



Edwards Wealth
Management AG
Switzerland



Investment Policy

October 2021

Our market view in a nutshell – October 2021

- One more month, another batch of macroeconomic data. As time passes, **evidence grows that inflationary pressures may last longer than initially expected**. Logistical bottlenecks, rising energy prices, labor shortages, and rising house prices are beginning to filter into **consumers' medium-term inflation expectations**; which increases the risk of triggering an inflationary spiral
- Regardless of whether these factors ultimately turn out to be **transitory or not, the Fed can no longer ignore them**; particularly if wage pressures continue. **The Fed is between a rock and a hard place**, as if it does nothing it risks losing control of the situation, while a premature tightening could slow down the economy at a critical juncture
- Both an acceleration in inflation and a Fed policy mistake are plausible scenarios, but their potential impact on financial markets is a matter of degree. A reasonable assumption is that **inflation will rise but will not get out of control**, and that the **Fed will remain patient and will only tighten its monetary policy gradually**. This thesis implies that we will not see a recession in the near-term
- Even if the US economy is on a solid growth path, it is not insulated from external risks; the pandemic being the most obvious reminder of it. In this sense, currently the **biggest risks come from China**; where we have a **combination of slowing growth and problems in the real estate sector that could feed each other**. So far, the market seems to believe that contagion risks are contained, but investors should keep a close eye on developments
- With macro tailwinds waning and interest rates rising, **equity valuations are increasingly dependent on earnings growth**. In this regard, we continue to witness strong earnings momentum, which supports our constructive view on equities. However, we expect **volatility to remain high as valuation multiples are more likely to compress rather than expand**



EWM Investment Policy

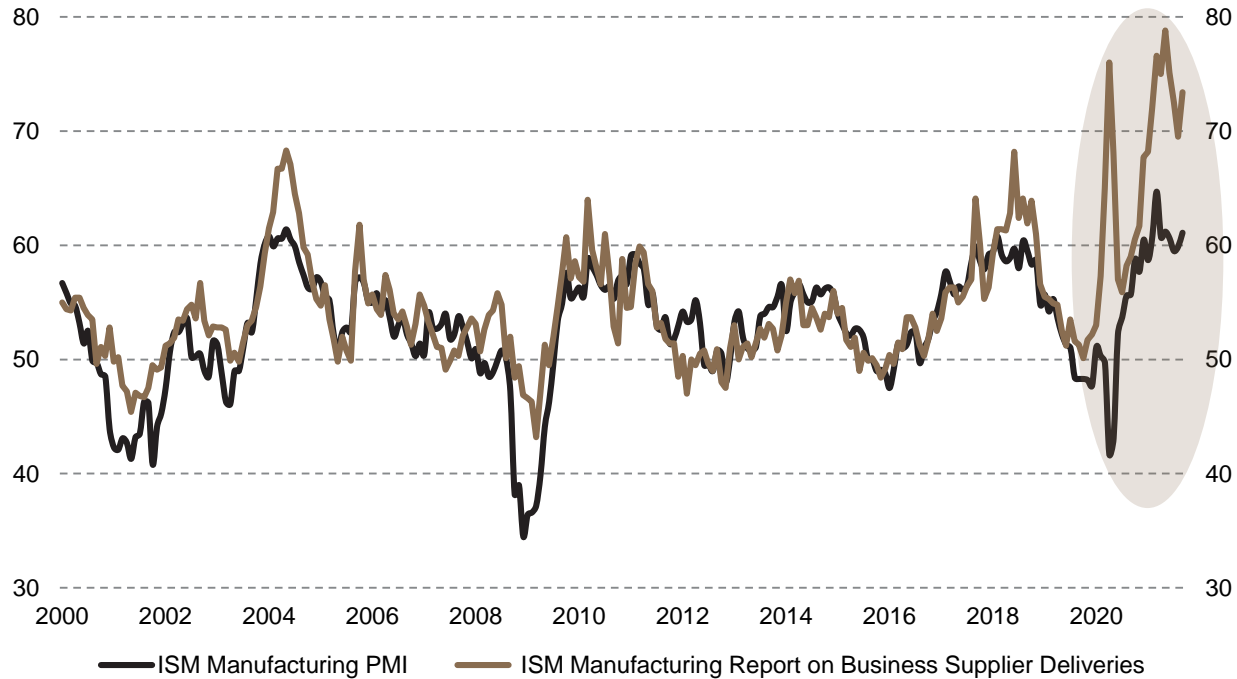
	Asset Class	View	Rationale
Fixed Income	US Treasuries	+	Treasury bonds offer protection against an economic slowdown and / or increased risk aversion. With interest rates anchored at current levels, and credit spreads that have narrowed massively, we favor long-term US Treasuries
	US Credit	-	The crisis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

