TARENO

INTERNATIONAL ASSET MANAGERS

TARENO VIEW Q3 2021

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MARKET COMMENTARY

Review

Light at the end of the tunnel -- at least in those regions of the world where vaccination campaigns are progressing rapidly, the containment of the pandemic seems to be succeeding. The restrictions that were eased in many regions, especially towards the end of the second quarter, on the one hand support the economy; on the other hand do they have a positive effect on the morale of those who were affected by the measures taken in the last months. However, with the number of cases still remaining high in countries such as Brazil and India, caution is still advised. The system of globalisation is vulnerable as soon as the internationally organised supply chains do not work as usual. The capital markets have been supported by solid economic data and mostly convincing company reports. Rising inflation rates and the associated fear that the central banks could come under pressure faster than expected, repeatedly put investors' risk mood to the test. The US central bank, in particular, never tired of assuring investors that the recent price level increases were only of a short-term nature. The words did not miss their mark. A correction of the stock markets on a wide front did not occur.

Apart from the financial markets, geopolitics generated headlines in the second quarter: The huge infrastructure programme of the Biden administration, the historic agreement of the G7 finance ministers on a global minimum tax of 15% for corporations as well as the military escalation in the Middle East. However, the influence of events of this kind on price developments remained manageable.

Bonds

The central banks continue to maintain their expansive monetary policy, although there are increasing voices in the individual boards advocating an end of liquidity injections. Interest rates on 10-year US bonds fell below the 1.50% mark again during the quarter. The picture is different in Europe. There, after the latest movements, 10-year interest rates are now only negative in Germany, the Netherlands and Switzerland. The risk premiums of corporate bonds remain at a low level.

Equities

Although the stock markets experienced increased volatility, especially in May, they developed positively overall. The most important indices were quoted near new highs in the 2nd quarter. As in the 1st quarter, however, there were clear differences among the individual sectors. The shift from growth to value stocks, which has been ongoing for some time, continued, albeit less pronounced than in the previous quarter. Overall, risk appetite remained high, which can be seen in the high number of IPOs in both the US and Europe. The volume of new issues is currently higher now than it has been since 2015.

Alternative Investments

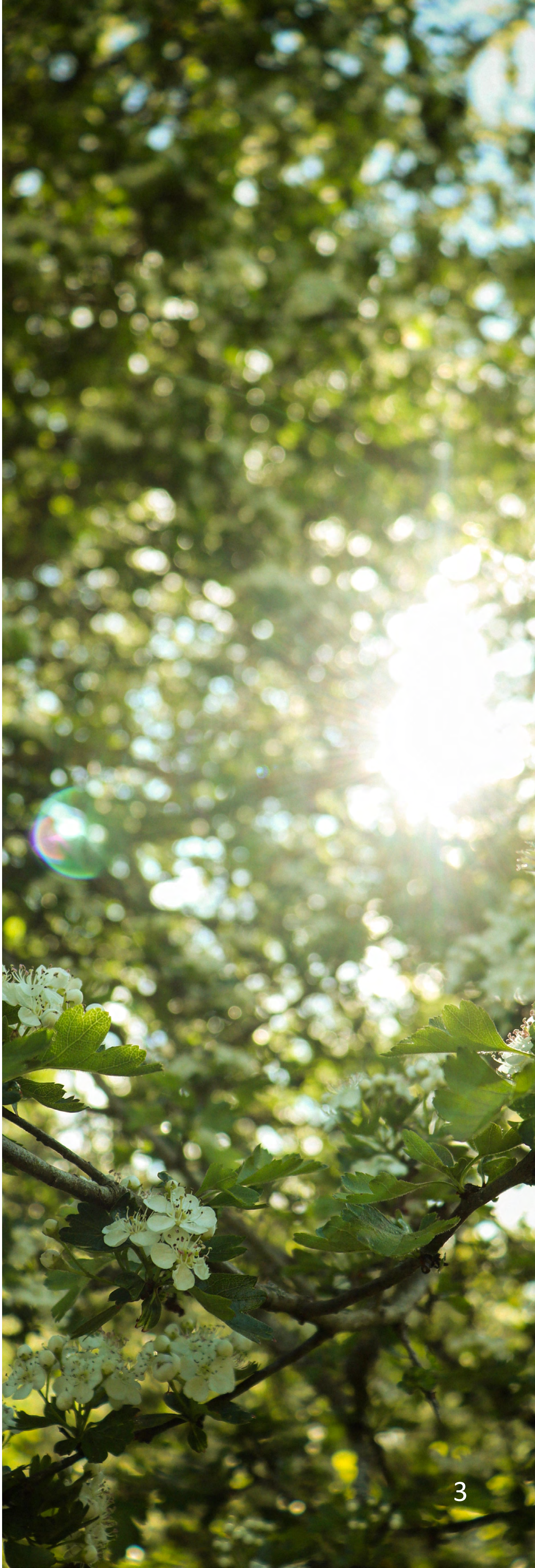
From the beginning of the second quarter until June, the gold price rose approximately USD 200 per ounce to over USD 1,900 before a significant correction started in June. Record highs in US equities, a strengthening dollar and the Fed‘s statement that the first interest rate hike could take place as early as 2023 and not in 2024 at the earliest caused the gold price to fall towards USD 1,750. Bitcoin came under strong selling pressure in May. After a prolonged consolidation above USD 50,000, the price fell in the second quarter by over 40% below the important support level of USD 30,000. There has been much speculation about the reasons for the movement, although there are no convincing arguments.

