TARENO
INTERNATIONAL
ASSET MANAGERS

TARENO VIEW Q1 2021

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MARKET COMMENTARY

Review

The fourth quarter of 2020 was extremely eventful and completed the picture of an extraordinary year. While the pandemic in Asia and Africa was contained, other regions of the world had to face the reality of a strong second (and third) wave. Once again, governments imposed drastic restrictions - in the private as well as in the economic sector. At least initial successes in vaccine development provided hope for a return to normality in 2021.
In November, US citizens elected the Democrat Joe Biden as new US President. The UK and the EU were able to reach a very surprising agreement on the modalities of the Brexit in the last days of December. Despite numerous negative reports and epidemiological disturbances, the positive momentum of the stock markets was maintained due to the support of the central banks.

Bonds

The expansive monetary policy of the central banks continues to keep interest rates on government bonds low, in some cases even in negative territory. Solely in the US did interest rates rise moderately in the fourth quarter in the wake of rising inflation expectations. The risk premiums for corporate bonds fell across all credit ratings, especially towards the end of the year.

Equities

There were numerous events in Q4 that affected equity market prices as well as their volatility. While the companies‘ quarterly results were largely good, the sharp rise in Corona infections in the second wave pulled the markets down in November.
With the outcome of the US election, the general economic situation stabilised. With the announcement that a first vaccine from Pfizer/ Biontech will be launched on the market in 2020, the buying mood of investors returned. Particularly in Europe, there were shifts from growth stocks to value stocks. November was one of the best stock market months in recent decades, which meant that most of the major indices were clearly positive at the end of the year.

Gold

The prospect of more „normality“ put pressure on the gold price in the 4th quarter. Less in demand as a „safe haven“ than in summer, the price fell below the USD 1,800 mark in November before recovering in December. At year-end, the gold price was USD 1,893, thus recording an increase of around 24% since the beginning of 2020.

