GIGANT SWISS CONSULTING

GIGANT
SWISS CONSULTING

2021

OUTLOOK & INVESTMENT STRATEGY

Table of Content

Outlook & Investment Strategy 2021

GIGANT
SWISS CONSULTING

Introduction

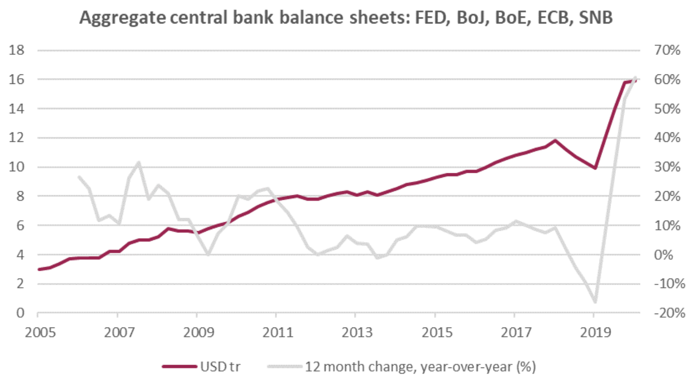
- First and foremost, we repeat what we had been writing at this point in each of the past years: **Investment management is a continuous process** and not something which should be done exclusively at any given date such at the beginning of a new calendar year. Therefore, depending on the ongoing developments in world financial markets, the half-life of an investment outlook may sometimes be very short. At the end of 2019 for instance, hardly anybody would have expected a devastating pandemic to dominate all our lives throughout 2020.

- Since we at Gigant Swiss Consulting don’t engage in any economic research activities ourselves, **we do not publish our own economic forecast nor price targets** for individual assets/securities. Instead, we compare consensus forecasts vs current market prices out of which one can draw valuable conclusions.

- **Our investment strategy is free from any unwanted or hidden bias**. Because we are independent, we do not need to sell a given set of products, unlike many much larger players in the area of investment management. Instead we can exclusively focus on our clients true needs and always put performance at the forefront of our investment decisions.

- That all said, please find thereafter a summary of our thoughts and expectations for 2021.

Global Macro Economics



Corporate earnings are expected to reach pre-crisis level in 2021

Earnings, rebased	**2019**	**2020**	**2021**	**2022**
US	100	84.5	103.3	120.5
Asia	100	98.7	118.4	137.3
Euro area	100	58.4	85.7	102.1
EM	100	93.4	114.5	132.7
Global	**100**	**84.4**	**105.2**	**121.9**

consensus estimates for earnings, rebased to 2019 = 100

After the breakthrough in the race for a COVID-vaccine, health experts suggest that **throughout 2021**, the **vaccine** will be **available on a global scale**. On the back of this encouraging outlook, most market participants now expect the **world's economic output** but **also corporate earnings** to **reach the pre-pandemic level by the end of 2021** *(see table on the left for details).* While such a scenario has already started to be priced into asset prices over the last weeks, the more interesting question going into 2021 is what will happen to the **extraordinary fiscal & monetary stimulus** which was introduced in 2020. According to a calculation by UBS, governments ran an **aggregated deficit of 11% of global GDP** in 2020 while global **central banks printed** an aggregate of **USD 5tr in 2020 alone** *(see graph).* This are dimensions unseen in the past and therefore, it's **impact** on the level of global **asset prices** can not be overestimated enough. On the one hand, central banks around the globe have made it very clear that short term rates will remain at rock bottom levels for quite some time and as there is no inflationary pressure in sight, there's no doubt it will stay like that. However, as one has learned from the last decade, **monetary policy is hardly enough** to speed up economic growth. It **needs fiscal policy** to do so but that again poses some risk as governments could be inclined to impose austerity measures once the economic recovery gathers speed.