ECONOMY

The most important economic data continue to paint a positive picture. At the beginning of the year, three scenarios for economic development seemed possible:

1. a relatively healthy recovery of the economy thanks to falling cases, vaccination coverage and easing
2. a prolonged recession and financial crisis
3. overheating and inflationary pressure

If we assume the first variant as the baseline scenario, then the 3rd variant seems to be the most plausible alternative today. Even if central bankers assume that the price increase will only be short-term, there are numerous potential inflation drivers: the still very expansionary monetary policy, substantial fiscal packages (especially in the US), accumulated consumption or interrupted supply chains.
Despite continued good economic data, we have to conclude for the 2nd quarter: After many years of absence inflation is back in the headlines.



OUTLOOK

While the lights remain green from an economic perspective, at least in those regions which are making solid progress with their vaccination programmes, it will be interesting to follow the upcoming corporate reports. Will they again exceed expectations and, more importantly, what will be the market reaction? There is no doubt that a lot will also depend on the further course of the pandemic. Thanks to the vaccinations, the risk of renewed restrictions has been reduced, but not completely eliminated.

The US government under President Biden is trying to get a majority in parliament for its infrastructure programme. The scope of the programme has been re-negotiated and revised downwards on the first occasion. The impact on the economy would nevertheless be significantly positive. The Republicans, on the other hand, will not agree to the gigantic stimulus package without something in return. The package will be financed by higher taxes, but the increases will be much smaller than initially suggested (from 21% to 25% instead of 28%). An agreement on this infrastructure package would be a first really big success for the Biden administration. The window for such bipartisan agreements will not remain open for too long. Especially with regard to the „mid-term" elections in autumn 2022, the tone is likely to become increasingly confrontational towards the end of the current year. The elections in Germany will take place in the coming quarter. The result will be known on September 26, 2021. We can be very curious about climate policy in particular.

The recent increase in volatility on the financial markets will also be present in the third quarter. The central banks, and primarily their communication, will play a decisive role. If, contrary to forecasts, inflation rates were to rise sustainably, this would hardly pass the markets by without a murmur.
In a market phase in which opportunities and risks balance each other out, good diversification remains essential.