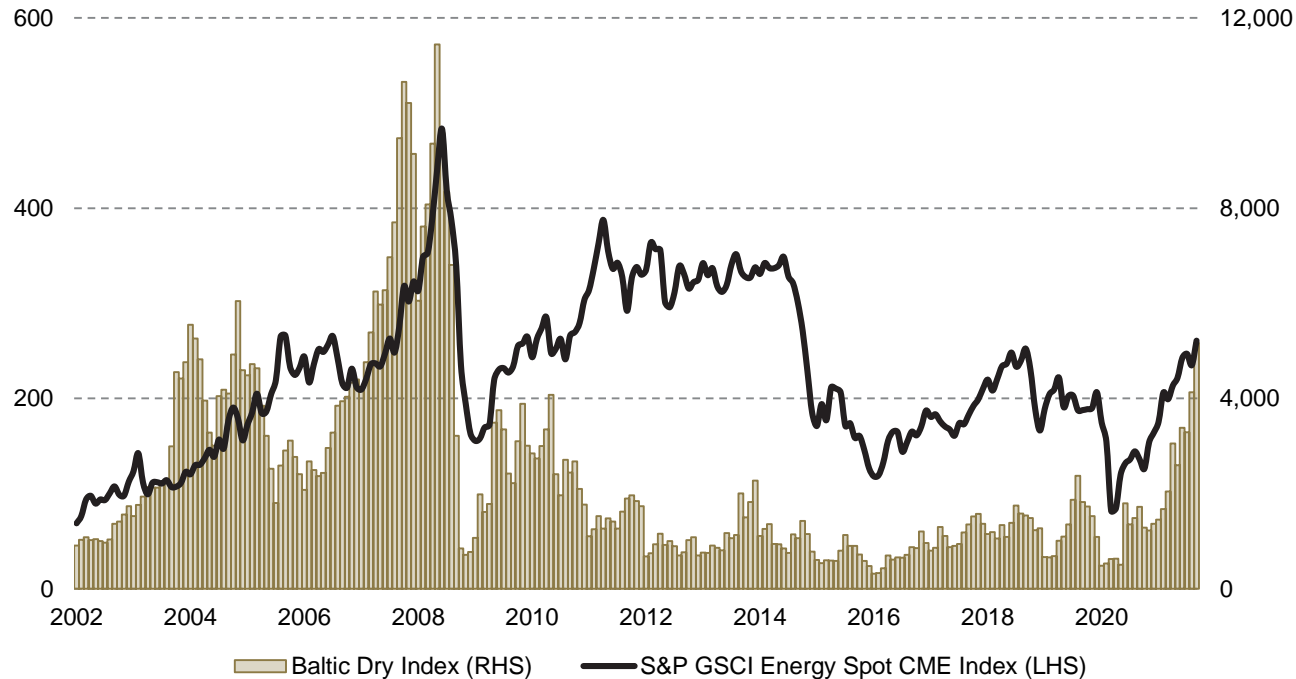
= Neutral

Supply chain constraints lasting longer than expected



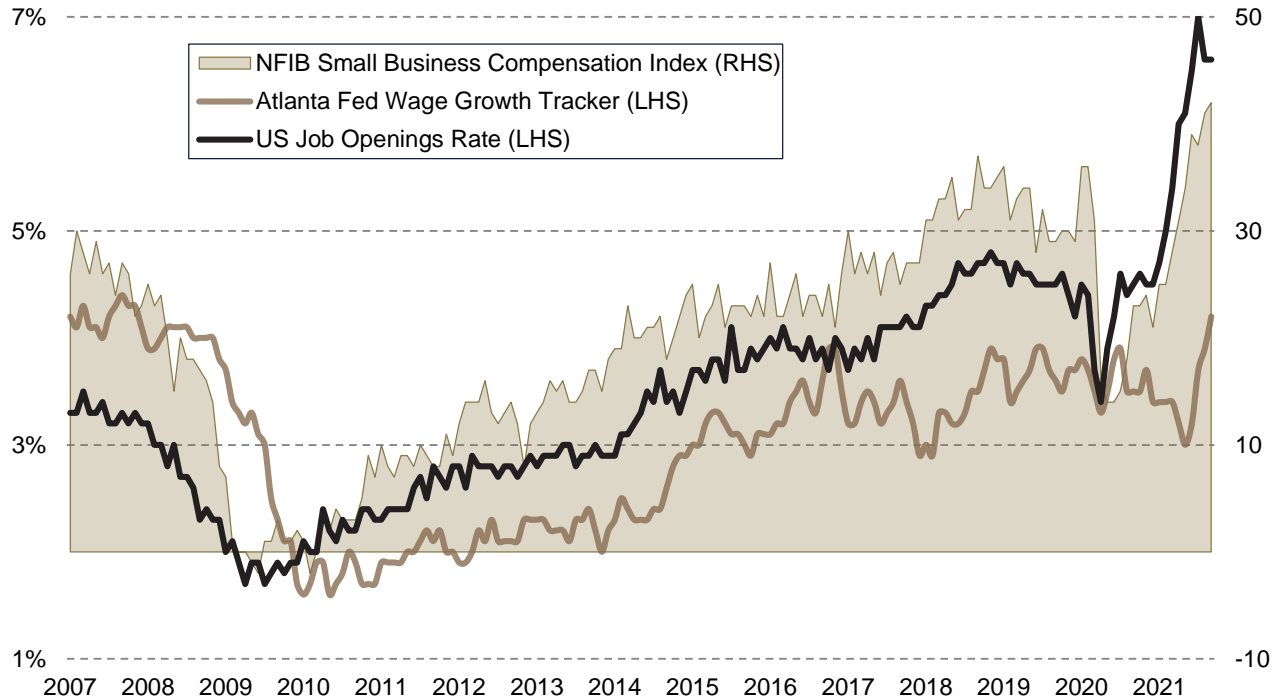
• **Logistics bottlenecks are making headlines** as manufacturers face increasing problems producing and distributing their products; as the economy emerges from the pandemic

