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Investment Letter

No 1
January
2021

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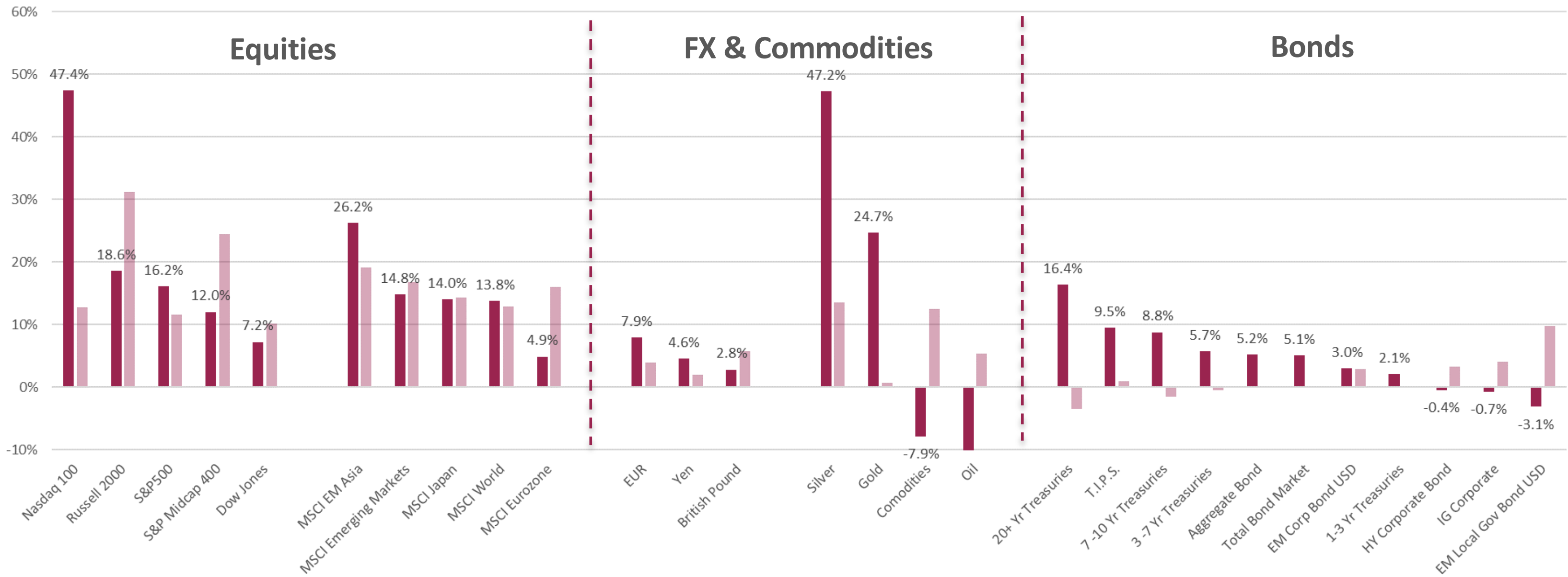
How various assets have performed in 2020

USD-Total Returns of listed Exchange Traded Funds in %:

dark mangenta = 2020 total returns **light mangenta = Q4 2020 total returns**



To put 2020 into context:

- **Global stocks** added USD 15trn in **market cap** to **surpass USD 100trn** for the first time in history. Once more, the **US beat** China and Europe. Sector wise, **Tech** (+41%) and **Consumer Discretionary** (+28%) **shined** while only Energy (-36%) and Financials –5%) ended the year in red.
- The **US Dollar** Index' drop of -6% is the **worst since 2017**. From its spike in March, the index is down -14%. That helped **gold** to post its **best year since 2010**. Oil went wild in a range from 60 USD to -40 USD.
- **US Treasury bonds** posted a **steep drop**. Despite the fact that the long end of the curve recovered somewhat later in the year, **10r yields dropped** -1%, **the most since 2014**. Global **negative yielding debt reached a peak** of USD 18trn.