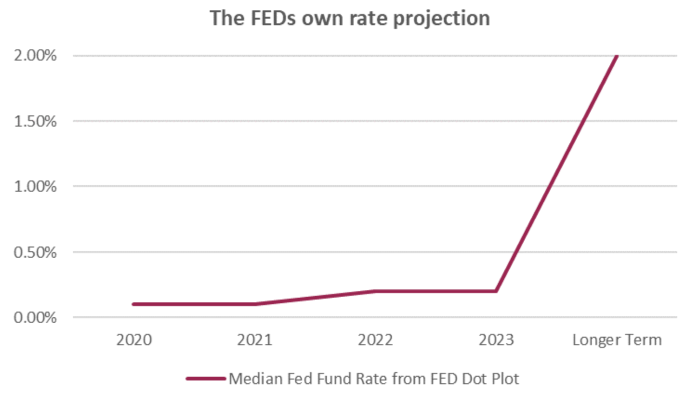
Gigant's view on the global economy in 2021:

No doubt, corporate earnings are expected to return to pre-Covid levels soon as the world's **consumers aim to catch up** with what they have missed throughout 2020. However, current high unemployment levels will only return to more muted levels at a much slower pace as jobs are usually cut much faster than created. In our eyes, **fiscal policy makers** have **enjoyed** the mix of **low borrowing costs and low inflation** and are thus **unlikely to tackle their large deficits** too soon, in particular as long as unemployment stays high. **For asset prices**, this looks like **the very best** out of two worlds: real economic growth coupled with continued fiscal and monetary support. The stage could be set for another play of the "roaring twenties".

Source: FED, BoJ, BoE, ECB, SNB, UBS, Refinitiv Datastream, UBS

USD Rates

According to the FED's own forward guidance, the **first rate hike will not come before early 2024** *(see graph underneath).* Even in case of higher **inflation**, the FED made it clear it will **tolerate an exceed for some** time before hiking (nominal) rates. This implies there could be a period of **significant negative short term real interest rates** which again is supportive for economic growth. Due to the removal of major risk factors such as the pandemic, and related to it, another economic downturn, longer term inflation



expectations are grinding higher, although at a relatively moderate pace. Anyhow, **increased inflationary pressure should be limited** as a divided US government will not lead to even more expansionary fiscal policy. Furthermore, high unemployment figures are unlikely to result in meaningful wage pressure. Additionally, the ongoing digitalisation will also have a cushioning effect on inflation. Longer term bonds yields, which follow both growth- and inflation expectations are thus set to rise but just very moderately.

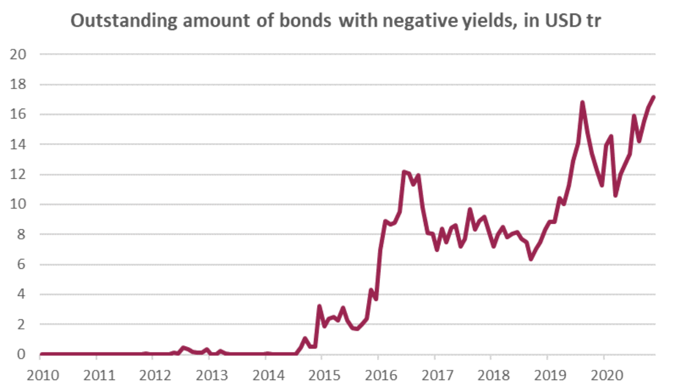
Gigant's view on USD-rates in 2021:

In our eyes, spot inflation rates are likely to remain around the FED's 2% until after the employment gap has closed (as it did for the last 25 years). This will take a lot of time. Therefore, the **risk of longer term bond yields to surge** (and thus bond prices to tumble) seems to be **in check.** However, rock bottom short term yields and slightly rising longer term yields will inevitably lead to a **continuation of the current yield curve steepening** *(see upper graph on the right).* Anyhow, **do not expect the yield spread differential to blow out**. Positioning along the shorter end and the belly of the curve is our strategy for 2021.

