

Global Investment Strategy

Fourth Quarter 2021

Overview

World economy:

- Almost normalised, despite some Covid-19 restrictions remaining.
- Despite a number of dragging forces (supply chain disruptions, rising energy prices and China's economic stand-still in the third quarter), falling Covid-19 case numbers will shortly provide a boost, especially to the US economy.
- Inflation: Lower monthly rates in both the US and the euro area. Inflation will likely be somewhat higher in 2022 than in recent years, particularly in the US.

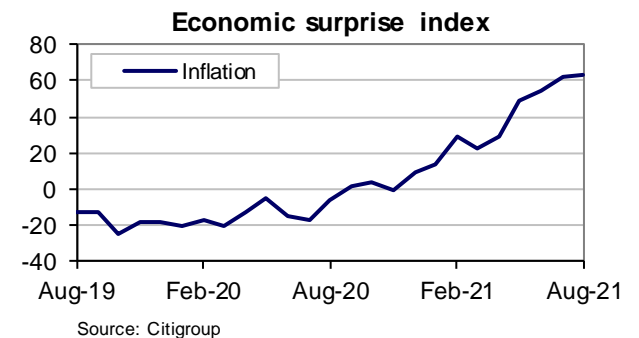
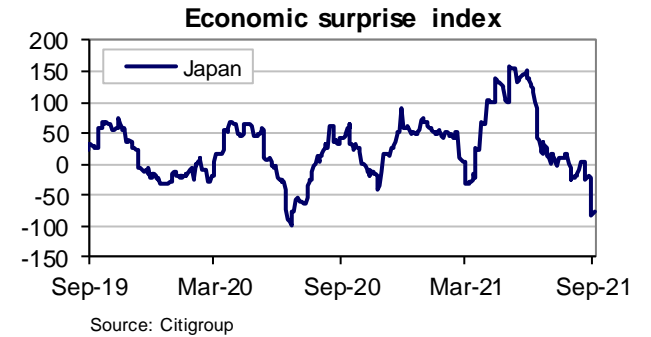
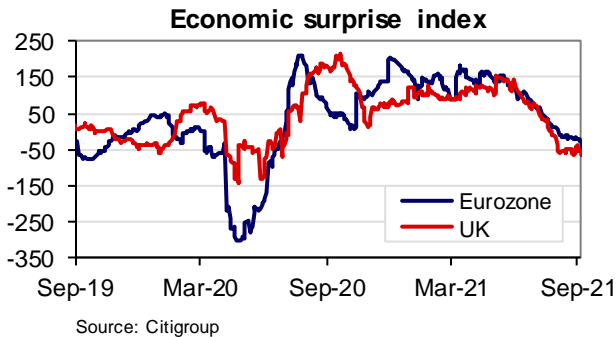
Monetary policy: Supportive of the recovery, amid scaling back of crisis measures. Confident Fed interest rate outlook.

Currencies: No clear trends, though the US dollar remains supported by its interest rate advantage over the euro.

Equity markets: Despite a number of stumbling blocks, the thesis of continued growth in the economy and corporate profits is not fundamentally in question, which points to a positive return environment.

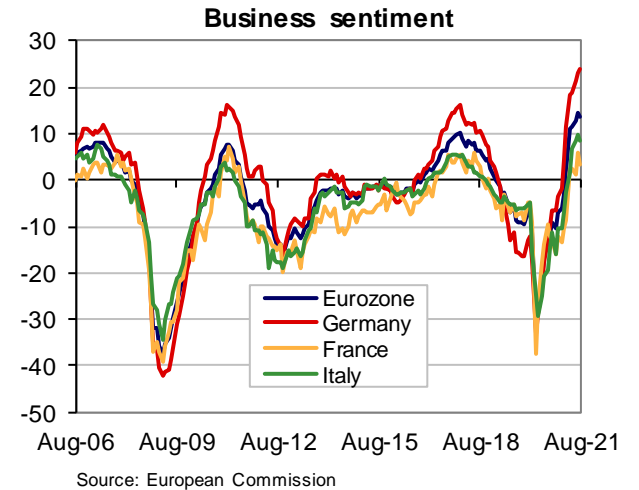
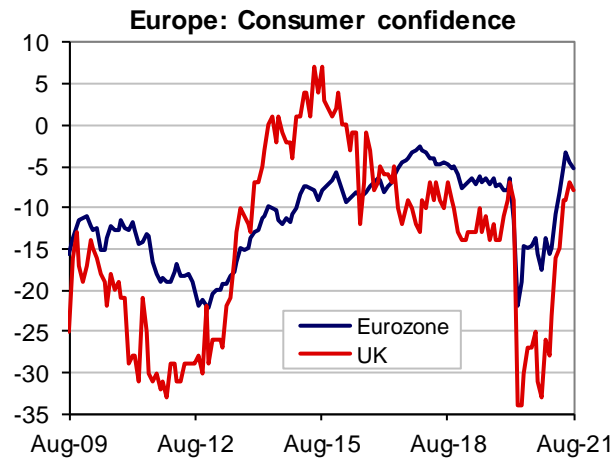
Economic surprise indices