The economy is cyclical



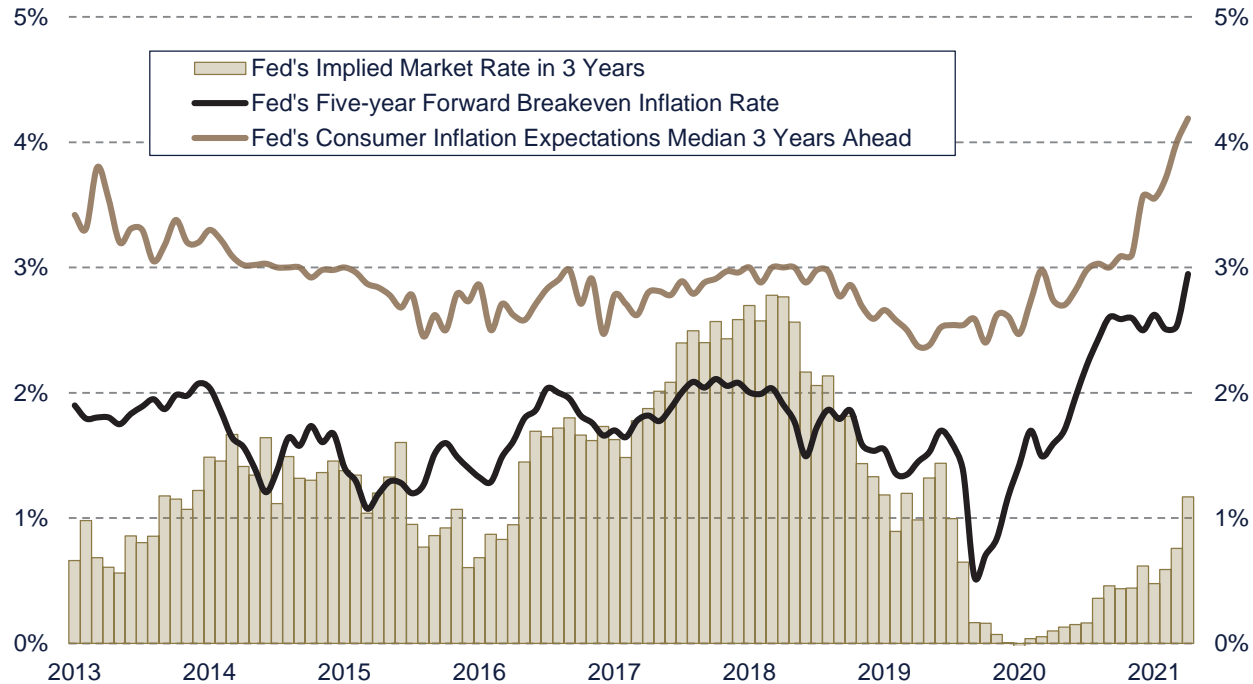
- Even though supply chain disruptions are proving to last longer than initially expected, we must try to **differentiate between the anecdotal and the structural**
- This time, **energy and transportation costs are not increasing due to an overheating of the economy**, but due to disruptions and lack of investment caused by the pandemic

Where are the workers?