Source: Bloomberg; FIS Market Map; all data as of 31th of December

How our Model Portfolios have performed in 2020

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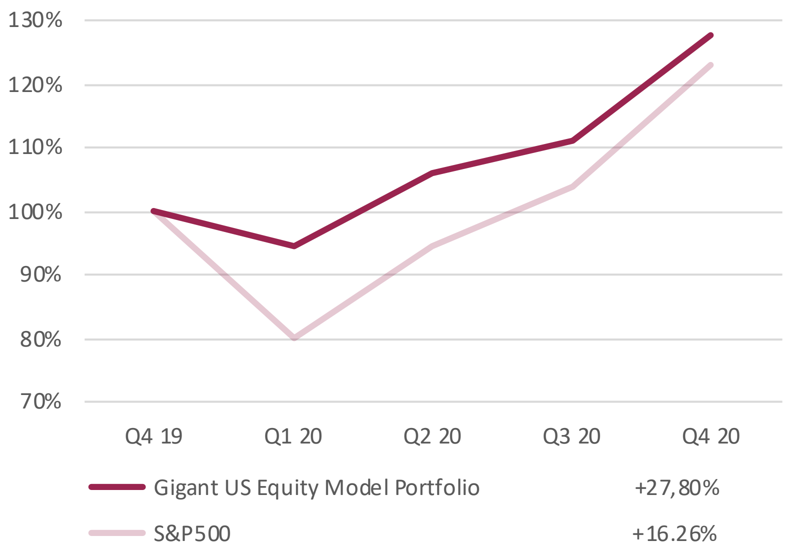
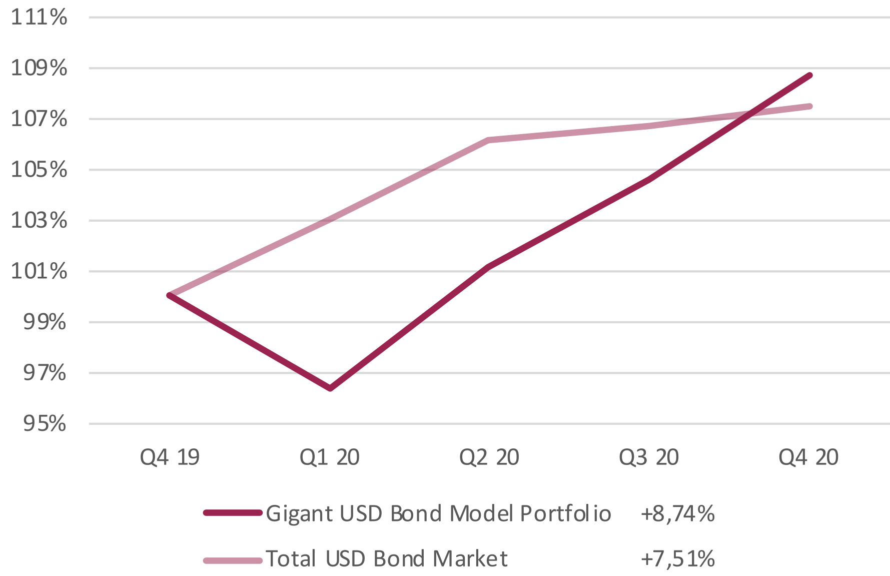
2020 Evolution of Equity Model Portfolio vs Benchmark:



2020 Evolution of Bond Portfolio vs Benchmark:



Manager Comment:

Thanks to its very defensive positioning, our portfolio dramatically outperformed during the Q1-Covid-selloff. Right at the low, we increased allocation again which helped maintain that outperformance during the first part of the recovery in Q2. In expectation of another downturn, we turned more cautious during Q3 which made the portfolio to loose some ground. Anyhow in Q4 we managed to twist our exposure more cyclically again which helped the portfolio benefiting from the steep market rise. At the end of 2020, we outperformed the broad market by a very good margin.