The economic surprise index measures the difference between economists' forecasts and released data. A value above zero means that recent data have been better than the forecasts.



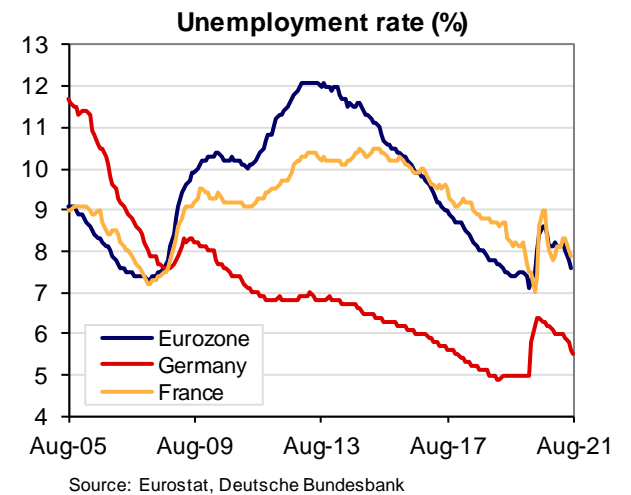
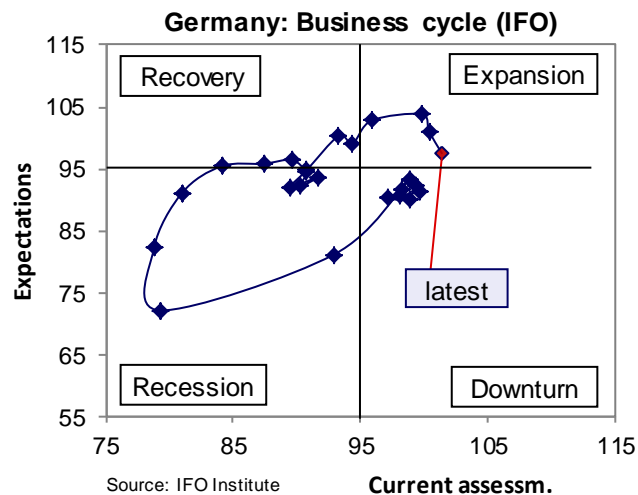
Europe: In recovery mode

Despite a modest loss in momentum, the data from Europe continue to point to recovery. This is evident in both consumer confidence and the business climate statistics.



Europe	3Q-2020	4Q-2020	1Q-2021	2Q-2021	Avg.
Eurozone	12.6	-0.4	-0.3	2.2	3.5
Switzerland	6.4	-0.1	-0.4	1.8	1.9
UK	16.9	1.3	-1.6	4.8	5.4
Germany	9.0	0.7	-2.0	1.6	2.3
France	18.6	-1.1	0.0	1.1	4.7
Italy	16.0	-1.8	0.2	2.7	4.3
Spain	17.1	0.0	-0.4	2.8	4.9
Austria	11.6	-3.1	-1.1	4.3	2.9
Sweden	7.5	0.2	0.8	0.9	2.4

