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Investment Letter

No 1
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2022

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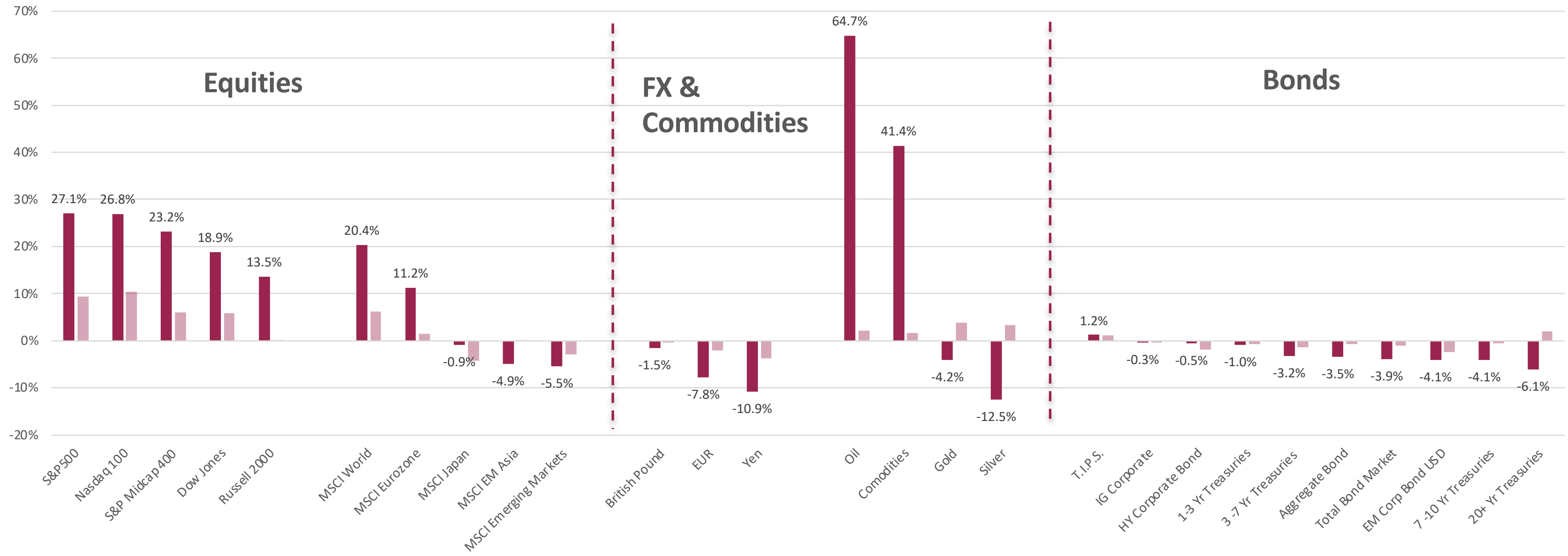
How various assets have performed in 2021

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

dark mangenta = 2021 total returns **light mangenta = Q4 2021 total returns**



To put 2021 into context:

- In Equities, the **MSCI World** posted its **third consecutive year** of **double-digit gains** with the **US outperforming** again. But although that the top 6 contributors to the S&P were all (big) tech names, the Nasdaq index (with a bulk of non-profitable companies in it) did not beat the overall stock market this year. Sector wise, **energy was the biggest gainers** while **utilities and consumer staples lagged. Emerging Markets** (and China in particular) were the only markets posting **negative returns**.
- The **Global Bond Market** posted its **worst year since 1999**. **Treasury yields were all higher** YoY and the yield curve flattened notably. With the exception of Inflation Protected Treasuries, **no sub-segment posted a positive return**.
- **USD** was the **best out of the G4** currencies, only beaten by cryptos (where Ethereum lead Bitcoin by a large margin).
- **Commodities rose across the board** with oil gaining strongly. Precious metals were the only sub-group to poste losses in 2021.