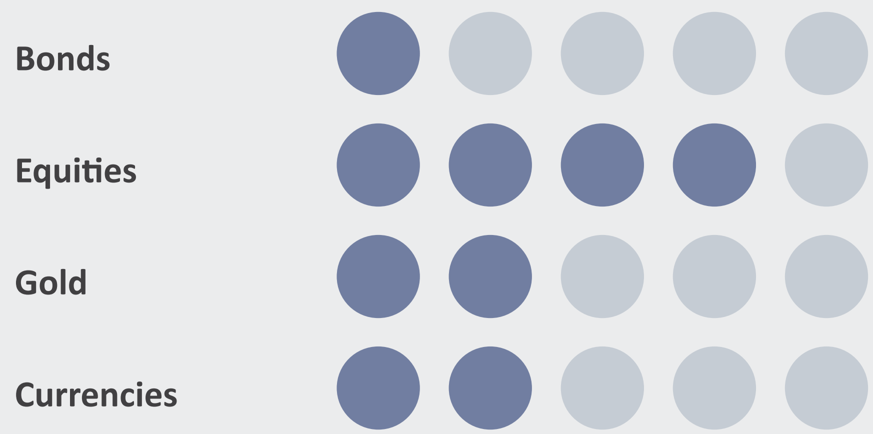
INVESTMENT POLICY

In General

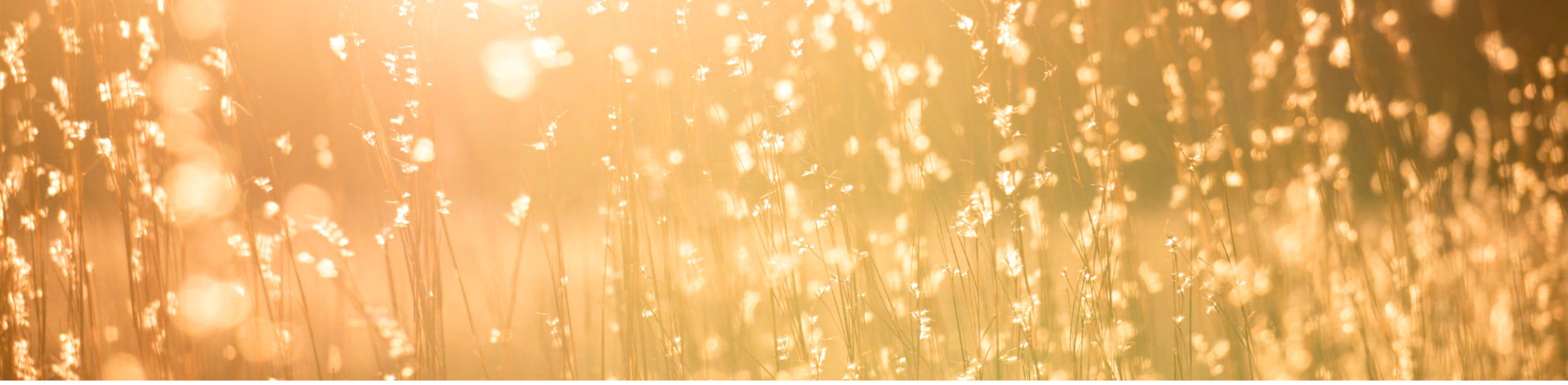
Markets have digested the Fed's recent comments well and continue to support risk asset investments. We will maintain our tactical positioning, although we reserve the right to take into account the prevailing sector rotation if necessary by making shifts within our positioning.

Although the upcoming summer months, based on history, lead us to expect a weaker performance than in the previous half of the year, we do not expect a sustained decline in prices, but merely a reduction of the pent-up euphoria.

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

The risks in the bond sector are limited to the short range of the yield curves, as the credit risks are currently only marginally compensated. While decent returns are possible in the US dollar area, we see insufficient risk/return opportunities in the Swiss franc and the euro.
We currently see opportunities in the sub-investment area with short duration, as well as in selected perpetuals and AT1s of companies with good cash flow. We are underweight in government bonds and first-class corporate bonds.

Equities

The rise in 10-year US interest rates has been stopped for the time being by the Fed's statements, triggering a favouring of growth companies. Sector rotation is thus still underway, but it is positive to note that capital is not leaving the equity market, but is merely being reallocated sectorally.
We continue to position our portfolios in such a way that our clients benefit from the growth of digitalisation on the one hand, but on the other hand also take advantage of entry opportunities in attractively valued stocks that benefit from the economic upswing.
Most recently, we reduced the Logitech position within the equity quota, which had grown. We used the realised profits in order to invest in CRH plc. CRH plc is one of the world's largest manufacturers of building materials and is thus benefiting from rising infrastructure spending.

Alternative Investments

In alternative investments, we continue to be invested in gold and bitcoin.
Gold lived up to its function as a hedge against a weaker USD in the last quarter and gained in value. However, the Fed's recent statements about possibly raising interest rates earlier than previously thought have strengthened the USD and reduced the gain on the gold position slightly. Ultimately, it has fulfilled the role we had in mind to reduce the risk profile of our mandates and we maintain the weighting of around 5%.
Bitcoin had a difficult quarter and suffered heavy losses but we believe in the disruptive effect of cryptocurrencies in the long term and maintain the positioning of approximately 1%. In retrospect, the profit realisation at the beginning of the year was a good decision. The profits realised financed the now practically free call option on the future Bitcoin development.

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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