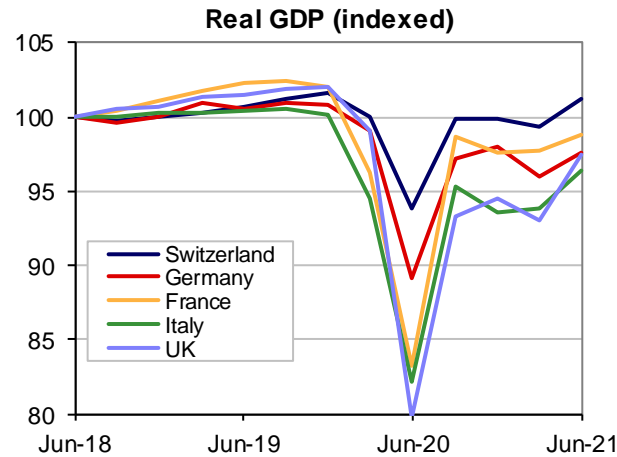
Note: Change in gross domestic product from previous quarter, in %. Source: Eurostat, national statistics, own calculations



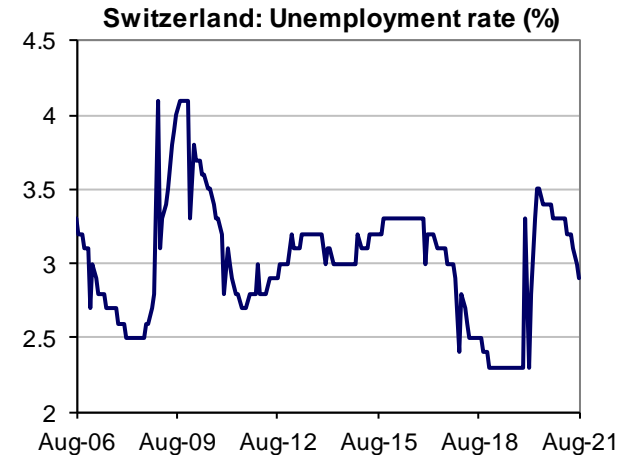
Switzerland: Comparatively resilient

The Swiss economy proved resilient during the pandemic in a European context (cf. the chart "Real GDP").

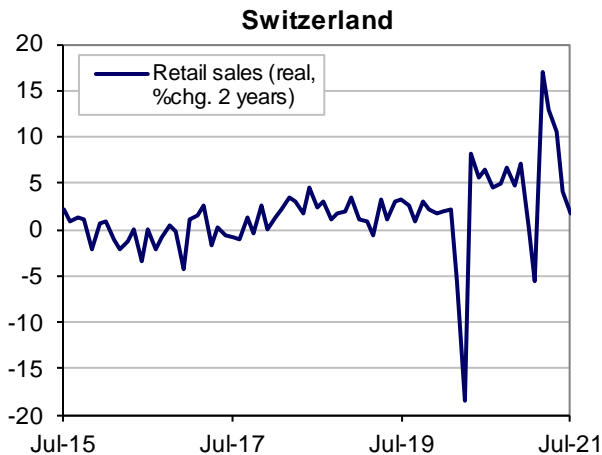
After a period of negative values, inflation rates have recently returned to positive territory.