Manager Comment:

During Q1, longer term USD-rates corrected very significantly to unseen low levels, sending the total USD Bond Market which includes also save US treasury bonds higher. Soaring credit spreads instead lead our relatively short duration and credit-tilted portfolio markedly lower. However, continuously falling credit spreads (and thus rising corporate bond prices) helped our portfolio to not only recoup early losses for the quarters to come but also to outperform the broader market towards the end of the year. It clearly helped that we added a good amount of additional credit risk in form of lower rated issuers during H2.

Source: FIS Market Map; Stockopedia; own calculations; all data as of 31th of December

Our Tactical Asset Allocation (6months horizon)

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EQUITIES –> REMAIN NEUTRAL

- As we have highlighted in our Investment Outlook for 2021, the **mix of monetary and fiscal stimulus**, **combined** with a **macro economic recovery** will further propel investor's animal spirit thus **resulting in higher equity prices** going forward. Anyhow, after some months of rather extreme gains, it is not (yet) the time to further raise allocation across the board. Instead, selective additions and active management remains he strategy for now as the **performance-dispersion** between leaders and laggards is **still elevated**. What we can say about the composition of our portfolios is that they have been **tiled much more cyclically** via the addition of names from the consumer cyclical, materials and selected industrial names over the last months.
- **Value-type stocks**, helped by stronger economic growth and higher inflation, are set **to stage a comeback** and start to close at least part of the huge relative valuation gap to growth stocks. This does not mean that all growth-type stocks must be sold at once but the heydays of the growth-factor are likely over. Therefore, value-exposure should be increased (we have already done quite a bit of that).
- Keep in mind that **valuation does not matter**: Thanks to the dramatic rise of the amount of money in circulation, inflation is felt in asset prices around the globe. Therefore, traditional financial valuation metrics are of limited use (for now). While we do not feel comfortable with that, we nonetheless better **accept** this **"current reality".** As a matter of fact, "everything" is expensive now and those stocks which are not are usually cheap for a good reason. So instead of focusing on valuation, one shall benefit from everything which **enjoys high momentum.** That said, keep in mind that the current party will not last eternally but likewise to any other occasion in history, might end abruptly and without prior notice.

CASH –> REMAIN NEUTRAL

- Do not hold overly large cash positions during time where rates are at 0% and where there are better opportunities elsewhere.

Our Tactical Asset Allocation (6months horizon)

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BONDS –> REMAIN NEUTRAL

- SSince the beginning of the year, long term USD-rates have risen. Anyhow, the **risk of longer term bond yields to blow out** (and thus bond prices to tumble) seems to be **in check as there is no inflationary pressure** (and there won't be any until the US-unemployment gap closes which will take years from now). However, rock bottom short term yields and slightly rising longer term yields will inevitably lead to a **moderate continuation of the current yield curve steepening.** Positioning along the shorter end and the belly of the curve is our strategy for 2021.
- Although, both IG as well as HY credit spreads have compressed already quite a bit over the past months, they do not trade in the highest valuation percentiles. **Lower demand for investment capit**al as well as **high supply of capital** will almost **inevitably lead to even lower credit spreads**, in particular as the **yield gap** between **US HY credit** and **cash is at multi year highs** thus increasing the **relative attractiveness of riskier corporate bonds.**
- An improving macro economic environment bodes particularly well for **Emerging Markets** which traditionally have a **larger share** of the more **cyclically exposed manufacturing sector**. Add a weakening US Dollar and the potential for rising commodity prices and you'll get an almost ideal background for EM bond investments.