Source: Bloomberg; FIS Market Map all data as of 31th of Dec 2021

How our Model Portfolios have performed in 2021

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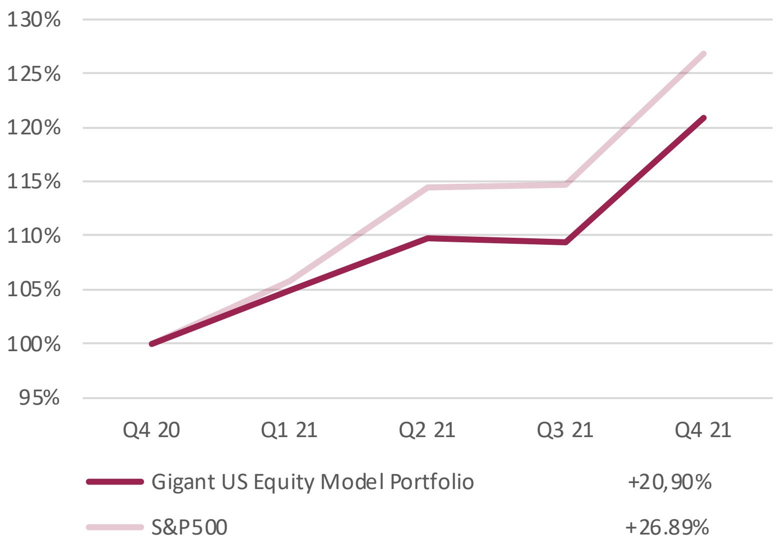
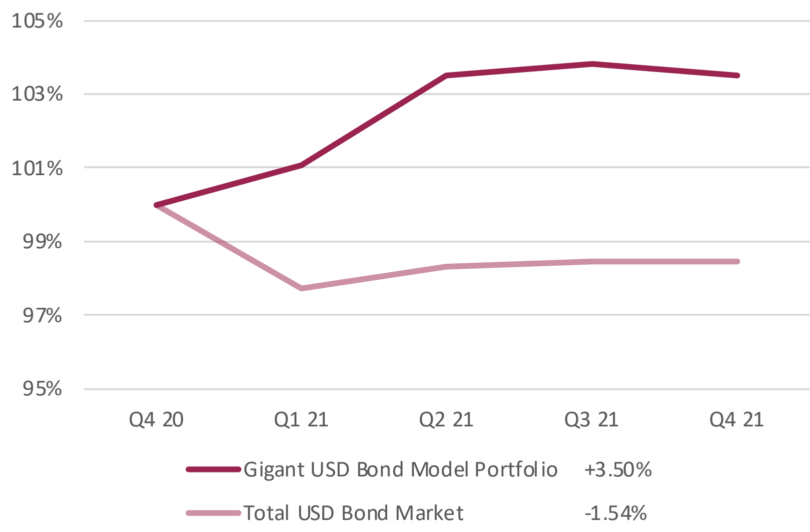
2021 Evolution of Equity Model Portfolio vs Benchmark:



2021 Evolution of Bond Model Portfolio vs Benchmark:



Manager Comment:

After having beaten the S&P500 for three consecutive years, the aggressive bull market of 2021 marked the year our Model Portfolio did not manage to keep pace with the broader market. Our underweight in the energy sector and in particular legacy oil companies which was by far the best performing industry group in 2021 can be blamed for large parts of the underperformance. Sticking to big tech (Apple & Microsoft) as well as a decent mix between cyclical stocks and high quality names at least allowed us to keep pace with the roaring market during the year.

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

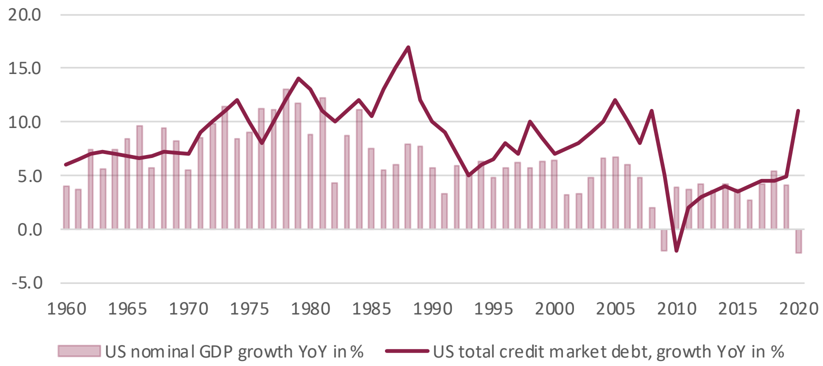
Manager Comment:

Unlike in equity land, being short duration and long credit risk was spot on resulting in the 5th consecutive annual outperformance of our USD Bond Model Portfolio. And it wasn't just the rather large margin but also the smooth sailing over time that impressed. At the forefront of our relative gains was the short duration exposure which helped avoid losses during the first "reflation"-phase in early 2021. But also the credit spread compression during H1 was a trend we rode quite successfully. Sticking to credit then helped earn the yield carry for the remainder of the year.

