Edwards Wealth Management AG
Switzerland

BOREAL
CAPITAL MANAGEMENT

# Investment Policy

August 2021

# Our market view in a nutshell – August 2021

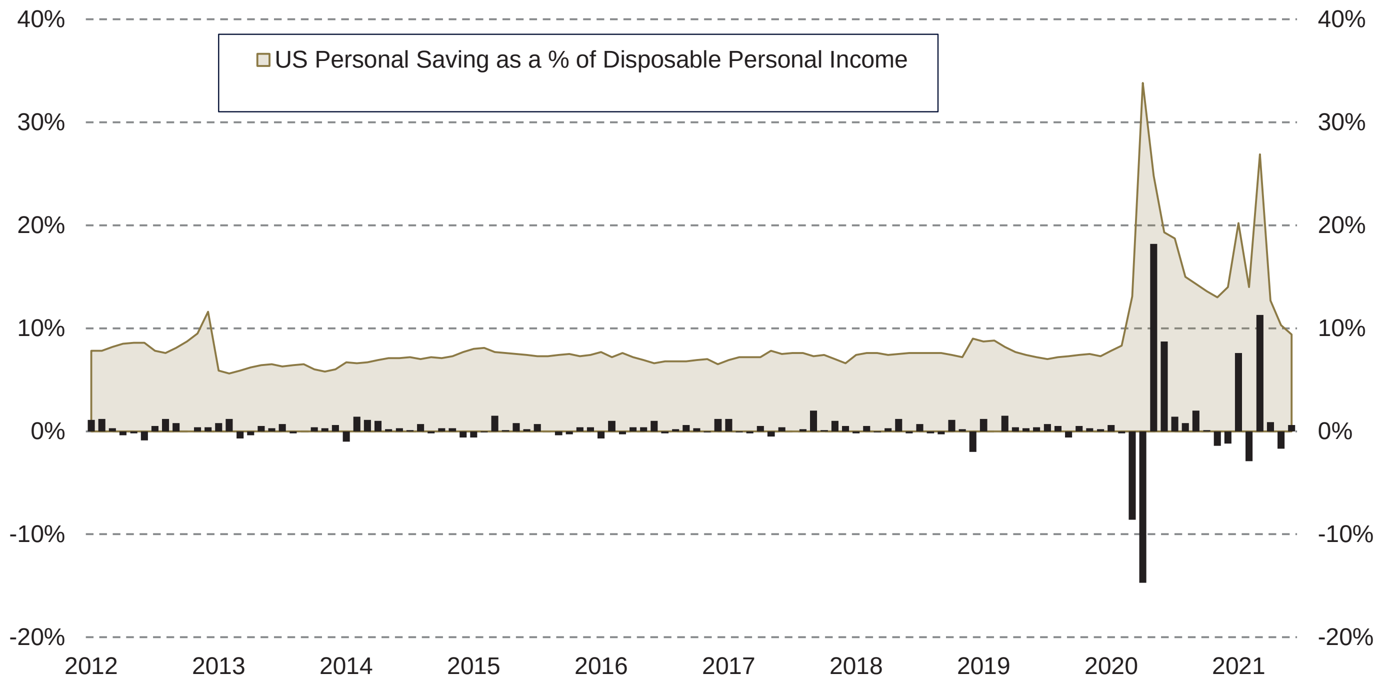
- The unique nature of the crisis induced by the pandemic makes it **very difficult to make projections based on macroeconomic data**; as these will remain very volatile over the next few months. In any case, we are beginning to see that a significant number of indicators suggest that the **economic momentum may already have reached its peak**, and that from now on we will embark on a long march towards the full normalization of the economy
- It is also too early to extract conclusions about the **long-term impact of the pandemic on both productivity and the labor market**. There is a **risk of a two-speed economic economy** that will increase the chances of **policy mistakes**, both in terms of fiscal and monetary policies
- We must add to the above risks that **Chinese policymakers continue to intervene in its economy, when the latter is still in a delicate moment**, given that the stimulus in the country has been more modest than in the US. An uncontrolled slowdown, whether caused by a deterioration in consumption or by a worsening of the epidemiological situation, has the **risk of generating a global shock**
- As for financial markets, over the last month **bond markets have continued to weigh the empirical evidence on the deflation vs. reflation debate**. Regarding equity markets, **corporate earnings have continued their upward trend**, causing major indices to reach all-time highs, all despite macroeconomic uncertainty

