Julius Bär

INVESTMENT GUIDE

Market Outlook Q3 2020

MARKETING MATERIAL

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Julius Bär

EDITORIAL

Dear reader,

The corona crisis has been a disaster for humanity and caused an external shock to the global economy the likes of which we have not seen in modern times. If somebody had told us at the turn of the year that the global economy would be shut down in order to contain the spread of a virus and that it would cause the sharpest recession since the 1930s, we would most likely have shaken our heads in disbelief.

Now that many governments are working on reopening their economies, it is time to assess the new normal. Transitions do not happen overnight, but we expect this crisis to act as an accelerator for some macro-related trends, including the emergence of a bipolar world (increasing confrontation between China and the US), reshoring (value chains shifting from global to local) and the need to implement more unorthodox macro policies. This all has consequences for governments, companies and investors alike.

We observe a widening divergence in recoveries among regions, countries and sectors, which has implications for the respective credit qualities, growth potentials and also for the different currencies. The crisis has revealed some of the conceptual shortcomings in politics and economics and shown our vulnerability to such shocks. For investors, it is important to learn from what we have seen and prepare for the future.

With our third quarter Investment Guide, we hope to help you navigate current markets successfully.

Yours faithfully,

Yves Bonzon
Group Chief Investment Officer
Member of the Executive Board

Christian Gattiker
Head of Research

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A BRIEF REVIEW

MARKET REVIEW

The first half of 2020 was really a play in three stages. The year started buoyantly, then Covid-19 unhinged the world and after policy makers stepped in, it was back to the investing table. Let's delve deeper to see how different markets fared.

EQUITY REGIONS

	2016	2017	2018	2019	YTD	5Y annualised
Switzerland	-3.42%	17.47%	-8.03%	29.98%	-2.95%	5.47%
Eurozone	2.58%	10.24%	-10.57%	26.05%	-11.11%	0.83%
USA	10.89%	21.19%	-5.04%	30.88%	-2.40%	9.82%
Japan	-0.74%	19.75%	-15.15%	18.48%	-5.04%	0.58%
UK	19.16%	11.71%	-8.82%	16.37%	-16.43%	1.87%
China	0.90%	54.07%	-19.45%	24.34%	5.53%	4.77%
Emerging markets ex China	15.02%	31.25%	-12.43%	16.23%	-15.29%	1.44%

THE BEST: As China was the first country to ease lockdown measures, it may come as no surprise that it was the best performing equity region in the first half. The defensive Swiss equity market and the technology-heavy US equity market also held up well in a very volatile market environment.

THE WORST: The more cyclical markets, such as the eurozone, emerging markets ex China and the UK could not escape the world's economic downturn and they ended the first half solidly in the red. The UK equity market was the worst performing market as it also had to grapple with the continued uncertainty surrounding Brexit.

EQUITY STYLES

	2016	2017	2018	2019	YTD	5Y annualised
Quality	4.55%	25.96%	-5.50%	36.08%	2.49%	11.47%
Value	12.33%	17.10%	-10.78%	21.75%	-16.27%	1.97%
Growth	2.80%	28.01%	-6.74%	33.68%	7.77%	11.06%
Large cap	7.51%	22.21%	-7.75%	27.73%	-3.59%	7.02%
Small cap	12.71%	22.66%	-13.86%	26.18%	-11.54%	4.10%
Cyclicals	10.58%	27.54%	-9.83%	31.54%	-3.22%	8.80%
Defensives	4.07%	14.94%	-4.94%	21.69%	-5.80%	4.55%
High dividend	9.29%	18.14%	-7.56%	23.15%	-11.83%	4.11%

THE BEST: Quality and growth stocks were the two equity styles that managed to climb back into the green following the market's decline. The strong financial position of quality stocks meant that they offered relative safety amidst the Covid-19 turmoil. Technology stocks drove the growth segments into positive territory.

THE WORST: Value stocks performed poorly as bond yields collapsed and investors did not see much value. They also steered clear of small caps due to their greater vulnerability compared with mid- and large-cap stocks. Dividend cuts and deferrals meant that dividend stocks performed poorly.