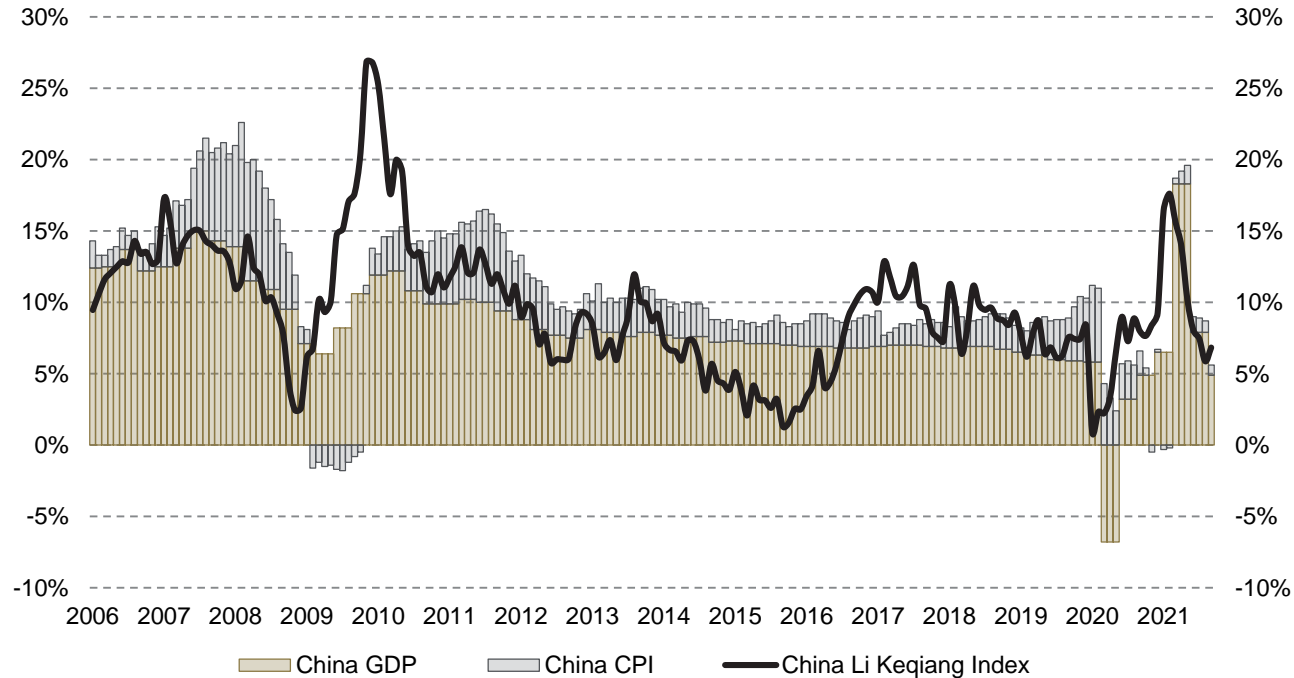
- Evidence is mounting that **labor shortages** are beginning to translate into higher wages
- If this trend continues, we will have all **the ingredients** for a sustained increase in inflation

Massive fiscal support remains



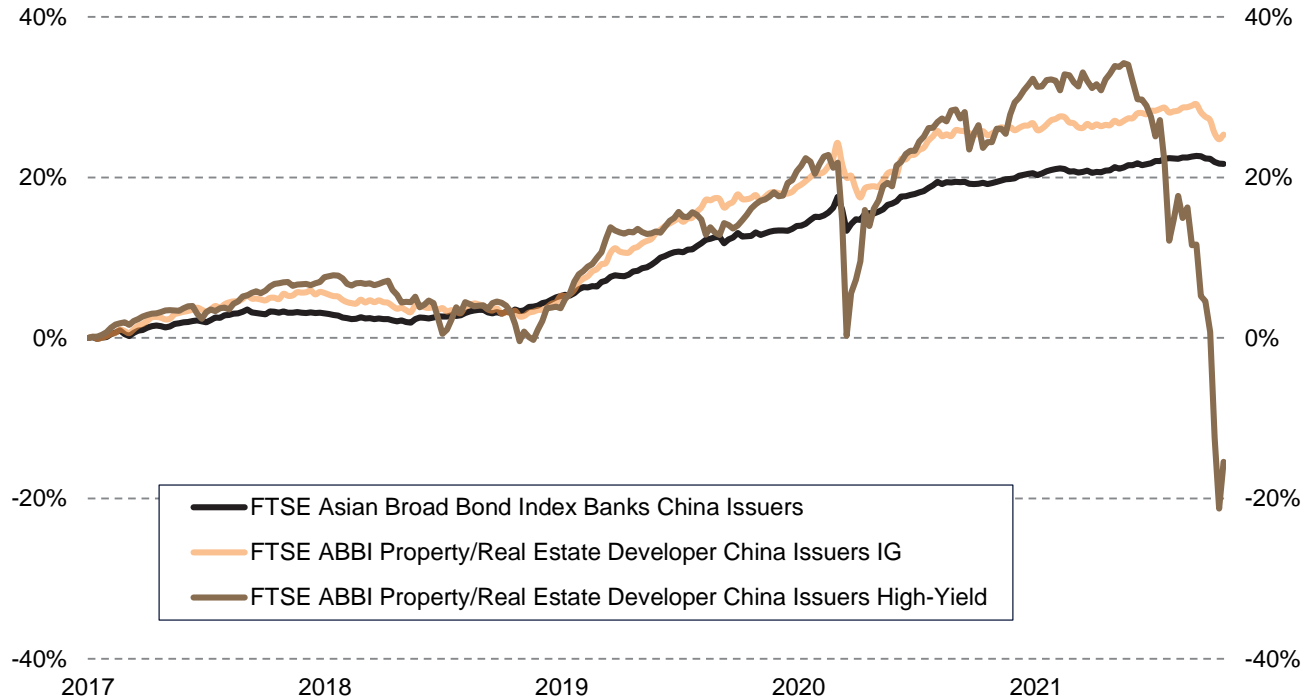
- Rising prices caused by shortages in certain goods and services, as well as rising wages and house prices, are **beginning to filter into consumer inflation expectations**
- **The Fed cannot remain patient for much longer**, otherwise there is a risk that it will later have to raise rates more aggressively; putting the economic recovery at risk