# 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. We recommend to allocate to Chinese government bonds in Renminbis |
| **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 stocks tend to be more cyclical, and there are fewer quality stocks |
| | 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

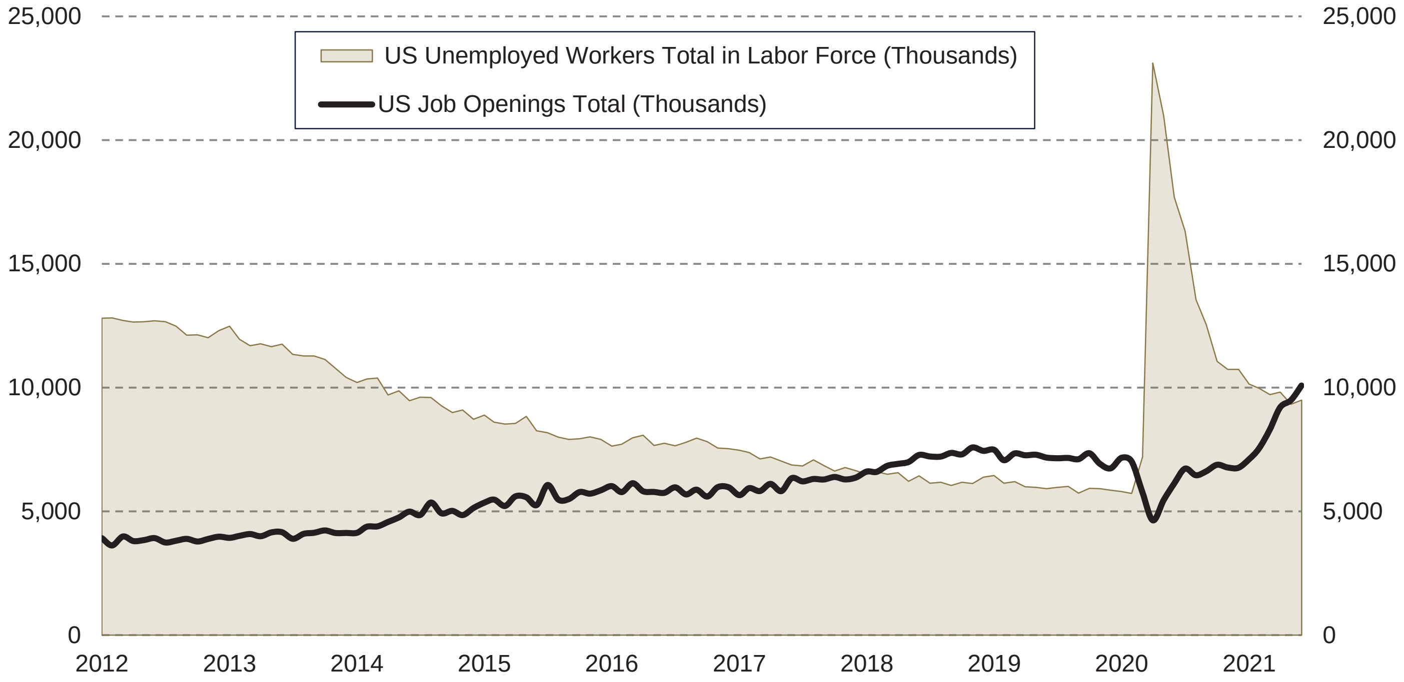
# The healing process continues




- The **momentum if the US economy seems to have peaked**, but the healing process continues, albeit at a slower pace
- Both **lagging economic indicators** (e.g., employment, inflation) and **leading ones** (e.g., PMI, confidence) point in that direction