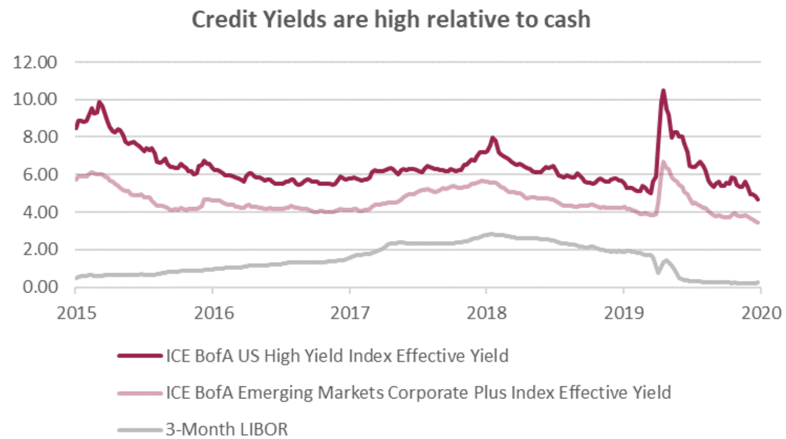
Source: St.Louis FRED, FED

Credit

In a **digital world,** the more efficient use of capital stock and a shift from tangible to intangible assets in corporate balance sheets **lowers** the **demand for investment capital**. On the other hand, the newly created **money supply from central banks is seeking for yield** which is why the hunt for yield is set to continue if not to get stickier. Default rates, which are at high levels due the implications from the pandemic are equally set to go down to their longer term average thanks to an ongoing economic recovery but also accomodative fiscal and monetary policy.



In primary markets, new issue activity in HY-rated bonds has only started to normalize in Q4 2020 whereas IG was already back at normal levels back in September 2020, according to Goldman Sachs. 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 *(see page 7 for details)* and the potential for rising commodity prices and you'll get an almost ideal background for EM bond investments.



Gigant's view on Credit in 2021:

Allthough, both IG as well as HY credit spreads have compressed already quite a bit over the past months, they do not trade in the hightest valuation percentiles. **Lower demand for investment capit**al as well as **high supply of capital** will almost **inevitably lead to even lower spreads**, in particular as the **yield gap** between **US HY credit** and **cash is at multi year highs** *(see upper graph on the right)*, thus increasing the **relative attractiveness of riskier corporate bonds**. Our credit strategy for 2021 is to favour HY (in particular the Crossover-segment) and EM over IG and developed markets.

Source: Bloomberg; St.Louis FRED

Foreign Exchange

<u>Forecast</u> *)	<u>EURUSD</u>
Mid Dec 2020	*1,21*
UBS	1,25
Goldman Sachs	1,25
Société Generale	1,30
JP Morgan A.M.	1.39

If there is such a thing as a **"consensus trade"** within the investment community **for 2021**, then it is that the **US Dollar will weaken**. And after the breakthrough for a vaccine, a variety of large investment banks have further lowered their exchange rate targets for the USD. This is intuitively logic as the US Dollar is usually in demand during times of stress, reflecting its role as a save haven asset. Adding to that, **rising US inflation expectations reduces the US Dollar's relative attractiveness** *(see chart underneath)* which was already cut this year as the FED wiped out some of the interest differential in favour of the dollar. So even when the US economy should do well, **investors** will most likely **look for higher returns elsewhere** and exit the save havens such as the US Dollar. To be frank, the Dollar was already weak in 2020. The US Dollar index, a trade weighted gauge of the dollar vs the US major trade partners, has already lost more than -6% year to date. However, we note that the **US dollar is still expensive** as it has increased for much of the last decade thanks to high US corporate profits, rising US rates and low rates elsewhere. Therefore, there remains plenty of downside for the year to come.

Gigant's view on Foreign Exchange in 2021:

We do not bet against the market consensus when it comes to the dollar depreciation for the coming year. Anyhow, while everybody agrees that the USD is set to be the looser for 2021, it seems **less clear who will actually benefit** from that weakness. From G4, there is the **EUR** to be named which is well placed to **benefit from a recover in global export demand**. Anyhow, don't get overly exited: after the most recent surge, we think the EUR is due for a pause and would target a surge towards the 1.25-1.30 range for the later part of 2021. **GBP** which is still grossly undervalued could **only benefit in case Brexit overhang** will finally be **removed** but that is too early to call. And if finally the economic recovery manages to translate into higher commodity prices, AUD, RUB and BRL should also do well.