Inflation is not the biggest risk right now



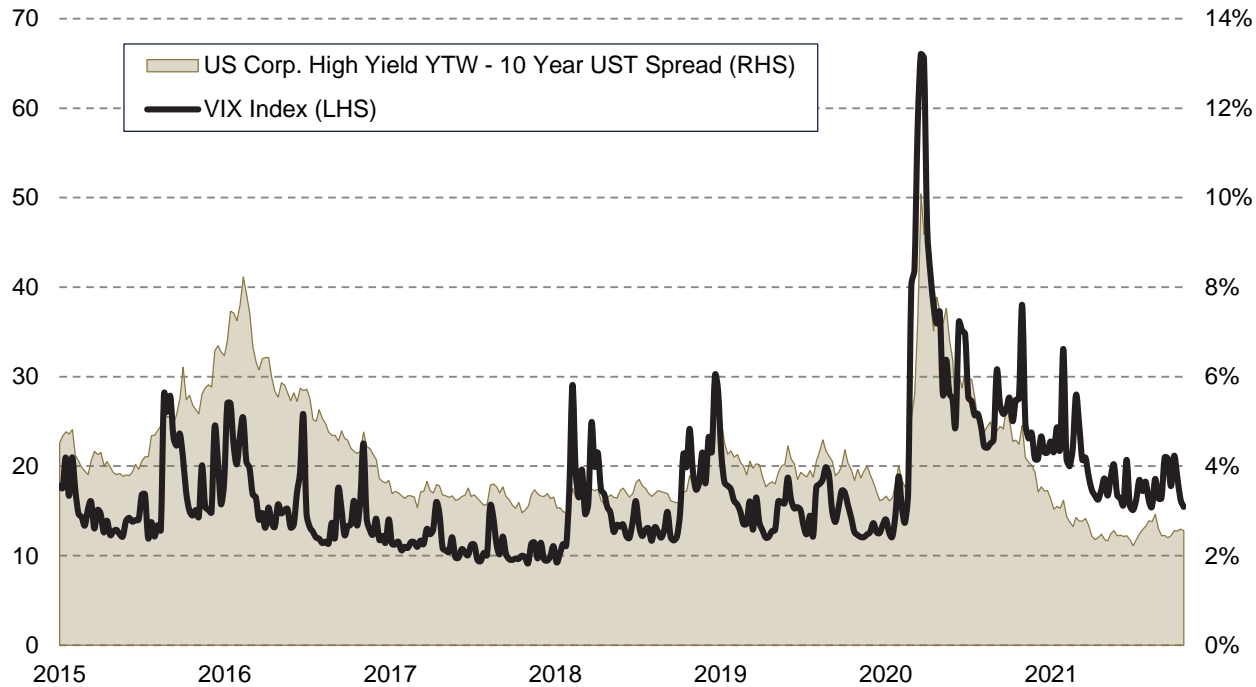
- **China's troubles are going relatively unnoticed**, with the market little concerned so far about a potential economic slowdown in the country
- Growth continues to slow and, unlike the rest of the world, inflation remains depressed; resulting in **real GDP levels not seen in decades**