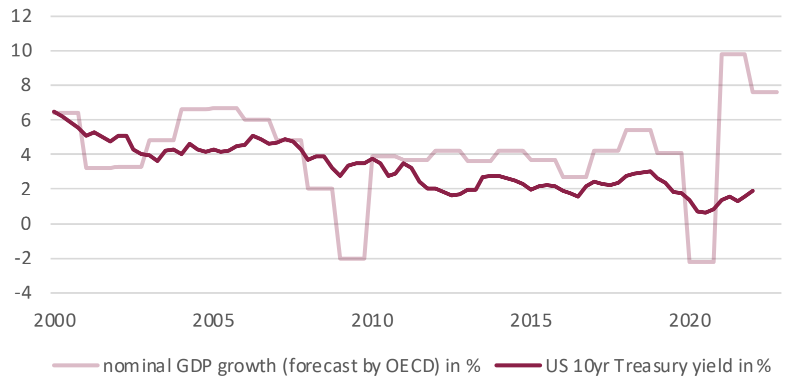
The beginning of a new era (1/2)

In our eyes, financial markets face not less than the beginning of a new era. **Inflation has been retreating for structural reasons** since the 1980ies and for much of the past decade, the world even faced a deflationary threat. In order to avoid the later, more and **more money was printed and rates were suppressed to even lower levels** *(see upper chart on the right).* That in turn sent not only debt levels higher but also asset prices. These times however are now over as **Covid** but also much **higher fiscal deficits turned deflation** upside down **into inflation**. The record **high level of debt** however makes the **economy vulnerable to higher interest rates** and slower growth which again could lead to a severe credit crisis. Accordingly, central banks (and governments) will make their utmost to **keep economic growth high** but as a side effect, **wages and inflation tend to overshoot**. That all brings us to today where central banks face the question on **how to tackle higher inflation**. It is outer question that **interest rates** are far **too low** *(see lower chart on the right).* **Normally**, they are **near the nominal growth rate of the economy**. In the US, the later comes in at around 9% while short term rates stand close to 0% (and also when taking the long term rates at 2%, the difference to nominal growth is unnaturally high). To be fair, the FED has consistently said that rates will be held low until inflation overshoots 2% and unemployment becomes so low that wages start to grow aggressively. And indeed, a **higher inflation** which **reduces nominal debt** levels combined with **higher wage growth** which **increases real disposable incomes** (predominantly for those with lower incomes) isn't bad per see. The flipside however: **investors** suddenly **demanding higher risk premia** in form of higher long term rates can again lead to a renewed credit crisis. Presently, a couple of different elements are at play and make an assessment of the most likely outcome increasingly difficult. First of all, it seems as if Omicron increases the level of resistance against new corona infections and that the number of people who are protected against Covid (be that via booster or via infection) increases rapidly.