Source: Bloomberg

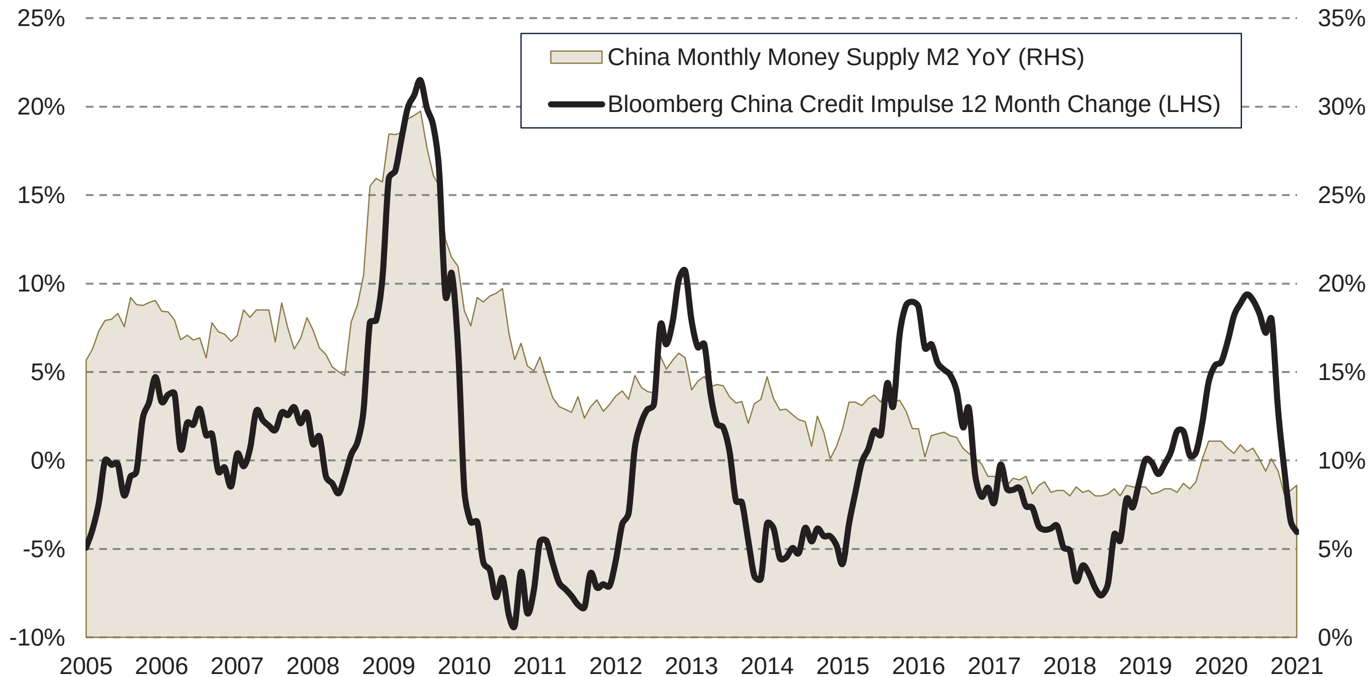
# The pandemic has changed things forever




- The pandemic has forced many companies to adapt and especially to become more digitized, which has led to **changes in the labor market that will probably turn to be permanent**
- On the positive side, this is causing **productivity to rise**, at least temporarily. But it is also creating a **mismatch in the labor market that can end putting upward pressure on some wages**; while at the same time fiscal and monetary policy should continue to support the economy