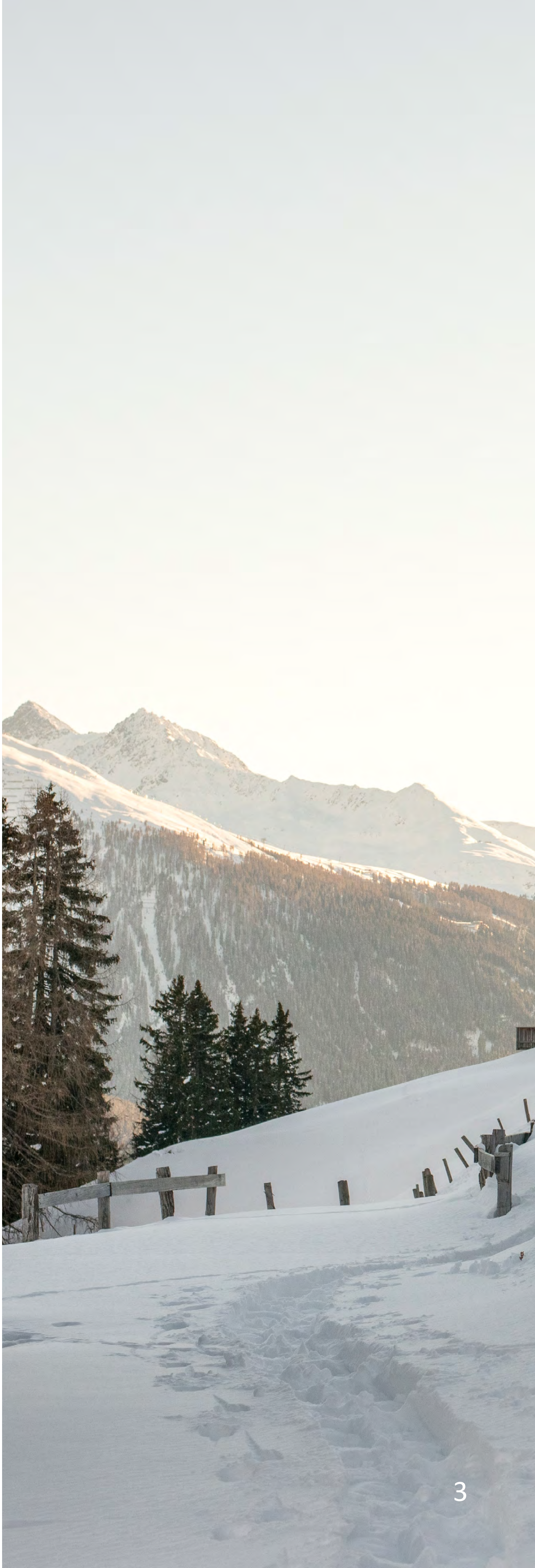
ECONOMY

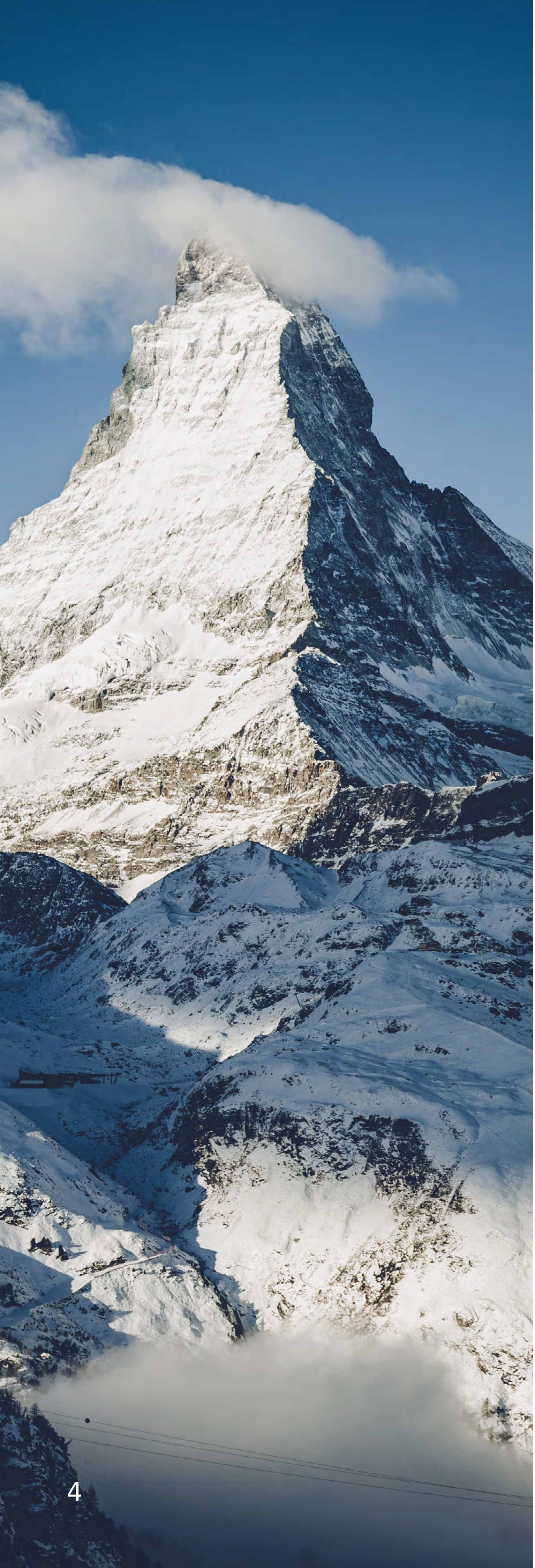
The economy continued to develop differently from region to region in the 4th quarter. The course of the pandemic still had a significant impact on economic development.

The recovery in China continued, largely driven by export growth and government infrastructure programmes. GDP growth was 4.9% in the third quarter, making China the only country with positive growth in 2020.

In the US, key indicators also showed a continuation of the recovery. The Purchasing Managers' Index was above expectations for both manufacturing and services in November. The US labour market recovered around 50% of the 22 million jobs lost. However, dynamics flattened, which weighed on consumption indicators in November.

In Europe, tighter measures to contain the pandemic weighed on consumer sentiment, which fell sharply again in November (-17.6 after -15.5). In many countries, relief programmes such as part-time work were extended, which has so far saved the European labour market from an even worse fate. The unemployment rate fell to 7.6% in October (the first decline in 7 months).





OUTLOOK

The outlook for the year ahead is difficult. The issues are all too fragmented and the global financial markets are too decoupled to be able to say „things can only get better".

Donald Trump's term ends on the 20th of January 2021, and since the last two vacant Senate seats in Georgia were won by the Democrats, President-elect Biden has a majority in both Houses to easily implement his agenda. Hopefully, the tone of the lawmakers in Washington will change for the better, including a drastic reduction of tweets about everyday political decisions. Whether Donald Trump will actually run for re-election in four years' time remains to be seen. The feat of winning back the „oval office" after being voted out of office has only been achieved once before: by Grover Cleveland in 1893. How the trade dispute between China and the US will develop remains to be seen. However, no one expects a quick easing of tensions. US geopolitics will continue to occupy us in the next year and will certainly lead to irritations and atmospheric disruptions.

What is certainly positive is the prospect of more vaccines and the resulting increase in confidence that the pandemic can be contained to the point where we can return to some degree of normality. In 2020, not only private individuals, but especially companies have significantly reduced their spending. If the current fragile confidence continues to rise, there will be plenty of room for private investment in addition to the financial injections from the public sector. From this point of view, expectations of a positive economic development are quite justified. In 2020, politics clarified that a collapse of the economy and social unrest are not tolerable. Policy is backed up by the central banks in this regard. The appointment of Janet Yellen, the former Fed Chair, as US Treasury Secretary shows that the boundaries between monetary policy and politics in general are becoming increasingly permeable.