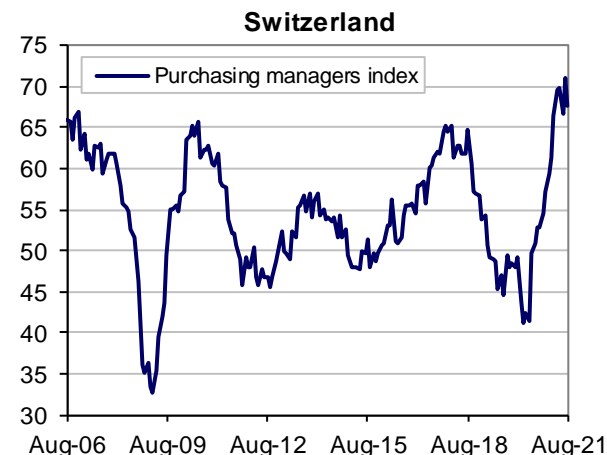
Source: Eurostat



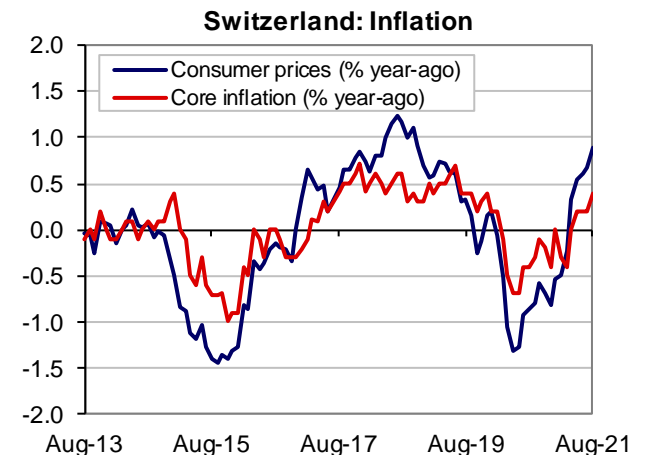
Source: SECO



Source: Federal Statistics Office of Switzerland



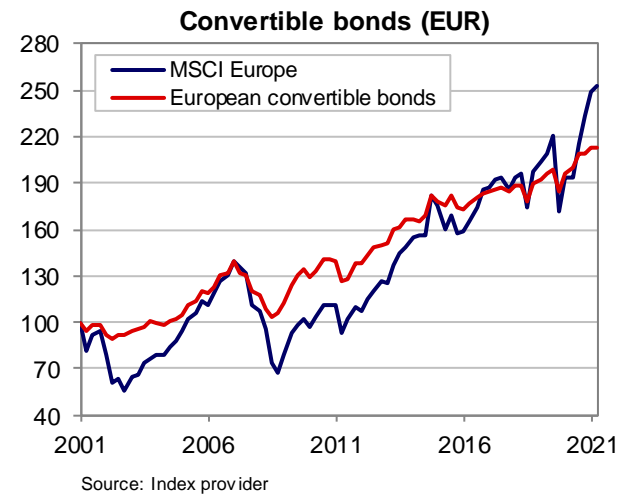
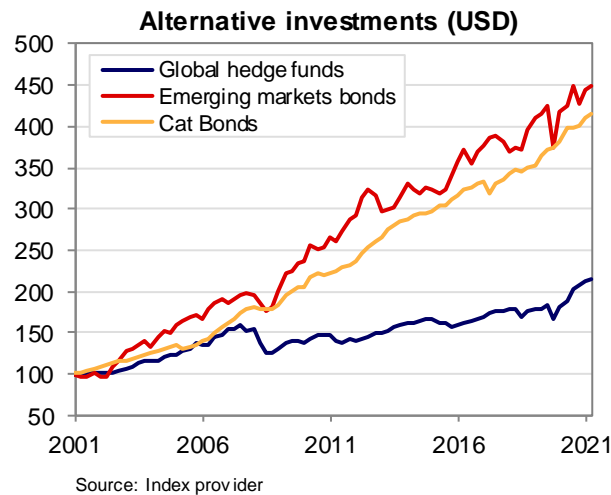
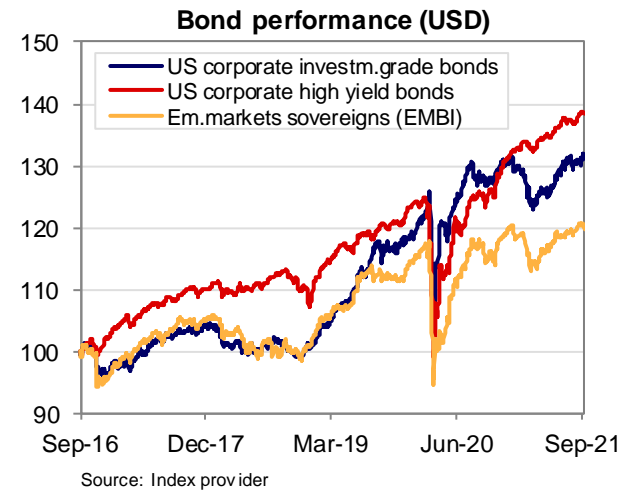
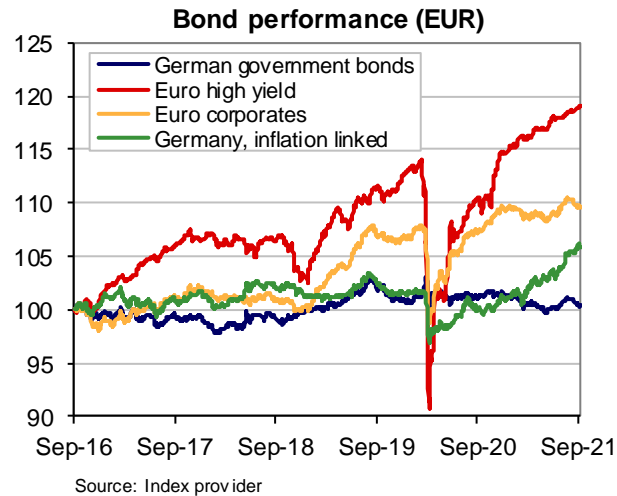
Source: CS



Source: Federal Statistics Office of Switzerland

Selected bond and alternative segments

The graphs show trends in key bond and alternative market segments.