Contagion risk contained so far



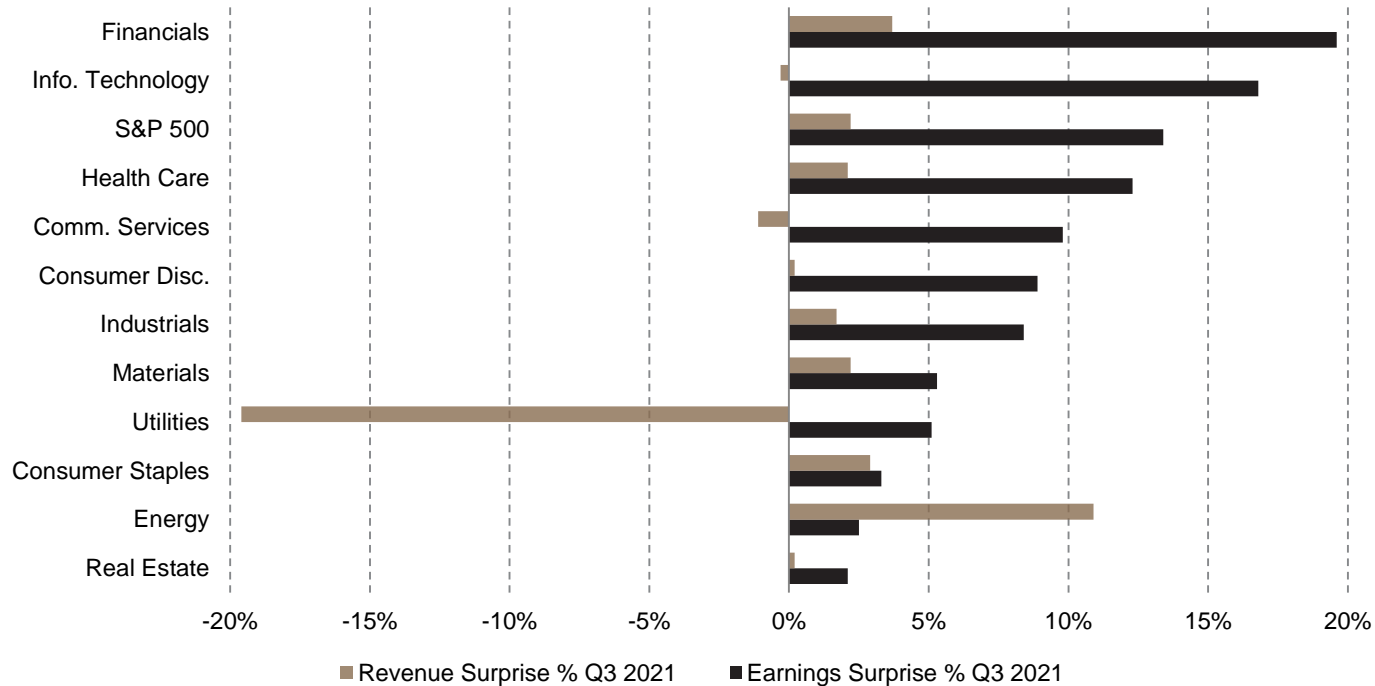
- The **crisis of the property developer Evergrande** seems to have been **confined to the most indebted corners** of the real estate sector
- However, a there is a **risk of a potential spillovers to consumers** if property prices were at some point affected

Corrections driven by valuations, not growth



- Judging by credit spreads, **financial markets are not pricing a recession anytime soon**
- However, as the trajectory of interest rates become less predictable, and valuation multiples begin to compress, **equity markets are increasingly vulnerable to changes in market sentiment**

Back to fundamentals



• With **multiple expansion over**, **earnings growth** will be the most critical factor determining performance in the medium term, underscoring the importance of **remaining highly selective**

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%)	45% (-10%)	20% (+5%)

