CIO Update

Investment Committee Bank J. Safra Sarasin
15. January 2021

Follow the trends

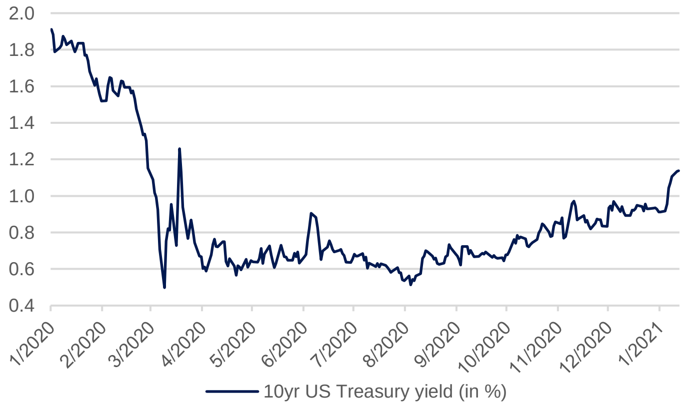
We focus on seven trends to achieve above-average investment performance also in 2021.

A new year - a new beginning
At the beginning of 2021, we are in a period in which it makes sense to follow the trends. In the following pages, we will present the most important seven trends for 2021. Many of these trends have emerged over the course of the past year, but are only likely to fully develop this year.

Trend 1: Continued economic recovery
Since last summer, we have been in a strong V-shaped economic recovery, which is in full swing globally. It is true that this recovery has become somewhat more uneven globally in recent months. This is mainly due to the renewed COVID-19 infection waves that hit certain regions. In Europe, the recovery may even become more W-shaped, as economic activity is likely to decline in the first quarter due to the renewed lockdowns. Nevertheless, global economic activity remains robust due to Chinese industrial demand. As the year progresses, the recovery is likely to gain momentum, especially in Europe but also in the US, which continues to support cyclical rather than defensive assets.

Trend 2: Rising long-term interest rates
While interest rates remained stable at a low level for a long time last year after the plunge in spring, they have risen sharply since October. In anticipation of a change in government and higher fiscal spending, long-term interest rates in the US in particular rose. Then, at the beginning of the year, there was a surprising transfer of power from the Republicans to the Democrats in the state of Georgia after the runoff election. As a result, ten-year US government bonds quickly rose above the 1% mark, to the highest level since March 2020. Rising inflation expectations should lead to even higher interest rates in the course of this year, which should have a positive impact on the performance of commodity investments as well as financial stocks.

US: 10 year yields on the rise



Source: Refinitiv, J. Safra Sarasin, as of 15.1.2021

Editorial

Dear reader,

There are times when it is rewarding for the investor to go against the flow and take a contrarian position.

As a general rule, however, it is more advantageous to follow trends. Trends are often long-lasting and lead to better overall investment performance. In this CIO Update, I would like to point out the most important trends and their relevance for investment decisions in 2021.

For 2021, I wish you all the best, successful investments, good health and a lot of happiness.

Philipp E. Bärtschi, CFA, Chief Investment Officer

Trend 3: Continued US dollar weakness
Higher fiscal spending and rising inflation expectations will weigh on the US dollar in 2021. We expect a continued depreciation of the US currency. This should have a positive impact on a relative basis on other currencies, such as the Swiss franc or the euro. Emerging market currencies, which are fundamentally undervalued and have great catch-up potential, should also benefit from a weaker US dollar.

Trend 4: Rising inflows into emerging markets assets
Not only emerging market currencies will benefit from a weaker US dollar, but also the investments denominated in these currencies. Both bonds and equities are likely to show substantial inflows in 2021. The outperformance of emerging market equities relative to industrial countries that has already started in 2020 is therefore likely to be only just beginning.

Emerging market outperformance to continue in 2021

Source: Refinitiv, Bank J. Safra Sarasin, indexed 1 = 1.1.2010, as of 15.1.2021

Trend 5: Outperformance of small caps
We expect small and mid-caps to continue their outperformance. Small caps usually perform very strongly at the beginning of the economic cycle because they have high operating leverage. This means that their profits increase at an above-average rate as sales pick up. Small caps also tend to have higher growth and benefit most from pent-up consumer demand, which could trigger an economic mini-boom in 2021. We prefer European companies as they have the greatest catch-up potential.

Trend 6: Back to Value
In the fourth quarter of 2020, value stocks outperformed growth stocks for the first time in a while. We expect this to be just the beginning of a multi-year trend reversal towards value stocks. For many years, investors favoured growth stocks and were willing to pay a very high price for them. The valuation of growth stocks is now expensive and difficult to justify if interest rates continue to rise.

The focus on value could also become a problem for the US technology sector, which is likely to underperform in the future. This is also one of the reasons why we prefer non-US to US equities.

Plenty of catch-up potential in value stocks

Source: Refinitiv, Bank J. Safra Sarasin, indexed 1 = 1.1.2001, as of 15.1.2021

Trend 7: Rising demand for sustainability
The final and probably most important trend for 2021 is the increasing demand for sustainable investments. The flows into investments that take into account environmental, social and governance aspects - so-called ESG factors - are expected to continue to increase significantly in the new year. ESG investments strongly outperformed during the pandemic and we expect this trend to continue. More money will flow into companies with high ESG ratings, while companies and industries with poor ESG ratings will continue to be avoided. It is therefore extremely important to integrate ESG factors holistically into the investment process.

Asset Allocation: Confident for 2021
We are confident that 2021 will be another good year for financial markets. All the more so if the seven trends described above are taken into account in the investment portfolio. We expect investors to become more optimistic as the year progresses and to jump onto these trends more and more. In our multi-asset portfolios, we maintain our overweight in risk assets. We favour equities over bonds and high yield and emerging markets bonds over government bonds. A proper risk management and a robust diversification, which both served us well in 2020, will continue to form the solid foundation of our portfolios in the new year.

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Attractiveness of individual investments

Asset class	Weighting	Relative attractiveness within the categories			
Equities	+	Developed markets –	Emerging markets +	Large caps –	Small caps +
Bonds	–	Government bonds – – –	Corporate bonds –	High-yield bonds +	Emerging markets +
Alternative assets	=	Money market =	Convertible bonds +	Other alternatives +	Real Estate =

Source: Refinitiv, J. Safra Sarasin, 15.1.2021

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