Global carry trade matrix: Europe (EUR perspective)

The table shows key fundamentals, currency valuations (vs. absolute and relative PPPs as well as deviations from TWI-trade-weighted ccy-index), nominal and real interest rates and yield differences (vs. the base currency). The last two columns show the return potential (from the base currency point of view) which consists of a partial correction of currency under-/overvaluations plus the yield-difference.

Global Bond Carry Matrix (from Euro base currency perspective)

Country/Region	Fundamentals							Currency valuation			Interest rates						Return potent.	
	Curr. Acc.	Fisc. bal.	Gov. debt	Rating		In-flation	CDS (%)	Overvaluation vs. PPP*		TWI vs. Trend	Nominal rates		Nom. rate diff.**		Real rate diff.**		Relative total return (12m)	
				Current	Outlook			Abs.	Rel.		3m	5y-gov.	3m	5y-gov.	3m	5y-gov.	PPP (1)	PPP (2)
	%GDP	%GDP	%GDP	S&P/ Moody's	S&P/ Moody's	(%)	2021											
Switzerland	9.8	0.4	38.6	AAAu/Aaa	STAB/STAB	-	0.7	58%	0%	-1%	-0.76	-0.56	-0.20	0.06	0.40	0.66	0.2%	-2.8%
United Kingdom	-3.2	-1.7	87.2	AAu/Aa2	NEG/STAB	-	2.0	-2%	2%	3%	0.07	0.49	0.63	1.11	-0.07	0.41	0.0%	1.2%
Sweden	2.8	0.8	34.5	AAAu/Aaa	STAB/STAB	-	2.0	4%	-5%	6%	-0.02	-	0.54	-	-0.16	-	-	-
Norway	7.8	5.7	36.4	AAA/Aaa	STAB/STAB	-	2.1	8%	0%	7%	0.51	1.21	1.07	1.83	0.27	1.03	2.0%	1.4%
Poland	-1.3	-1.5	48.5	A-/A2	POS/STAB	-	2.0	-52%	-1%	0%	0.14	1.44	0.70	2.07	0.00	1.37	2.7%	4.7%
Czech Republic	-0.9	1.1	31.9	AA/A1	STAB/POS	-	2.4	-36%	7%	7%	1.13	2.03	1.69	2.66	0.64	1.61	-1.1%	4.5%
Slovak Republic	-0.9	-0.5	46.7	A+/A2	STAB/POS	-	2.3	-40%	34%	2%	2.98	-0.26	3.54	0.37	2.54	-0.63	-16.8%	2.4%
Bulgaria	1.6	-0.5	22.6	BBB-/Baa2	POS/STAB	-	2.3	-59%	-	2%	4.16	-	4.72	-	3.72	-	-	7.7%
Romania	-3.4	-3.5	38.8	BBB-/Baa3	STAB/STAB	-	3.2	-59%	1%	-	1.46	0.54	2.02	1.17	0.12	-0.74	0.7%	4.1%
Russia	5.2	1.8	15.4	BBB/Ba1	STAB/POS	1.26	5.2	-74%	-4%	6%	7.01	2.39	7.57	3.01	3.67	-0.89	9.7%	11.3%
Turkey	-1.4	-5.1	33.6	BB-u/Ba3	STAB/NEG	3.12	16.4	-88%	-14%	-1%	19.89	5.94	20.45	6.57	5.35	-8.54	13.7%	10.9%
South Africa	5.3	-3.7	70.2	-/-	-/-	-	5.3	-65%	-12%	9%	3.68	7.49	4.23	8.11	0.23	4.11	14.1%	11.4%

Data as per 22-Sep-21. *above zero=overvalued, **vs. base currency, source: National statistics, index provider, rating agencies, own calculations

PPP: Purchasing Power Parity (Absolute: exchange rates that equates costs of a basket of goods in two countries, Relative: Relative consumer prices in two countries (model presumes that parity met on average in the past 12 years). (1) 12-month expected return: Nominal 5y-yield difference plus correction of 50% of the ccy-overvaluation vs. relative PPP (2) 12-month expected return:

Nominal 5y-yield difference plus correction of 5% of the ccy-overvaluation vs. absolute PPP. Colors: green above 5%, light green above 1%.