Source: Bloomberg, Heckyl *) as per December 2020

Equities

GIGANT
SWISS CONSULTING

S&P 500 valuation vs history

Valuation metric	**current**	**historical percentile**
US Market Cap to GDP	239%	100%
EV / Sales	3.0 x	100%
EV / EBITDA	15.9 x	100%
Forward P/E	22.3 x	96%
Cash Flow Yield	6.10%	93%
Price / Book	3.90%	92%
Cyclically adjusted P/E	29 x	91%
Free Cash Flow Yield	3.80%	60%
Median Metric	**100**	**91.50%**

all figures as per end of November 2020

For the equity part of our investment outlook, we traditionally publish an overview about price targets of major investment houses for the S&P 500-index but also their projected aggregated earnings expectations. By doing so, one can gain a good idea into the degree of bullishness in the market (as you know, the investment community is usually more bullish than bearish). Anyhow, this year things look different to us. It has become sort of common knowledge that **rarely in history**, the **stock market** has been **more expensive** than these days *(see table on the left)*. Intuitively, this is a problem, yes. After all, who is really happy when buying any given good at a high price? Anyhow, there is undoubtedly a very **strong correlation** between the **ultra expansionary monetary policy** of the recent years and **the level of asset prices**. In academia, there is a debate whether there is also a causality for the so called **asset price inflation**. For now at least, **valuation** does **not** seem to be a **good guide for investment decision**. All that said, off course, corporate earnings point into the right direction and recover quite substantially. If the market consensus is to be believed, this will be the fastest earnings recovery in history *(see left graph on next page)*.

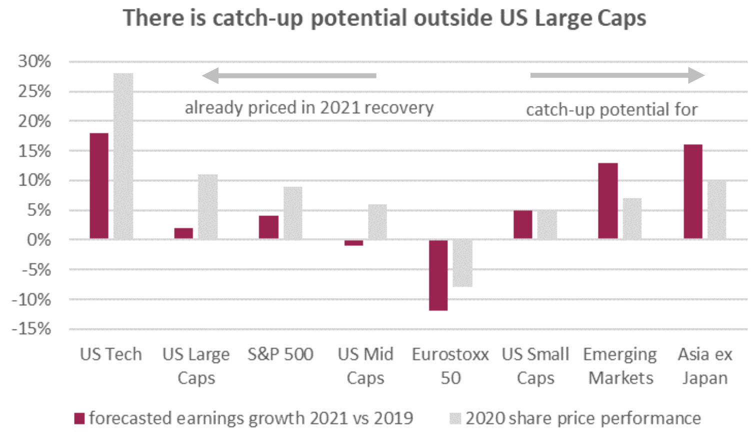
Gigant's view on Equities in 2021:

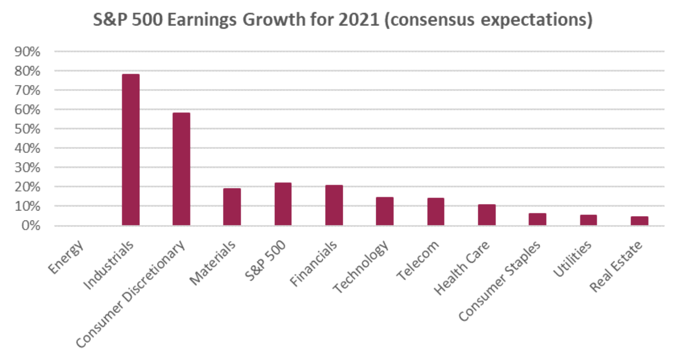
For the quarters to come, the **mix of monetary and fiscal stimulus**, combined with a **macro economic recovery** will further **propel investor's animal spirit**. Positioning data and also fund flows suggest there is still ample **cash** on the sideline which, sooner or later, is poised to **flow into** risk assets, and into the **equity market** in particular. So, if we can give one piece of advice for equity investments in 2021 it is the following: **don't look at valuation**, buy whatever enjoys momentum (i.e. what the crowd buys) and enjoy this strange aggregate of state as long as the proverbial music plays. No doubt, this won't go on forever but as history tells, there is a lot of money to be made in the late phase of a bubble.