Source: Bloomberg

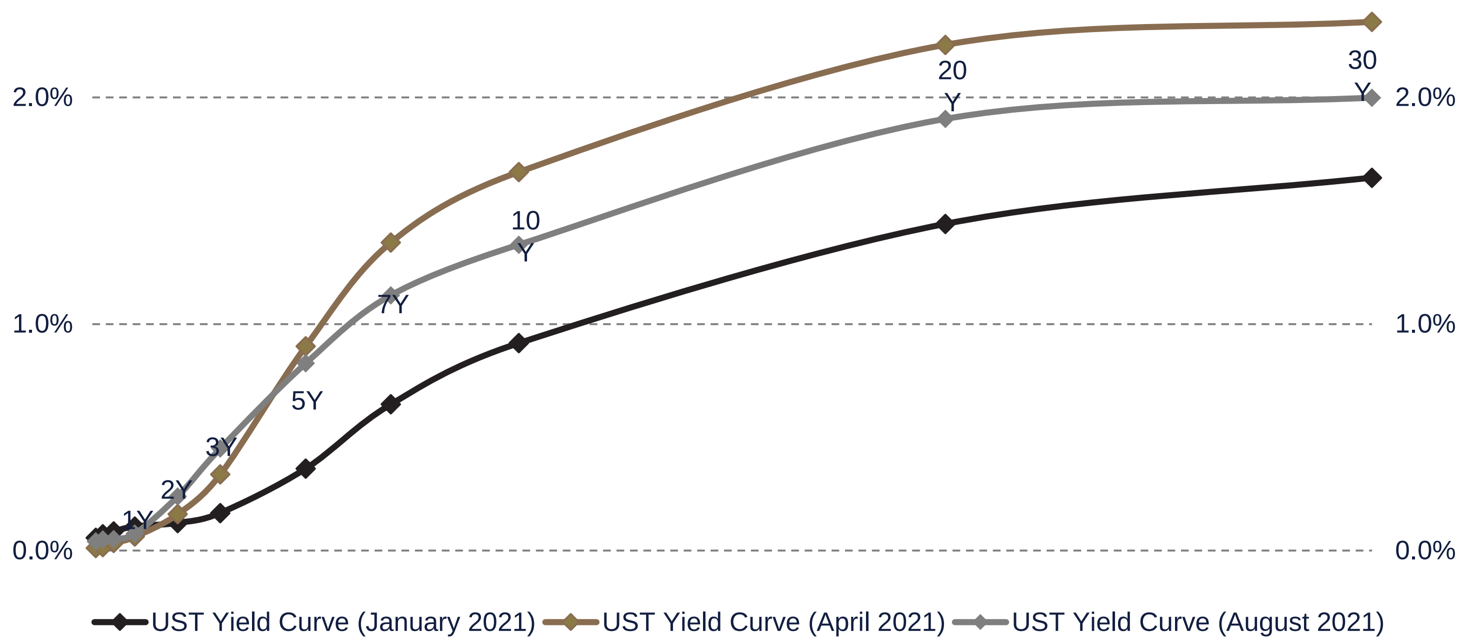
# China back to the spotlight?




- The **Chinese authorities continue to intervene in its economy**. They have multiple fronts open, from trying to manage the amount of leverage in the financial system, to recent crackdowns on some of the most promising companies in the country
- As the **stimulus in China has been more modest than in other large economies**, particularly in the US, the risk remains a hard landing of its economy, hence the **concerns about the delta variant**