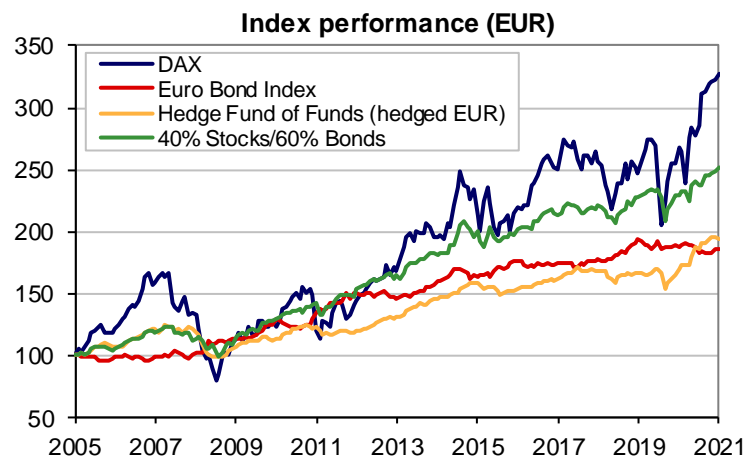
Chapter 6: Hedge funds and real estate

Hedge funds have delivered fairly weak returns in recent years and particularly weak returns this year so far, most often shy of a classic balanced portfolio (50% stocks/50% bonds), which we consider to be a natural benchmark.

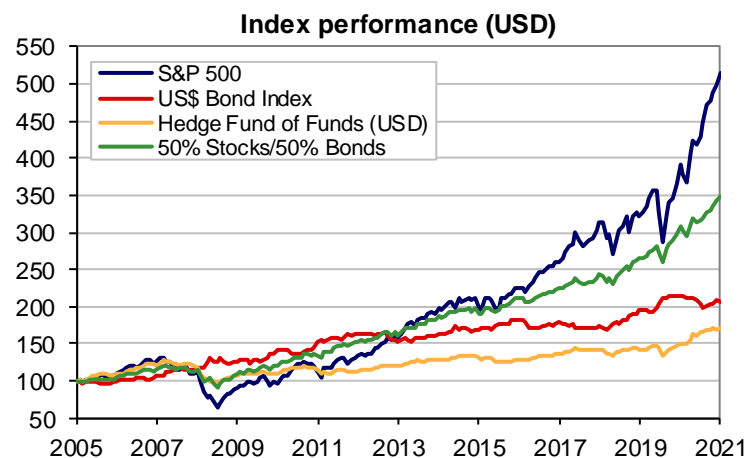
Hedge Funds

	CCY	Year*	2020	
Hedge fund index	USD	Hedge Fund of Funds	5.3%	10.9%
Currency hedged	EUR	Hedge Fund of Funds	5.3%	10.4%
	CHF	Hedge Fund of Funds	4.7%	9.4%
Classic portfolio	USD	50% US-Stocks/50% US Bonds	9.3%	13.1%
Equity type	USD	Equity Market Neutral	4.5%	1.7%
	USD	Long-Short Equity	7.8%	7.9%
	USD	Emerging Markets	4.9%	12.2%
	USD	Convertible Arbitrage	4.2%	10.2%
Event/fixed income	USD	Distressed	10.0%	3.8%
	USD	Event Driven	12.1%	7.0%
	USD	Event Driven-Multi Strategy	13.5%	6.9%
	USD	Fixed Income Arbitrage	4.7%	3.6%
Macro/CTA, other	USD	Global Macro	7.2%	6.5%
	USD	Managed Futures	7.2%	1.9%
	USD	Multi-Strategy	5.9%	5.6%
	USD	Risk Arbitrage	5.7%	16.0%