Source: FactSet, Standard & Poors, Goldman Sachs

Equities: Sectors, Areas and Styles

The **breakthrough** for a **COVID vaccine** in November lead to a **strong rotation** out of stocks with little cyclical exposure **into more cyclically geared sectors**. Following the previously mentioned narrative of a macro economic recovery, this development is **set to continue in 2021**. Over the past years, where economic growth was well below average, growth-type stocks have fared best thanks to lower and lower discount rates resulting in a relative valuation premium whose extent has been unseen in history. Now, **value-type of stocks**, helped by stronger economic growth and higher inflation, are set **to stage a comeback** and close at least part of the huge relative valuation gap to growth stocks





According to Capital Economics, the **export oriented Euro-Zone** is expected to grow by +5% in 2021, making it one of the **biggest beneficiaries of a vaccines** among the advanced economies. However, a **stronger EUR-currency** (*see page 7 for details)* will **dampen overseas profits** of exporters. **Asia** on the other hand, which tamed the virus much quicker, will **benefit** from an **increase in external demand**. Keep also in mind that China's ambitious 5 year investment plan as well as the most recent Asian trade deal which is set to remove 90% of tariffs between China, Japan and 13 other Asian countries over the next 20 years will act as strong tailwind for the region.

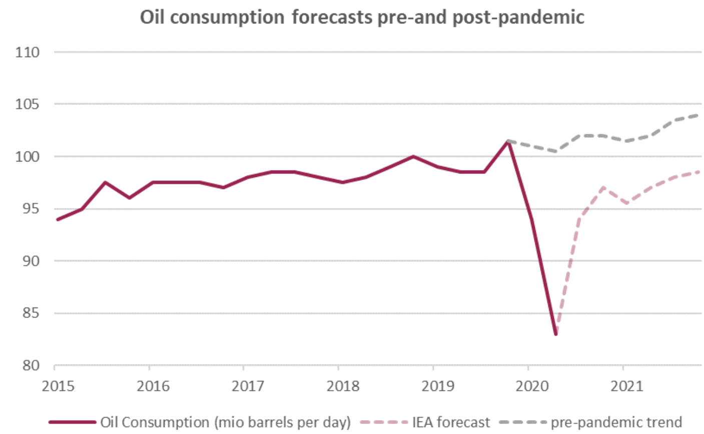
Gigant's view on Equity Sectors, Areas and Styles in 2021:

We share the consensus view to **favour cyclicals** over defensives in 2021. Another way to play the macro economic recovery will be via **small- and mid-caps** instead of large caps which are on aggregate, **more leveraged to an economic recovery**. Style- wise, **value** is overdue for a r**ecovery**. Geographically, **Asia** will be the **bright spot**. In **Europe,** focus on **companies with larger proportion of domestic sales or cost base in foreign currency** in order to avoid a setback from the strong EUR currency.

Source: FactSet, Refinitiv Datastream, UBS

Commodities

On an aggregated basis, **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. The combination of production cuts (OPEC cut by almost 10% of global output) and a pick up in consumption helped oil prices to recover in H2 2020. However, the **pandemic** is likely to have **lasting impacts on oil consumption** by **changing consumer** and **employment behaviour**. According to both, the International Energy Agency (IEA) as well as OPEC, demand for oil won't rise significantly despite a looming COVID19-vaccine *(see upper chart on the right*). The continued weak demand outlook in combination with rising supply is increasing pressure on global producers to hold back outputs in order to support prices. As long as **quantitative easing** and low or negative interest rates **prevail**, **precious metals** and gold in particular **will stay in an uptrend.** A weaker US dollar should also help to put a floor under the recent correction. On the back of a strong industrial recovery in China, base metals have already climbed to their highest levels in two years.