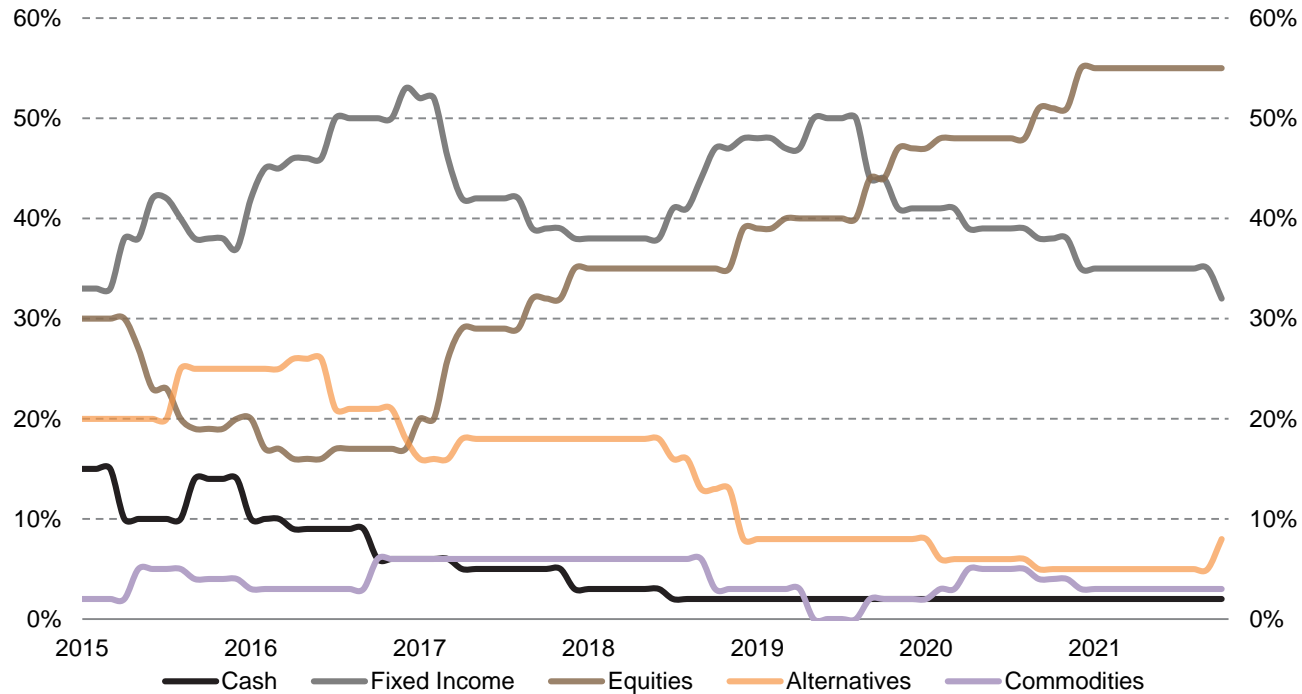
Short-term catalyzers

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

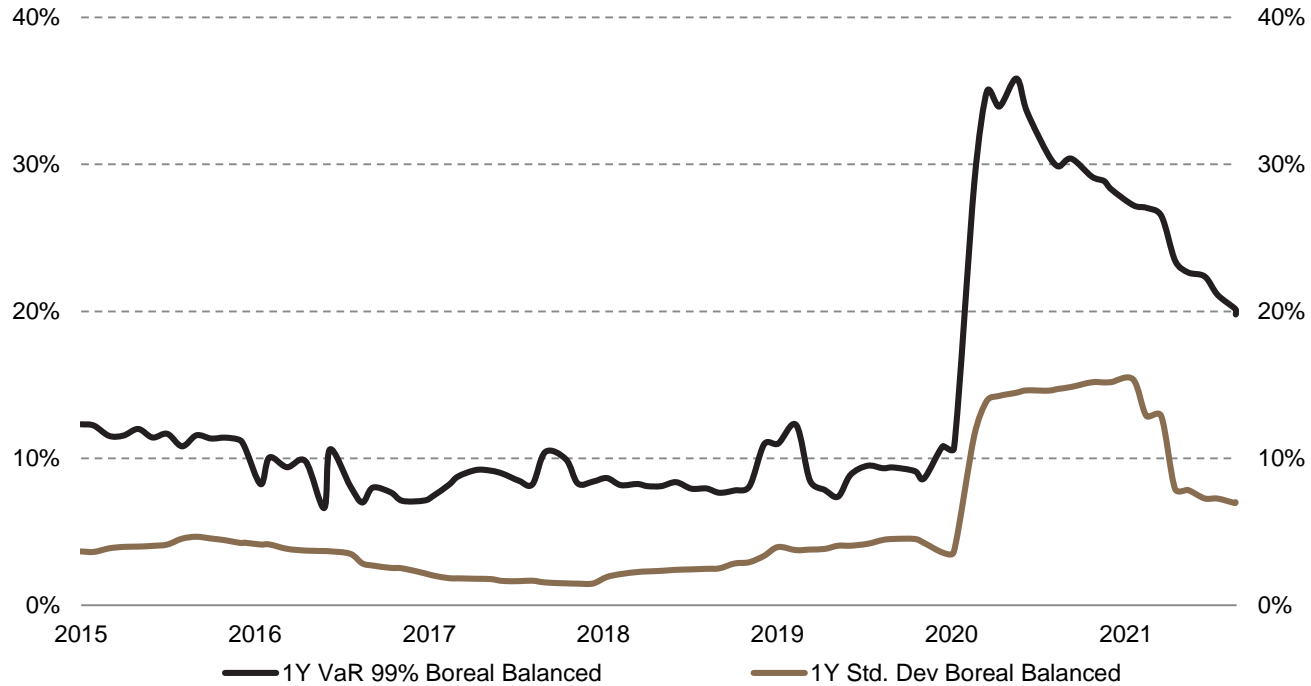
Other risks

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 October 18, 2021
Source: Bloomberg