Rising debt has been a major driver of the US economy in the past decades



US interest rates are far too low given the positive outlook for the US economy

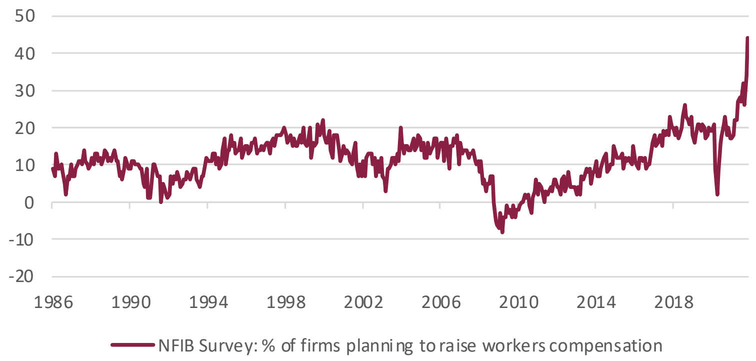


Source: Heckyl; St.Louis Fred; OECD

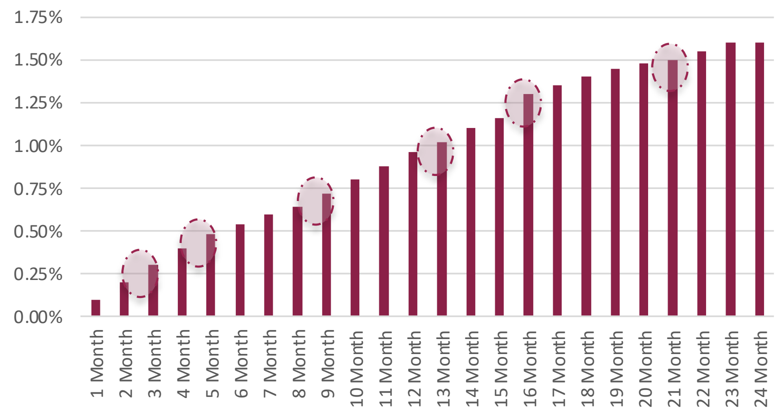
The beginning of a new era (2/2)

However, only time will tell if this is indeed the **beginning of the end of the pandemic.** Secondly, it is **unclear how labour markets will react**: will people return to the workforce after all? And what about those with long term health implications from Covid? What about **Emerging Markets** with their much lower levels of vaccinated people? Will that **continue to disturb supply chains**? And what if **inflation** continues to outweigh wage growth which again **depresses consumer's purchasing power**? So a lot of unknown input factors can apparently lead to a variety of entirely different outcomes. What we know so far is that **markets anticipate 3-4 rate hikes in 2022** and another 4 for 2023 *(see lower chart on the right)*. Besides this the FED hinted at **stopping their asset purchases** and will most likely start to **reduce their balance sheet** later in the year with the explicit aim of increasing long term rates. But in our eyes, these FED actions will **not result** in an all **too big monetary tightening** for two reasons: first of all, markets are (still) expecting a considerable retreat in inflation dynamics. Secondly, the FED's hiking being early compared to other central banks will most likely **attract international capital flows** which might be parked in longer term treasuries, thus reducing pressure on the longer end of the yield curve. In sum, the extent of monetary tightening might be fairy limited. And with other central banks more reluctant to tighten (and China even easing), **money creation on a global aggregate will remain high** which in turn is positive for both, economic growth and asset prices but makes the **containment of inflation more difficult**. As always, it will be far more important if and by how much central banks will deviate from their well known plans. Two points should be considered: Very short term, Omicron will continue to cause massive personnel shortage which again will boost prices and tame growth. Provided no new variants emerge, the arrival of spring will help to contain Covid which again helps fuel macro economic growth (and which again maintains upside pressure on inflation). We therefore remain of the opinion that **the FED will tighten less than presently anticipated** an has plenty of excuses for delays. For the intermediate future, this is **not a bad environment for risk assets**.

Very tight US labour market has empowered workers to demand higher pay



Fed funds futures price in 3 rate hikes for 2022 and 3 more in 2023



Source: NFIB Research Foundation; CME; FIS Market Map

Our Tactical Asset Allocation (6months horizon)

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EQUITIES –> REMAIN NEUTRAL

- Despite the FED being in tightening mode, **global monetary policy** will stay **accommodative on aggregate** hence putting a decent **floor under risk asset prices**.
- Furthermore, **rising** (real) rates is not per se bad for the stock market. However, "**long duration"-proxies** such as a variety of **"growth-type" stocks** are **facing challenging** times as both, rising discount rates and high valuation suddenly make them look unattractive. Instead, **"value-type" stocks might finally get into the spotlight** after they have underperformed growth by a large margin for much of the past decade. Whether this is indeed the "mother of all stock rotations" remains to be seen but presently, all odd points to a serious shift in the prevailing regime. In our portfolios, **we have abandoned the most speculative corners of the growth-stock markets for quite some** time and we are just fine with that for the months to come.
- Clearly, higher wages will eat into corporate profits over time but that will only be visible in earnings statements at a later stage. And higher inflation is only of a issue for those which do not have enough pricing power to pass on higher input costs to their customers, hence **focus on companies with strong pricing power**.
- A good balance between cyclicals benefitting from a reopening of the economy as well as the addition of some defensive stuff (healthcare) form the core of our portfolios.

CASH –> REMAIN UNDERWEIGHT

- While record low real rates are about to normalize to a certain extent, they will nonetheless remain in deeply negative territory. Accordingly, holdings cash, while becoming a touch less unattractive will nonetheless not be a place where you want to have more than necessary for longer than necessary.

