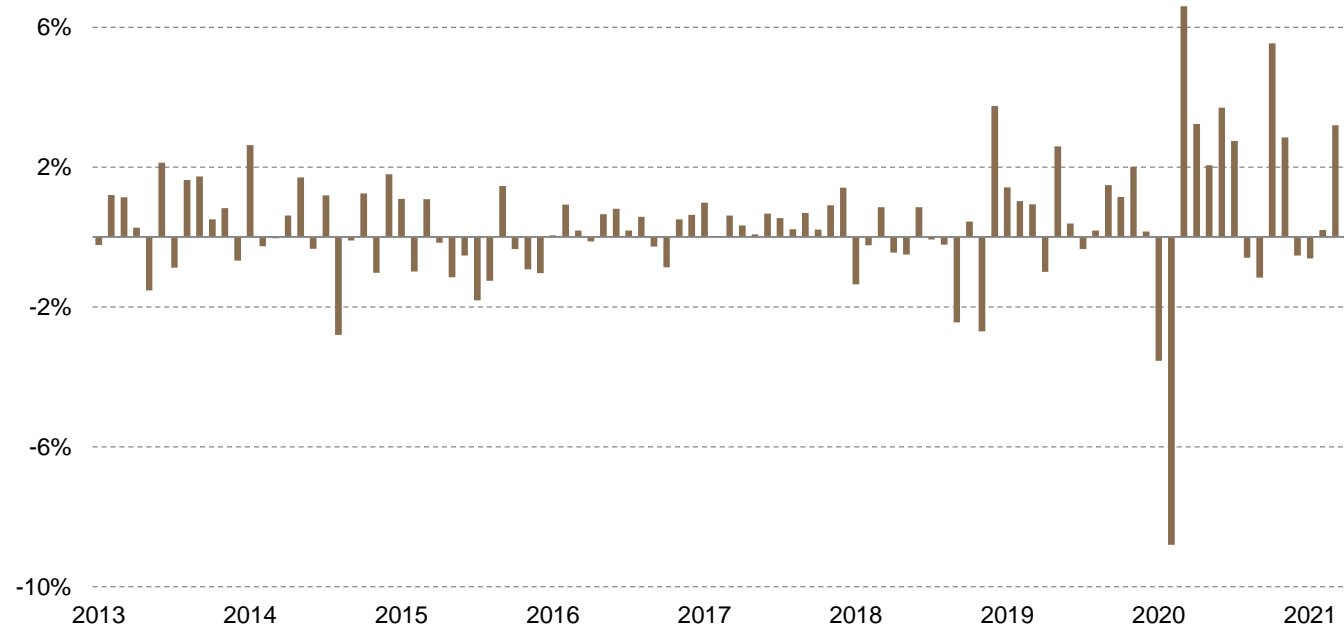
EWM Model Portfolio – Ytd performance



- **Total Return (Ytd¹): 3.41%**
- **Standard Deviation (Ytd¹): 8.02%**
- **Downside Risk (Ytd¹): 5.79%**
- **Sharpe Ratio (Ytd¹): 1.03**

¹ As of June 10, 2021

EWM Model Portfolio – Historical performance (1)



- **Total Return (1 year¹): 17.50%**
- **Total Return (3 year¹): 26.22%**
- **Total Return (Since Jan 13¹): 50.42%**

¹ As of May 14, 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%	3.41%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	15.18%	8.02%
Sharpe Ratio	2.54	0.58	-0.48	0.62	3.57	-1.70	3.49	0.87	1.03

Annualized Return: 4.95%
Annualized Std. Dev: 6.31%



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