EQUITY SECTORS

	2016	2017	2018	2019	YTD	5Y annualised
Information technology	11.45%	38.23%	-2.60%	47.55%	14.14%	20.31%
Materials	22.46%	28.94%	-16.92%	23.35%	-6.59%	4.09%
Oil & gas	26.56%	4.97%	-15.84%	11.45%	-32.71%	-7.97%
Industrials	12.88%	25.23%	-14.54%	27.77%	-12.16%	5.02%
Communications	5.66%	5.82%	-10.02%	27.39%	1.12%	4.28%
Healthcare	-6.81%	19.80%	2.52%	23.24%	2.81%	6.56%
Financials	12.47%	22.73%	-16.97%	25.51%	-20.98%	0.83%
Consumer cyclical	3.14%	23.69%	-5.51%	26.57%	2.92%	8.62%
Consumer defensive	1.63%	17.04%	-10.10%	22.80%	-4.46%	5.10%
Real estate	2.82%	14.64%	-6.36%	22.96%	-13.12%	3.39%
Utilities	5.96%	13.66%	1.97%	22.53%	-7.29%	6.63%

THE BEST: After being the star performer in 2019, technology stocks were again the place to be. They have the sails in their back as they shape the world of tomorrow. Covid-19 has only served to accelerate this trend. Other sectors holding up relatively well in a challenging environment have been communications, healthcare and consumer cyclicals.

THE WORST: Oil and gas stocks have been hit hard by oil prices experiencing a dramatic price drop. Dividend cuts by major oil companies did not help investors' stance towards the sector. Financials were sharply lower due to falling interest rates, restrictions on dividend payments and higher than expected default rates. Unlike in the 2008/2009 crisis, financials are relatively well capitalised this time around.

FIXED INCOME

	2016	2017	2018	2019	YTD	5Y annualised
Developed markets:						
Government bonds	1.65%	7.29%	-0.38%	5.59%	3.63%	3.73%
Inflation-linked government debt	3.91%	8.67%	-4.11%	8.04%	3.63%	3.38%
High quality IG	-0.82%	11.59%	-3.54%	6.33%	2.78%	2.73%
Low quality IG	3.63%	11.94%	-3.90%	12.52%	1.52%	4.64%
High yield	14.27%	10.43%	-4.06%	12.56%	-3.60%	4.48%
Emerging markets:						
EM hard currency	9.00%	9.61%	-3.02%	12.13%	-0.68%	4.80%
EM local currency	5.86%	14.27%	-3.40%	9.47%	-3.04%	2.70%

IG = investment grade; EM = emerging markets

THE BEST: Government bonds and their proxies appealed to nervous investors, who, facing uncertain times, readdressed their risk appetite. The policy response that we saw from central banks sent yields even lower, making these bonds the stand-out performers in the first half of 2020.

THE WORST: High yield bonds continue to claim the 'worst performer' crown, closely followed by emerging market local currency bonds. This should come as no surprise. Investors, still facing coronavirus fears, have exited riskier names in their pursuit of safe havens and any kind of yield from 'protected' entities. That said, high-yield bonds are already off their lows at the time of writing.

COMMODITIES

	2016	2017	2018	2019	YTD	5Y annualised
Brent crude oil	52.41%	17.69%	-19.55%	22.68%	-36.14%	-7.82%
Natural gas	59.35%	-20.70%	-0.44%	-25.54%	-25.40%	-9.94%
Gold	8.63%	13.68%	-2.14%	18.87%	17.06%	8.73%
Silver	15.84%	7.23%	-9.36%	15.32%	1.00%	2.67%
Platinum	1.11%	3.62%	-14.80%	22.05%	-13.33%	-4.75%
Aluminum	12.52%	33.31%	-19.28%	-1.84%	-12.21%	-1.41%
Copper	17.35%	31.73%	-20.28%	6.31%	-5.54%	0.13%
Iron ore	81.11%	-25.15%	10.76%	28.58%	15.97%	9.51%

THE BEST: Gold, as the quintessential safe-haven asset, attracted all the fame in the first half of the year as the global economy experienced the largest downturn in a generation and real bond yields moved lower. Iron ore came to life at the end of April when coronavirus-related supply interruptions in Brazil drove prices higher.

THE WORST: The oil market experienced its worst performance ever during the period, with some local prices even going negative. Never say never. In Q2 2020, supply/demand balances started moving back in favour of oil and it recovered some of its losses. Natural gas remains at depressed levels as supplies remained ample and the crisis reduced both electricity usage and industrial activity.

Source: Bloomberg Finance L.P., Julius Baer Investment Publishing
Please see the appendix for more details on indices used. Annual performance numbers in USD except for equity regions, which are calculated in local currency. Year-to-date (YTD) numbers are as of close of business on 23 June 2020.
Past performance is not a reliable indicator of future results. Performance returns take into account all ongoing charges but not transaction fees. The value of your investment may fall as well as rise meaning that you may not get back your initial investment.