Source: Bloomberg

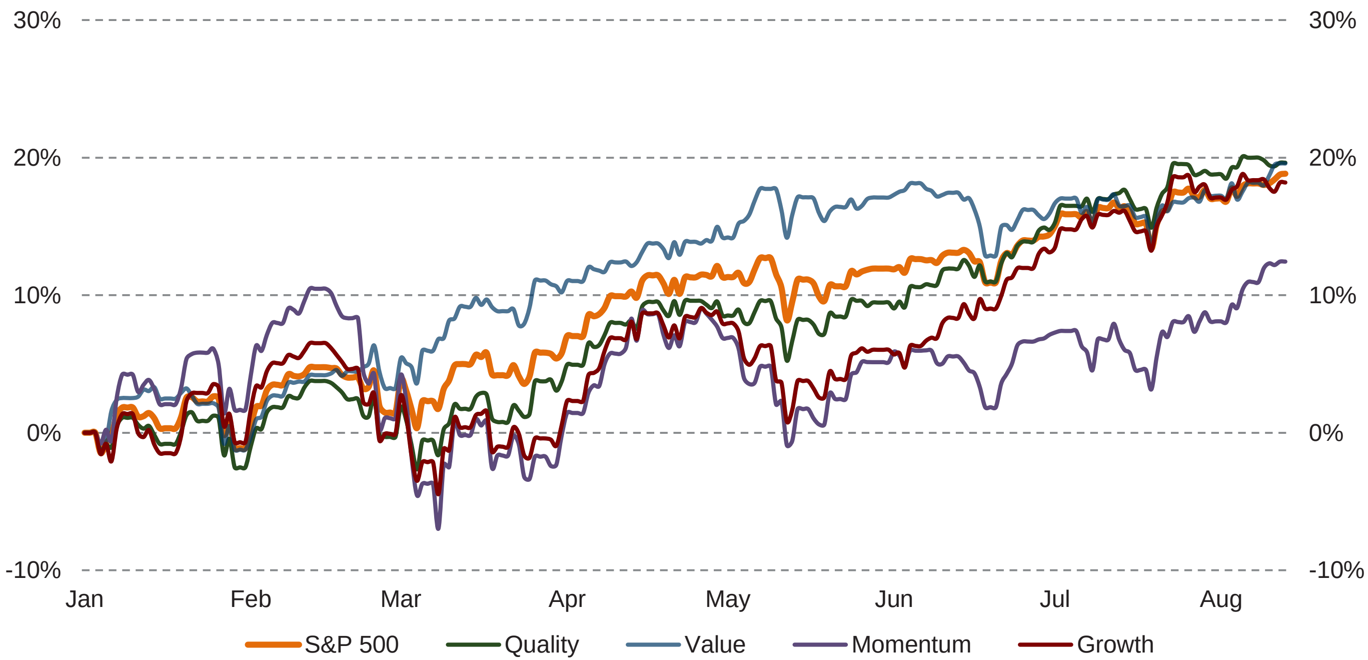
# Markets declare a truce?




- The unprecedented nature of this economic recovery keeps **markets calibrating between the alternative reflation/ deflation narratives**
- This **situation is likely to persist as macroeconomic data will remain volatile over the next few months**. Therefore, we do not recommend to make bold macro bets at the moment

Source: Bloomberg

# Value outperformance seems to be over




- The **positive (negative) correlation between value (growth) stocks and Treasury yields is a factor only relevant in the short term**, given that in the long term what prevails is the growth in corporate earnings
- It is more reasonable to see the **outperformance in the first part of the year of Value versus Growth as a correction of the excesses** in under/over valuation of last year

Source: Bloomberg

# Investment scenarios

| | Scenario 1<br>Interest rate shock | Scenario 2<br>"V" Recovery | Scenario 3<br>"W" Recovery |
|---|---|---|---|
| Drivers | • Inflation accelerates due to large fiscal stimulus combined with Infrastructure spending in the US<br>• Commodity prices rise as the global economy bounces back strongly<br>• 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<br>• Strict quarantines are avoided and economic activity continues to a greater or lesser extent, depending on control measures of variable intensity<br>• 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<br>• The pandemic starts to be under control by summer thanks to massive vaccination campaigns, but economic activity does not fully return to normal<br>• 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<br>• High-quality and sovereign bonds fall due to rising interest rates, failing to play their traditional cushioning role in portfolios<br>• Credit performs relatively better despite higher rates, as the risk of corporate defaults remains low<br>• 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<br>• Credit spreads recover to pre-crisis levels as the chase for yield intensifies<br>• Wide dispersion between both sovereign bonds and currencies, as yield curves will likely steepen as governments flood the market with new debt<br>• Commodity prices will stabilize | • Wide dispersion in equity and credit markets, with the strongest companies recovering and the weakest lagging behind<br>• Credit spreads widen as the market remains highly volatile and corporate defaults rise<br>• Wide dispersion between sovereign bonds and currencies due to "flight-to-quality"<br>• 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 | 30% | 55% | 15% |