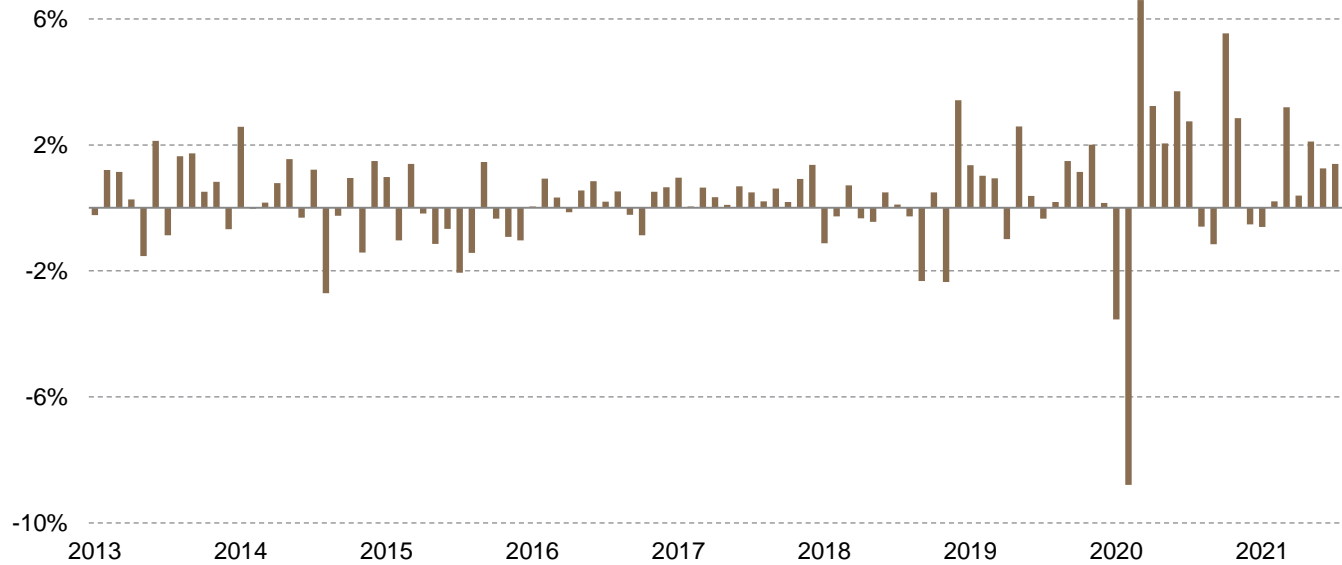
EWM Model Portfolio – Ytd performance



- **Total Return (Ytd¹): 6.40%**
- **Standard Deviation (Ytd¹): 6.96%**
- **Downside Risk (Ytd¹): 5.09%**
- **Sharpe Ratio (Ytd¹): 1.20**

¹ As of October 18, 2021

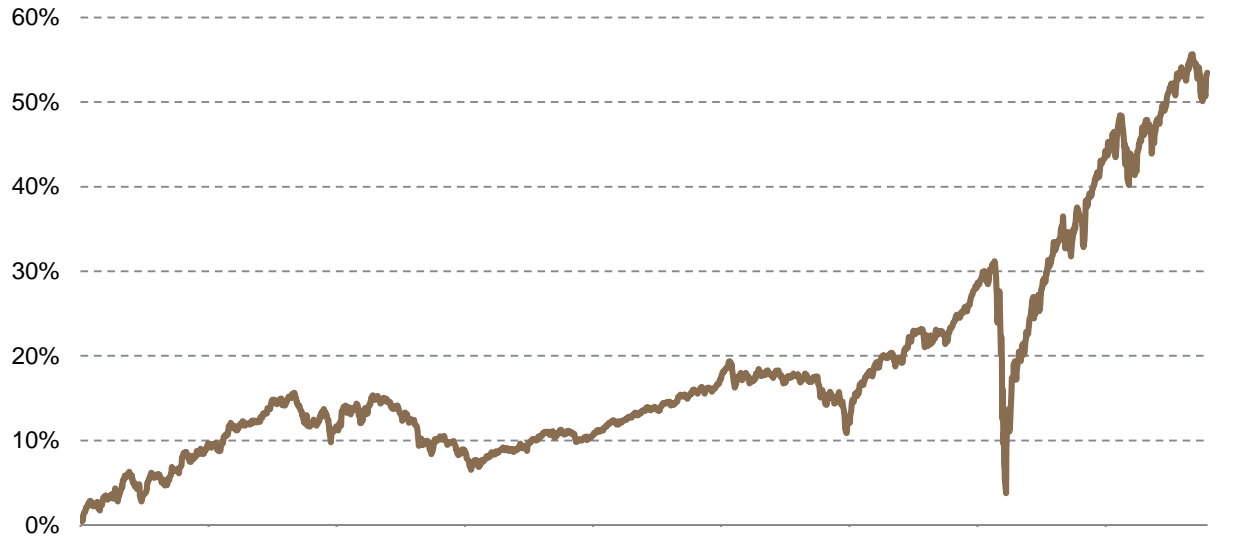
EWM Model Portfolio – Historical performance (1)



- **Total Return (1 year¹): 12.09%**
- **Total Return (3 year¹): 32.65%**
- **Total Return (Since Jan 13¹): 53.47%**

¹ As of October 18, 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%	6.40%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	15.18%	6.96%
Sharpe Ratio	2.54	0.58	-0.48	0.62	3.57	-1.70	3.49	0.87	1.20

Annualized Return: 4.99%
 Annualized Std. Dev: 6.23%





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