Our Tactical Asset Allocation (6months horizon)

BONDS –> REMAIN NEUTRAL

- As highlighted on page 4 & 5, we expect the FED to stop their asset purchases and also to hike in March. The **US 10yr treasury yield** is expected to **fluctuate in the area between 1.6% to 1.9% during Q1**. Only during Q2, we will eventually see a rise towards 2.25% while a **reasonable target for end of 2022 could be in the 2.75%-3% area**. Further rises are expected for 2023 when the FED will start winding down its balance sheet.
- With quite a rise in short term rates now being priced in, we are happy to maintain exposure to short term bonds. And as long as the macro economic environment stays constructive, we have no evidence that credit spreads will blow out. Quite on the contrary, it is **most probably IG-bonds which will see outflows** as some investors shift into government bonds which now, after the recent rate rise, finally present a viable alternative for risk averse holders. We instead happily **maintain exposure to HY in order to earn the yield carry**. As usual, selectivity remains key which is also the case for Emerging Markets. In particular the commodity exporting ones should do well and for the time being, the USD-appreciation seems to have come to an (intermediate) halt offering a decent window of opportunity for EM bonds.
- Side pockets to **floating rate notes as well as senior loans** (which come with floating coupons) **shall be maintained**.

ALTERNATIVES –> REMAIN OVERWEIGHT

- Inflation protected assets (**precious metals, commodities, real estate**) will all, in one form or the other, do what they are supposed to do: **protect investors portfolios during times of rising inflation**.
- For those cautious about our **longer term favourite commodities**: bear in mind that the fight against climate change leads to a relatively small investments in the supply of many commodities. This will result in **limited production capacity** for the time being which is **met by rising demand**!
- Short term, gold could decline some more once the pace of economic growth picks up and central banks step up interventions. On the other hand, **if it turns out that central banks will not intervene that forcefully to counter inflation, gold could rise considerably**. Therefore for those with a longer term time horizon, we are keen to add gold during weakness.

Our Preferences on one Slide

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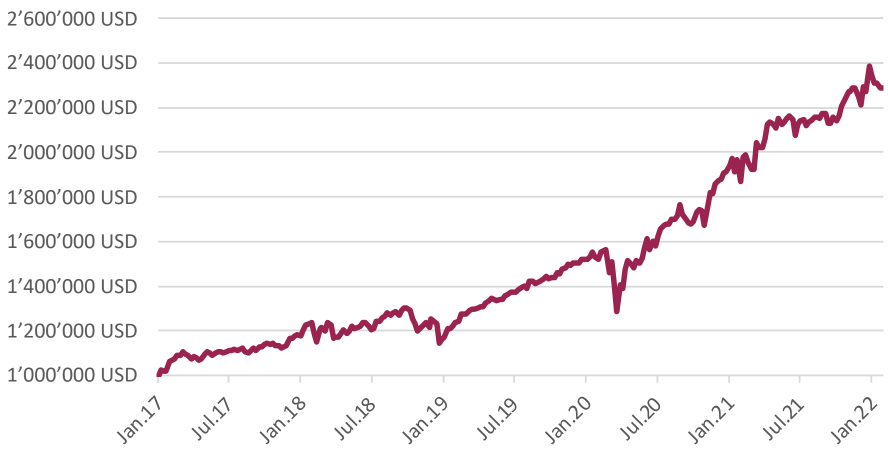
Asset Class	We Like	We Don't Like
Equities	*Area*: **EU, US** *Sectors*: **Healthcare, Technology, Materials** *Style:* **Large Caps, Value**	*Area*: **Emerging Markets, Real Estate** *Sectors:* **Consumer Defensives, Industrials** *Style:* **low quality**
Bonds	*Duration:* **Short term duration** up to **4** years *Credit:* **low IG-, Crossover-, subordinated debt, Senior Loans**	*Duration*: **duration > 8 years** *Credit:* **High Yield**
FX & Commo-dities	*FX Majors:* **USD, JPY** *FX Minors:* **CAD, AUD** *Commodities:* **broad based Commodity indices**	*FX Majors:* **GBP** *FX Minors:* **TRY and EM in general** *Commodities:* **Silver**
Other Alternatives	*Alternatives:* ***Ethereum, Residential Real Estate***	*Alternatives:* ***Private Equity, Commercial Real Estate***