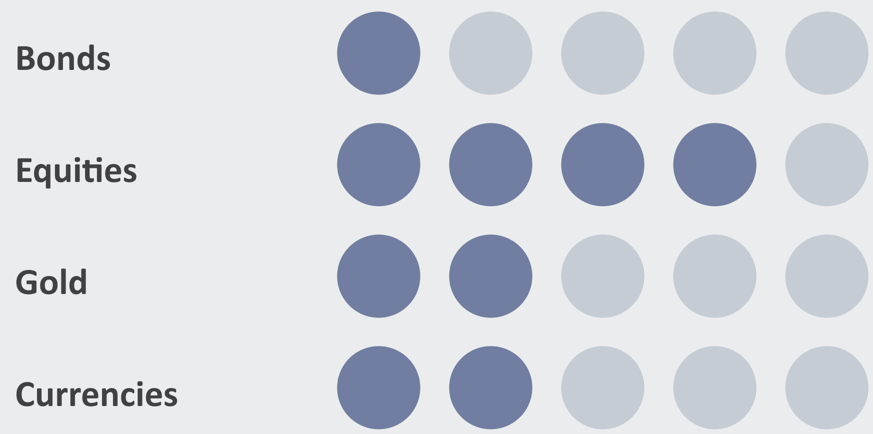
What does this mean in concrete terms for the capital markets? The persistently low interest rates will further reduce the attractiveness of bonds. Higher inflation rates cannot be ruled out in 2021 -rising demand meets reduced capacities and the base effects contribute to this. In the meantime, the yield on more than USD 17 trillion is in negative range and, apart from repayment (though only depending on creditworthiness), guarantees nothing but losses. It therefore makes sense that gold and crypto currencies, especially Bitcoin, are becoming increasingly popular. This will not change in 2021. The equity markets remain attractive.
Liquidity in the market is high and returns outside the equity markets are a scarce commodity. Moreover, rising expectations of corporate earnings and the prospect of dividends and stock buybacks are fuelling investors‘ appetite for risk. In addition, small and medium-sized companies are benefiting strongly from released investments. However, despite all the optimism, the risks must not be neglected. Valuations are sporty and the high proportion of trend-following strategies increases the susceptibility to corrections. The proverbial unexpected often happens - 2021 will also be accompanied by price fluctuations. It remains important to keep a close eye on the investments made: Where knowledge is lost, emotions gain the upper hand and emotions are a bad advisor for capital investments.

INVESTMENT POLICY

In General

There are good reasons to be optimistic about 2021. However, we are not equally confident for all asset classes. There will undoubtedly be rising volatility, driven by increased uncertainty and the risk of interim setbacks. We are therefore designing the portfolios to be as resilient as possible and, in addition to our core-satellite approach, have also been using new types of investment instruments such as crypto currencies for portfolio diversification for the past year.

Positioning



The chart shows the Tareno PM’s current assessment of its relative attractiveness compared to other asset classes. The more blue dots, the more attractive.

Bonds

We are further shortening the duration in the portfolio by increasing the cash ratio. We do not expect a substantial, positive performance contribution from the bond asset class in 2021, which is why we are using our risk budget in this asset class very cautiously. The low interest rate environment is likely to continue for a long time, while balance sheets continue to deteriorate in some cases. Transactions remain the exception in the portfolio due to the low interest rate environment and the 0.15% stamp duty to be paid.
In the sub-investment area, we rely on products from external specialists and continue to maintain our exposure to corporate bonds from emerging markets.

Equities

Our motto: stay fully invested for the beginning of the year. We see the best return potential for this year in the asset class equities. We make direct investments exclusively in industrialised nations, being optimistic in equal measure for both the US and Europe. When selecting our positions, we also ensure that companies not only have convincing fundamental data, but are also sustainable. In particular, we see great upside potential for companies that are rapidly becoming both more digital and more ecological. We are convinced that the two trends of digitalisation and sustainability will continue over the next few years. We will slightly increase our exposure to cyclical small and mid-caps over the coming months, as their share prices are likely to benefit disproportionately from the economic recovery.

Alternative investments

In the area of alternative investments, we operate within liquid investments - currently these are gold or Bitcoin. Both play a central role in risk diversification in the portfolio, as it improves the risk-return profile of a portfolio thanks to the low correlation with other asset classes. As we expect geopolitical and economic uncertainties to keep emerging from time to time this year, we continue to hold 5% gold in the portfolios. Gold is also particularly well suited as a hedge against currency devaluation and benefits accordingly from a weak US dollar and low interest rates.
The enormous upswing in crypto currencies, especially Bitcoin, has led to a tripling of the original position over the last few months. We will adjust this in the coming weeks and reduce it to our strategic weighting.

Currencies

We are convinced that the performance effect of currency risks cannot be ignored. For this reason, we practice active currency management and hedge a large part of these risks through currency forwards.

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