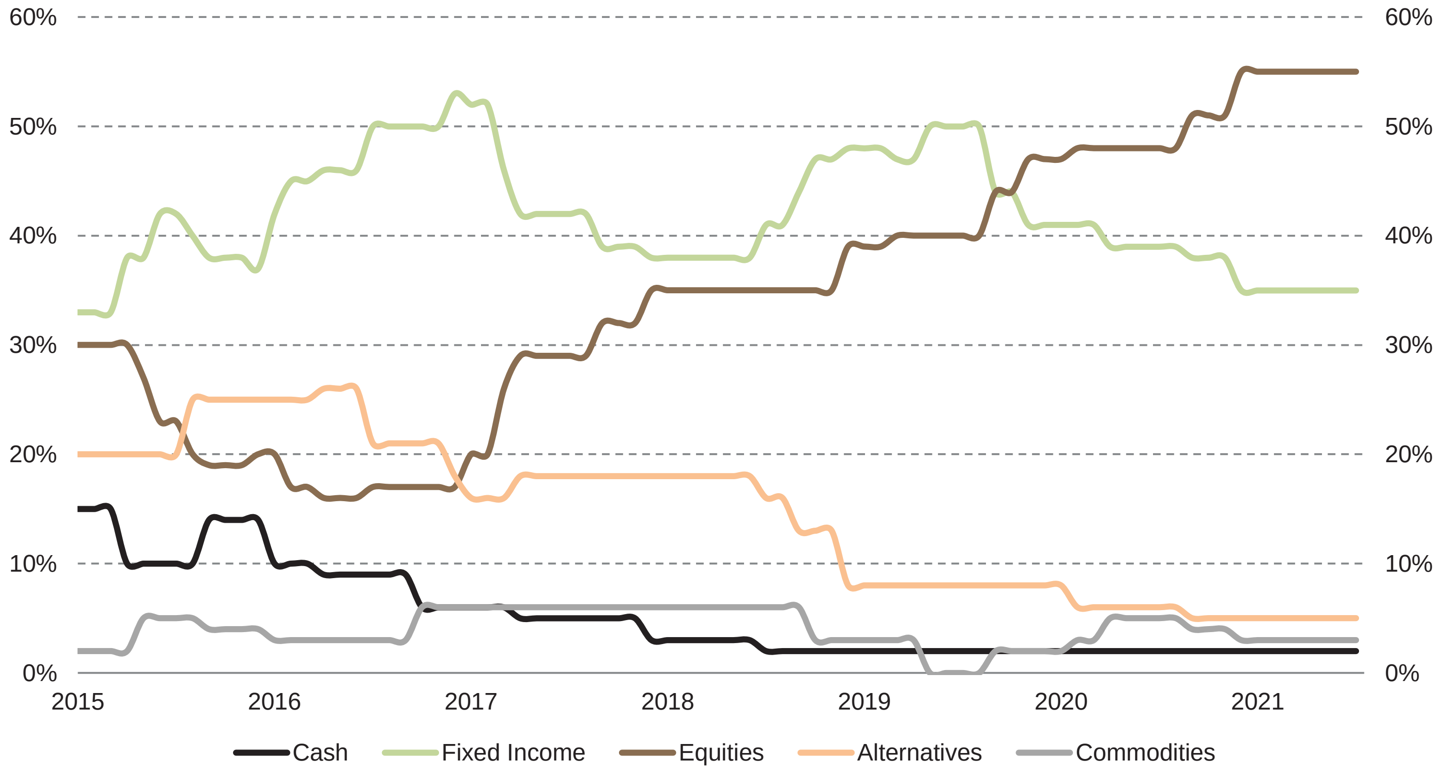
**Short-term catalyzers**

Acceleration in vaccinations or treatment for the coronavirus, normalization of activity