ALTERNATIVES –> REMAIN NEUTRAL

- **Commodity prices are still cyclically depressed** and have room to recover in the wake of the pandemic. The **Chinese economy** which is among the largest demand forces in world commodity markets is **on a solid footing** and about to increase its stockpiles. A moderate rise in inflation as well as a weaker USD will also be supportive to commodity prices.
- Thanks to the weak USD and low rates, **precious metals** are expected to **fare well**, although at a much **more moderate pace than in 2020**. Silver should also benefit from continued good industrial demand.
- **Bitcoin** seems to be another **beneficiary of accommodative monetary policy**. While there is a lot of speculative or hot money flowing into cryptos right now, the fact that more and more **institutional investors are starting to include this asset** class into their universe should keep demand high for the foreseeable future. After euphoria was about to boil over during the turn of the year, we target an entry point in the low 20k area to establish positions.

Our Preferences on one Slide

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Asset Class	We Like	We Don't Like
Equities	*Area*: **Asia, EU with "domestic" sales exposure** *Sectors*: **Consumer Cyclicals, Healthcare, Materials, Technology** *Style:* **Value, Small & Mid Caps**	*Area*: **Latin America** *Sectors:* **Energy, Consumer Defensives** *Style:* **Dividends**
Bonds	*Duration:* **Short & Medium term duration** up to **7** years *Area:* **Emerging Markets corporate & sovereign debt** *Credit:* **low IG-, Crossover-, HY-Corp, subordinated debt**	*Duration*: **duration > 10 years** Area: **government bonds** *Credit:* **High Grade Corp**
FX & Commo-dities	*FX Majors:* **EUR, JPY, GBP** *FX Minors:* **CAD, AUD, RUB, BRL** *Commodities:* **Precious Metals**	*FX Majors:* **USD** *FX Minors:* **CHF, TRY** *Commodities:* **Oil & Gas**
Alternatives	*Alternatives: **Bitcoin***	*Alternatives: **Commercial Real Estate***

Overview US Equity Model Portfolio

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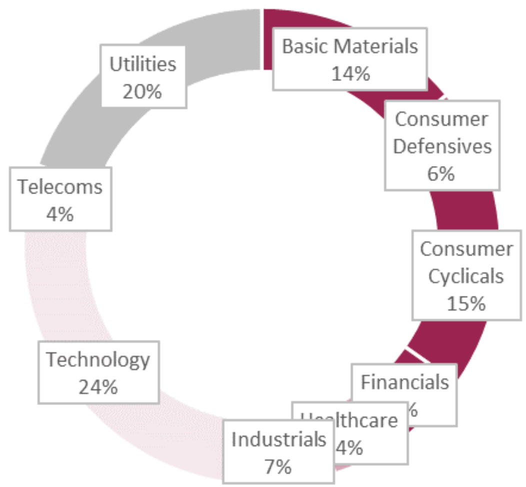
Performance Overview	YTD	2020	2019	ITD *)
Gigant US Equity Model Portfolio	**-0.34%**	**+27.80%**	**+30.56%**	**+93.07%**
S&P 500	+1.05%	+16.26%	+28.88%	+69.53%
Dow Jones	+1.26%	+7.25%	+22.34%	+56.82%
Nasdaq 100	+0.08%	+47.58%	+37.96%	+165.1%

Current Situation:	
Current Value:	1’930’688 USD
Start Value:	1’000’000 USD
Realized Gains:	+479’588 USD
Unrealized Gains:	+366’742 USD
Dividend Income:	+73’357 USD
Cash:	9’715 USD (1%)
Equities:	1’920’973 USD (99%)

Evolution of 1Mio USD invested into the Gigant US Equity Model Portfolio since inception:

Current Sector Allocation:



computed by stockopedia.com; all data as of 14th of January; *) inception date = 31th of Dec 2016