SCORING OUR CALLS

In Q2 2020, we saw opportunities in Chinese equities and focused on biotech and digital health players along with technology. We presented strategies to play more volatile markets, and believe sustainable investing is here to stay.

THE MACRO PICTURE

TOPIC	Q2 RETURN
Biotech	34.04%
Information technology	25.72%
Chinese offshore stocks	19.95%
Chinese onshore stocks	15.10%
Investment grade corporate bonds	7.70%

VOLATILITY

TOPIC	Q2 RETURN
Behavioural equity strategies	25.44%
Income-oriented strategies (equity)	22.33%
Flexible fixed income strategies	2.54%

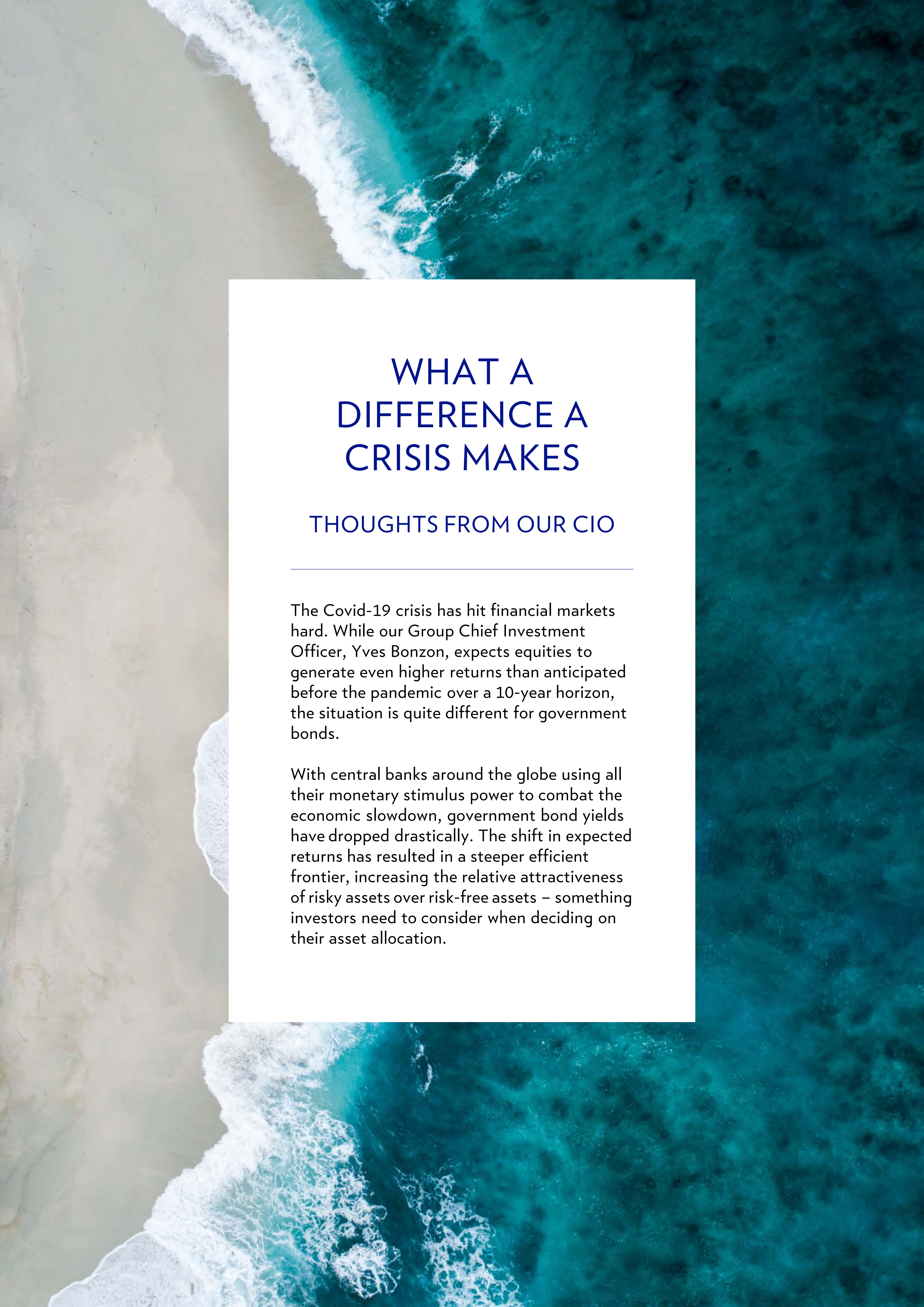
DIGITAL HEALTH

TOPIC	Q2 RETURN
Digital health players	22.99%

SUSTAINABLE INVESTING

TOPIC	Q2 RETURN
ESG leaders	28.79%

Source: Julius Baer Investment Publishing
Q2 return numbers encompass 1 April 2020 to 23 June 2020; ESG: environmental, social and governance
The performance of our calls was evaluated on the basis of the performance of a representative benchmark index which we consider the best fit to our call. More information on these benchmark indices are shown in the appendix.
Past performance is not a reliable indicator of future results. Performance returns take into account all ongoing charges but not transaction fees. The value of your investment may fall as well as rise meaning that you may not get back your initial investment.



WHAT A DIFFERENCE A CRISIS MAKES

THOUGHTS FROM OUR CIO

The Covid-19 crisis has hit financial markets hard. While our Group Chief Investment Officer, Yves Bonzon, expects equities to generate even higher returns than anticipated before the pandemic over a 10-year horizon, the situation is quite different for government bonds.

With central banks around the globe using all their monetary stimulus power to combat the economic slowdown, government bond yields have dropped drastically. The shift in expected returns has resulted in a steeper efficient frontier, increasing the relative attractiveness of risky assets over risk-free assets – something investors need to consider when deciding on their asset allocation.

WHAT A DIFFERENCE A CRISIS MAKES

The latest market crash has significantly altered the likely future performance of asset classes. We expect risky assets to perform better and risk-free assets will likely yield less.

Once a year before December draws to a close, our Group Chief Investment Officer, Yves Bonzon, publishes 10-year expected returns for asset classes and sub-asset classes. In normal times these remain valid for a year, but the Covid-19 crisis is far from normal and has prompted us to revise our capital market assumptions and expected returns.