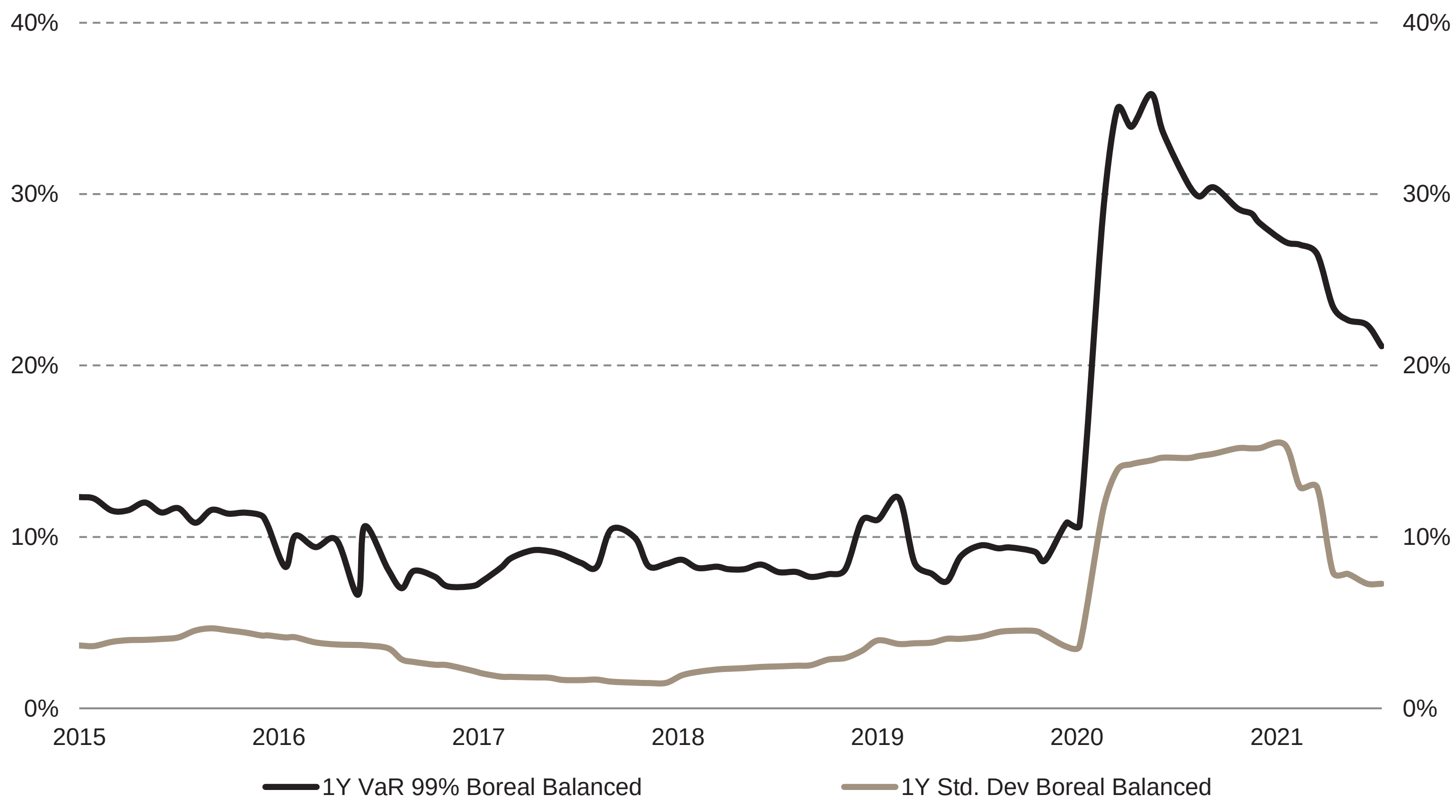
**Other risks**

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



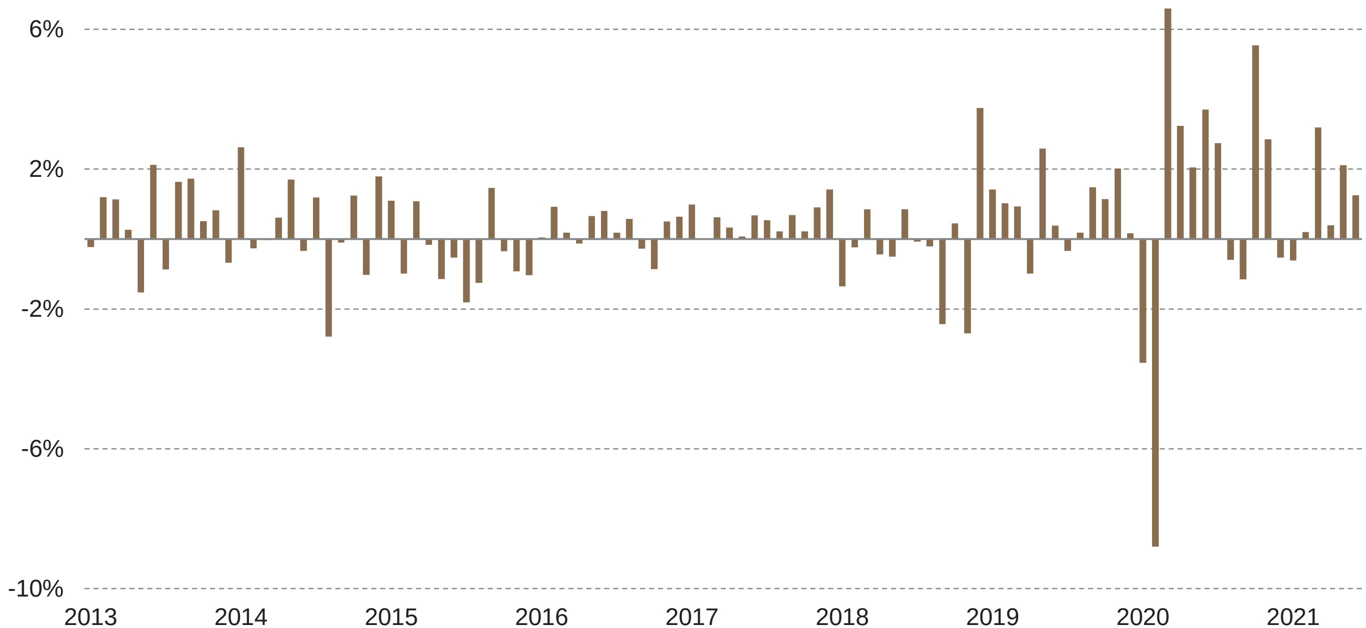

[1] As of August 10, 2021
Source: Bloomberg

# EWM Model Portfolio – Ytd performance


- **Total Return** (Ytd[1]): **6.19%**
- **Standard Deviation** (Ytd[1]): **7.17%**
- **Downside Risk** (Ytd[1]): **5.21%**
- **Sharpe Ratio** (Ytd[1]): **2.12**

[1] As of August 10, 2021

# EWM Model Portfolio – Historical performance (1)




- **Total Return** (1 year[1]): **15.10%**
- **Total Return** (3 year[1]): **30.10%**
- **Total Return** (Since Jan 13[1]): **54.47%**

[1] As of August 10, 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% | 6.12% |
| Std. Deviation | 3.82% | 3.59% | 3.67% | 2.08% | 1.45% | 3.77% | 3.78% | 15.18% | 7.17% |
| Sharpe Ratio | 2.54 | 0.58 | -0.48 | 0.62 | 3.57 | -1.70 | 3.49 | 0.87 | 2.12 |

Annualized Return: 5.18%
Annualized Std. Dev: 6.27%

[1] As of August 10, 2021

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