Overview US Equity Model Portfolio

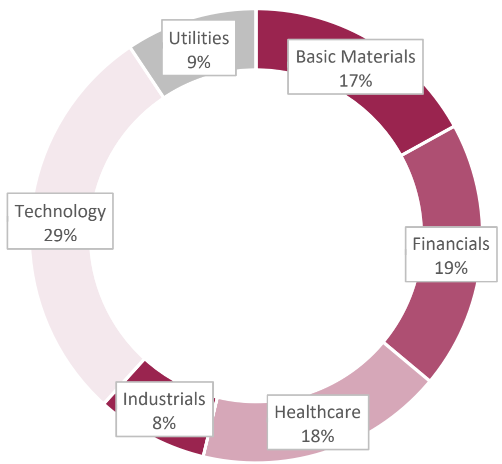
Performance Overview	YTD	2021	2020	ITD *)
Gigant US Equity Model Portfolio	**-4.29%**	**+20.90%**	**+27.80%**	**+124.4%**
S&P 500	-5.59%	+26.89%	+16.26%	+100.2%
Dow Jones	-4.47%	+18.73%	+7.25%	+75.66%
Nasdaq 100	-9.03%	+26.8%	+47.58%	+205.2%

Current Situation:	
Current Value:	2’244’198 USD
Start Value:	1’000’000 USD
Realized Gains:	+830’773 USD
Unrealized Gains:	+297’612 USD
Dividend Income:	+108’062 USD
Cash:	507’321 USD (23%)
Equities:	1’736’877 USD (77%)

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



Current Sector Allocation:

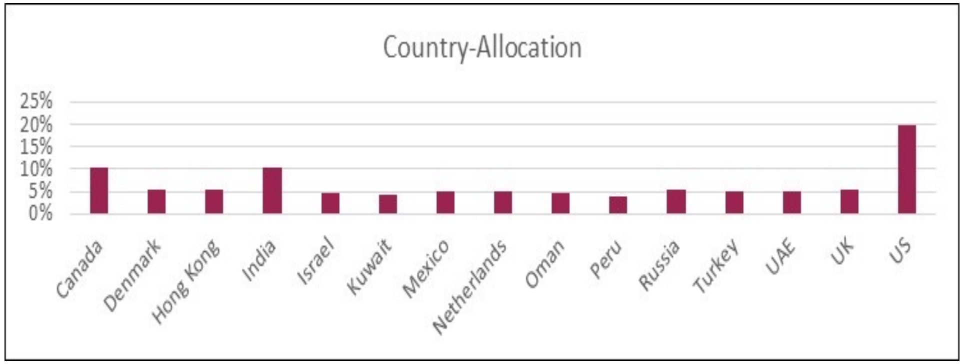


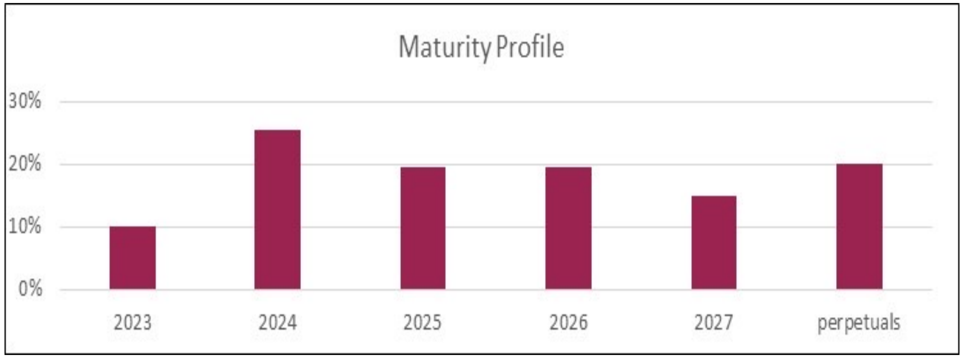
computed by stockopedia.com; all data as of 19th of January; *) inception date = 31th of Dec 2016

Overview USD Bond Model Portfolio

Performance Overview	YTD	2021	2020	2019	2018
Gigant USD Bond Model Portfolio	**-1.3%**	**+3.5%**	**+8.7%**	**+9.5%**	**+1.0%**
Bloomberg Barclays US Aggregate Index	**-2.1%**	**-1.5%**	**+7.5%**	**+8.7%**	**+0.0%**
Bloomberg Barclays EM USD Aggregate Index	**-2.6%**	**-1.7%**	**+6.5%**	**+10.1%**	**-2.5%**

Current Situation:	
Weighted average YTM:	4.02%
Weighted average Duration:	3.0





Source of data: FIS Market Map; own calculation; all data as of 21th of January

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