A LOOK AT THE BOND MARKET

After the US Federal Reserve adopted its zero-interest rate policy to fight the economic effects of Covid-19, the yield on government debt fell significantly and we now expect US government bonds to yield 1% less going forward.

Turning to Europe, reductions in government bond yields in EUR, CHF and GBP have been less extreme so far, as they were mostly already close to or below zero.

Corporate, high-yield and emerging-market bonds offer much higher yields as their spreads over government bonds have ballooned in the crisis, adding to expected returns. Yet, in light of a looming recession, we assume that bond defaults will increase, so that any theoretical rise in yields will be offset.

INCREASED RISK PREMIUM FOR RISKY ASSETS

We had fairly low expectations for future returns across all asset classes at the end of 2019, but the crash in the price of risky assets has improved their risk premia.

We estimate that the crisis will reduce corporate earnings by 20%–30%, but we foresee a catch-up over 10 years and forecast a return to average corporate earnings and valuations within this period. This has led us to add 2% to our expected annual risk premium, and we now expect world equities to return 1% more each year over 10 years from current levels than we had anticipated at the end of 2019; while US government bonds are likely to earn 1% less.

Similarly, we have raised our expectations for other risky assets, including hedge funds and private equity.

INTERESTED?

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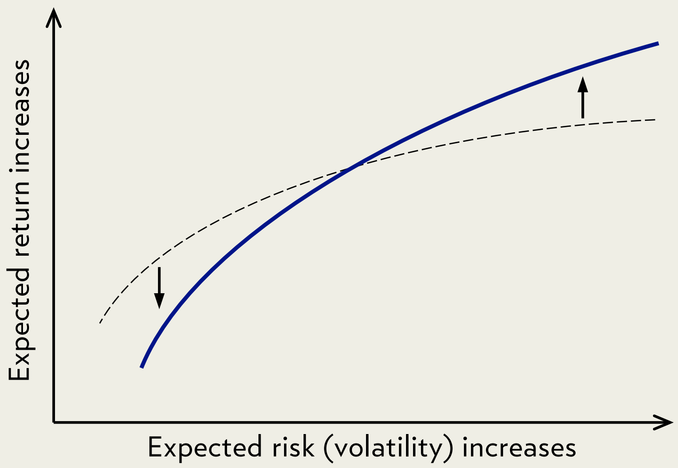
THE EFFICIENT FRONTIER

- Evidently, it is not possible for investors to say they would like to achieve a high return while taking only a small amount of risk. Investors should therefore look to build a portfolio which achieves either the maximum return possible for a given level of risk, or which ensures the minimum level of risk for a given target return. A portfolio which does this is known as an optimal or efficient portfolio.
- The concept of constructing an optimal portfolio is a cornerstone of modern portfolio theory and was introduced by the Nobel Laureate Harry Markowitz in 1952. All optimal portfolios build the so called 'efficient frontier'. In essence, an investor should aim to construct a portfolio of different asset classes which lies on this efficient frontier.