*Note: Data available as per 31-Aug-21. Source: Bloomberg



Source: Index provider, own calculations



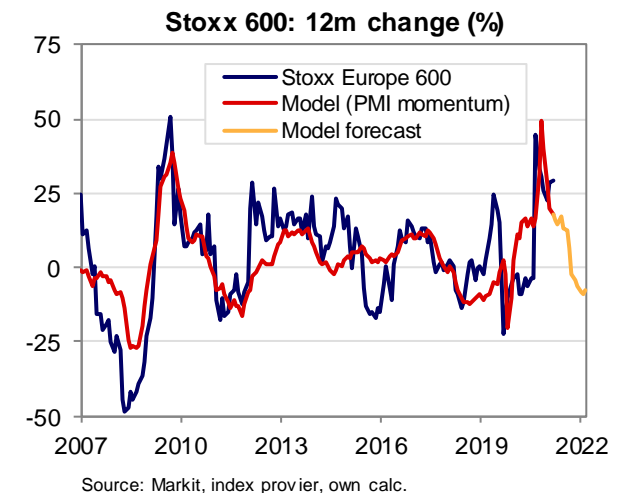
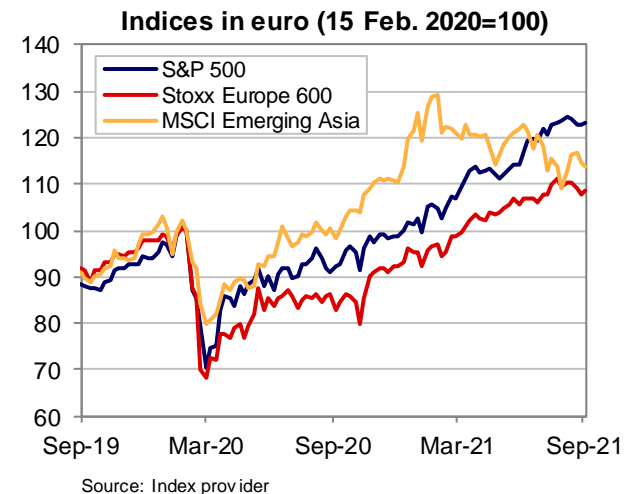
Source: Index provider, own calculations

Chapter 7: Equity markets – Economic momentum key

After the strong equity rally this year, lower returns are in the offing for the next six to twelve months. This view gains some support but is not driven by the fact that major equity indices are markedly higher than before the pandemic (in the chart, equity markets are indexed to 100 in mid-February 2020, immediately before the pandemic sell-off started). However, past cycles show that equity returns are often highest when the economy recovers strongly after a downturn, indicated by marked increases in purchasing managers indices (see the bottom chart).

Economic momentum in Europe and the US will soften overall in the coming six to twelve months, which argues for modest but not negative equity returns. As Covid-19 case numbers have recently started to decline in the US, economic momentum will temporarily pick up in the fourth quarter, which we view as supportive of equities.

We do not see market volatility in September as undermining the economic recovery scenario. Rather, there was a lack of positive news a good reporting season ended in August (quite similar to last year), which encouraged profit-taking. A general "risk-off mode" could not be identified, as neither gold, the Swiss franc nor government bonds – the usual winners when risk perceptions increase – have risen significantly.



R & A Group is an independent investment research and asset management company. R & A Group has a comprehensive investment research offering with a focus on investment strategies and global stock selection.

Founded in 2001, R A & Group is a joint stock company domiciled in Zurich and a member of the leading independent asset manager organization VSV (Swiss Association of Asset Managers).

***Investment-
Research at Work™***

Disclaimer: We do not make any guaranties for the validity of the information herein even though the information is based on public sources believed to be reliable. We are independent and do not have business relationships with any company possibly mentioned in this report. Opinions, estimates and projections in this report reflect our judgment at the date of writing and are subject to change without notice. We have no obligation to update, modify or amend this report or to notify a reader hereof if any matter, opinion, estimate or projection subsequently changes or becomes inaccurate. This report is provided for information purposes only and does not constitute an offer to buy or sell company stock or related securities or take any other investment decision. This report must not be made available to US or UK residents or to any other person to whom governing law may prohibit distribution of this report.

Data sources in charts or tables that are not specifically mentioned are either companies or index provider.

© R & A Group Research & Asset Management AG · Bodmerstrasse 3 · CH-8002 Zürich . Phone +41-44-201 07 20 · info@ragroup.ch · www.ragroup.ch