Gigant's view on Commodities in 2021:

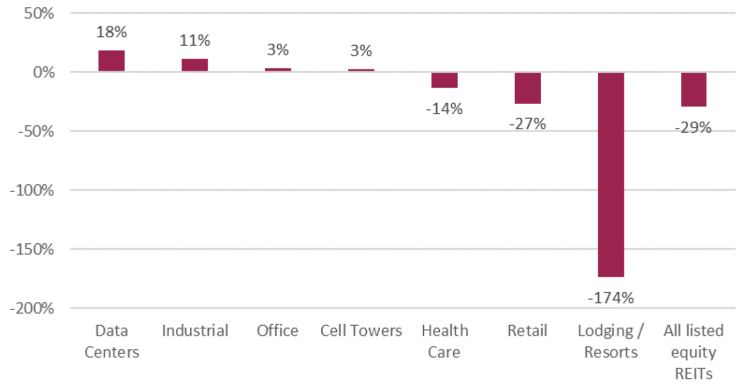
Commodities is a place to **be selective** in 2021: Unlike some of the large investment houses, we do **not have energy on our buying list**. In our view, the longer term **trend towards clean energy** sources is **unstoppable** and will already be felt in the demand for fossil fuels which still make up the bulk of world's energy markets. On the other hand, **precious metals** are expected to **fare well**, although at a much **more moderate pace than in 2020** where gold was among the best performing assets. Silver should also benefit from continued good industrial demand. In base metals, which are notoriously volatile, we would wait for a better entry point.

Source: IEA, World Bank, FIS Market Map, Bloomberg

Other Alternative Assets

The evolution of **real estate** investments was a story of two tales in 2020. On the one hand, **residential real estate** did not only **benefit** from lower interest rates but also its haven status (people do always need a place to live). The **Commercial** segment of the **real estate** markets however was **absolutely crushed** as lockdowns and home-office bans made people stay at home around the globe. Investments into **infrastructure** provide investors less cyclical exposure but relatively attractive, stable yields. Thus, they were a **hiding corner** for much of the last decade, when economic growth was lacklustre. While its yields are still attractive, the less cyclically geared nature of infrastructure will make it a less fashionable investment for 2021. Likewise to gold, cryptocurrencies's in general and **bitcoin**'s in particular **function as a store of value** is essentially its most attractive component. They are thus expected 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.

Y-o-Y funds from operations by commercial property type *)



Top 10 Crypto's by Market Cap **)

Asset	**Market Cap in bn USD**
Bitcoin	336
Ethereum	62
Tether	20
XRP	19.7
Bitcoin Cash	5.0

Gigant's view on Alternatives in 2021:

Commercial real estate is among the few assets which has not caught up to pre-COVID levels following the vaccine announcement. And in our eyes, the trend towards e-commerce (i.e. fewer physical stores) as well as large corporate tenants' will to make cost savings permanent (i.e. keep part of their workforce out of expensive city locations) are **unlikely** to result in a **broad comeback** of that asset class. **Infrastructure** may be appealing for conservative investors on the hunt for yield but will **hardly attract more risk-oriented investors** in 2021, unlike cryptocurrencies, whose fate lingers on more speculative buyers pouring in. **Cryptocurrencies are an add-on for those willing to take large risks**. Anyhow, focus on bitcoin who is most likely going to attract the bulk of institutional demand.

Source: Nareit, Deloitte, Messari *) from US REITS as per end of Q3 2020 **) as per 10th of December

Our Preferences for 2021 on one Slide

GIGANT
SWISS CONSULTING

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** *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***

GIGANT

SWISS CONSULTING

Please contact:

Phone: +41 44 493 90 90
Fax: +41 44 493 90 11
Email: info@gigant-swiss.ch

Gigant Swiss Consulting AG
Bodmerstrasse 9
CH-8002 Zurich

www.gigant-swiss.ch
info@gigant-swiss.ch

Disclaimer

This material is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. Information and opinions presented by Gigant Swiss Consulting AG have been obtained from sources believed to be reliable, and, while all reasonable care has been taken, Gigant Swiss Consulting AG is not able to make any representation as to its accuracy or completeness. Information usually attributable to a unique specific source is quoted whenever such information is available. Otherwise, the information may have been gathered from public news dissemination services. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. For structured financial instruments and funds the sales prospectus is legally binding. Past performance should not be taken as an indication or guarantee of future performance and no representation or warranty, expressed or implied, is made by Gigant Swiss Consulting AG regarding future performance. Accordingly, Gigant Swiss Consulting AG accepts no liability for loss arising from the use of this document presented for information purposes only. Gigant Swiss Consulting AG makes no representation and gives no advice in respect of any tax, legal or accounting matters in any applicable jurisdiction. This report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. Additional information is available upon request.