Overview USD Bond Model Portfolio

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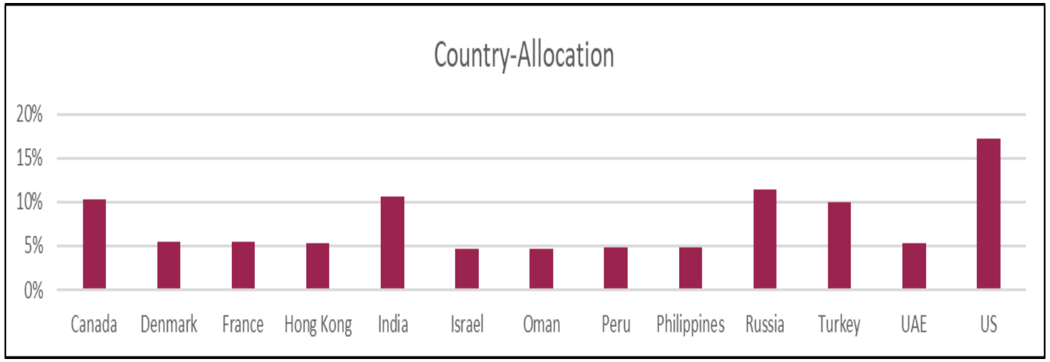
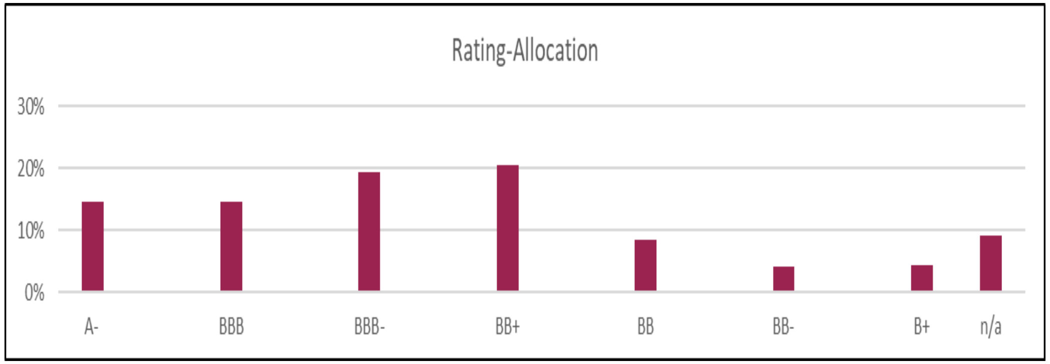
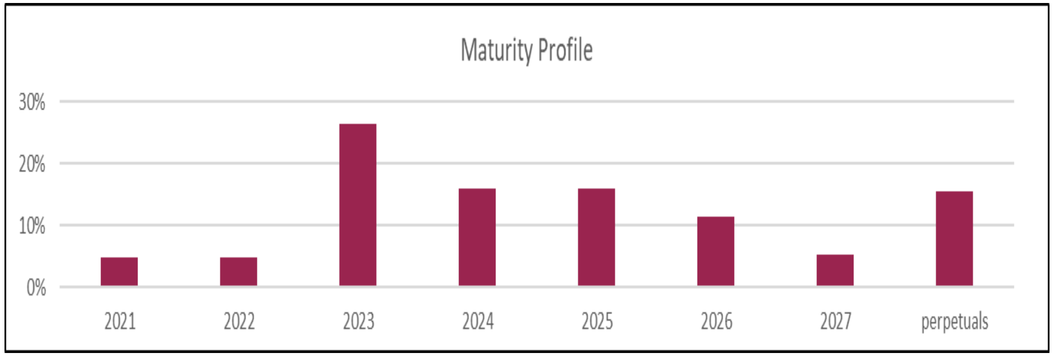
Performance Overview	YTD	2020	2019	2018
Gigant USD Bond Model Portfolio	**+5.8%**	**+8.7%**	**+9.5%**	**+1.0%**
Bloomberg Barclays US Aggregate Index	**-0.9%**	**+7.5%**	**+8.7%**	**+0.0%**
Bloomberg Barclays EM USD Aggregate Index	**-1.2%**	**+6.5%**	**+10.1%**	**-2.5%**

Current Situation:	
Weighted average YTM:	3.13%
Weighted average Duration:	4.6







Source of data: FIS Market Map; own calculation; all data as of 15th of January

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