THE STEEPENING OF THE EFFICIENT FRONTIER



The relative attractiveness of risky assets over risk-free assets increases and the expected payout per unit of risk is higher.

A FRESH PERSPECTIVE ON ASSET CLASSES

At first glance, the change in expected returns might seem small, but compounded over 10 years the consequences are massive – particularly in the current low-yield environment. Indeed, the new return expectations lift the total return from equities by almost a quarter and shrink those from bonds by a half. This can wrong-foot investors, if they let markets decide on their asset allocation.

WRAPPING IT UP

So even though the Covid-19 crisis has been one of the biggest events in all of our lifetimes, it will not dominate headlines forever. As times slowly return to normal, we assume that equities and other risky assets will outperform bonds by a wider margin than we thought at the end of last year.

In conclusion, the efficient frontier is now steeper, particularly in US dollars, making the relative attractiveness of risky assets over risk-free assets greater. In other words, the expected payout per unit of risk should be higher going forward. What a difference a crisis makes.

THE BIG PICTURE

Managing growth divergence

The coronavirus pandemic has resulted not only in a huge health crisis, but also in enormous economic damage. As we slowly exit the crisis mode, we observe large and widening divergences among regions, countries and sectors. The overall broad-based policy response, combined with a slowing infection rate, points to an earnings recovery ahead. Whilst the different growth prospects provide opportunities for investors, they also present risks.

We have asked Julius Baer's opinion leaders about how they see the third quarter of 2020 and where they believe investors can find the best opportunities in the current environment.

THE BIG PICTURE

Christian Gattiker,
Head of Research

ECONOMIC ACTIVITY IS BACK

"The global health crisis in the first half of 2020 sent the world economy into the worst contraction in post-war history. Yet, we expect economic activity to bounce back sizably after containment measures were loosened in many places. Back to work, back to a more normal life – this will free up massive energies."

GROWING DIVERGENCE

"We enter Q3 2020 with a strong tailwind from fiscal stimulus as well as progress in the containment of the coronavirus in China, Europe and the USA. While the spread of the virus is a global phenomenon, the policy responses and the economic outlook vary on a national level. The difference in fiscal response and the depth of the economic shock will translate into growing divergence across regions and sectors."

Markus Allenspach,
Head of Fixed Income
Research

Eirini Tsekeridou,
Fixed Income Research Analyst

LOW-GRADE CORPORATE BONDS

"The US Federal Reserve's zero-interest-rate policy, in conjunction with the strong fiscal boost and our outlook for an economic recovery in the second half of the year, argue in favour of credit risk. From our perspective, we focus on the BBB/BB segments of the US corporate bond market as we see limited downside and expect credit spreads to compress towards the historic mean."

US DOLLAR HAS SEVERAL BENEFITS

"The US dollar should still benefit from the structural outperformance of US assets and its safe-haven quality in times of market volatility. We expect the US dollar to remain strong versus most emerging market currencies, as the US government's growth stimulus dwarfs the stimulus measures in the emerging economies. Progress made in terms of setting up fiscal support in the eurozone brings the euro on a par with the US dollar. The chances of a growth rebound in the US and in Europe are rising."

David Kohl,
Head of Currency Research

David Alexander Meier,
Economist

POLITICAL INSTABILITIES

"Politics remain on the radar when it comes to risk and remain a source of volatility. The coronavirus-induced recession in the US, together with racial protests have put the election outlook back on the front page. Latest surveys show that presidential approval has slid significantly lower. As a result, US-China rivalry is likely to heat up further. In Europe, fragmentation risks seemed to diminish when European Union leaders agreed to a rescue package, but we think that the level of collaboration could again experience setbacks."

Patrik Lang,
Head of Equity Research

US EQUITIES ARE DRIVING THE GROWTH

"In the post Covid-19 global economy, we expect the US to emerge as one of the relative winners and the Eurozone likely to become a laggard. US stocks should gain due to broad-based fiscal and monetary support. The US market benefits from being over-exposed to growth sectors in the technology and internet space, which further profit from trends towards digitalisation and home office working. We still like the information technology sector as it continues to generate market-leading earnings growth whilst valuations are far from excessive."

CHINESE EQUITIES

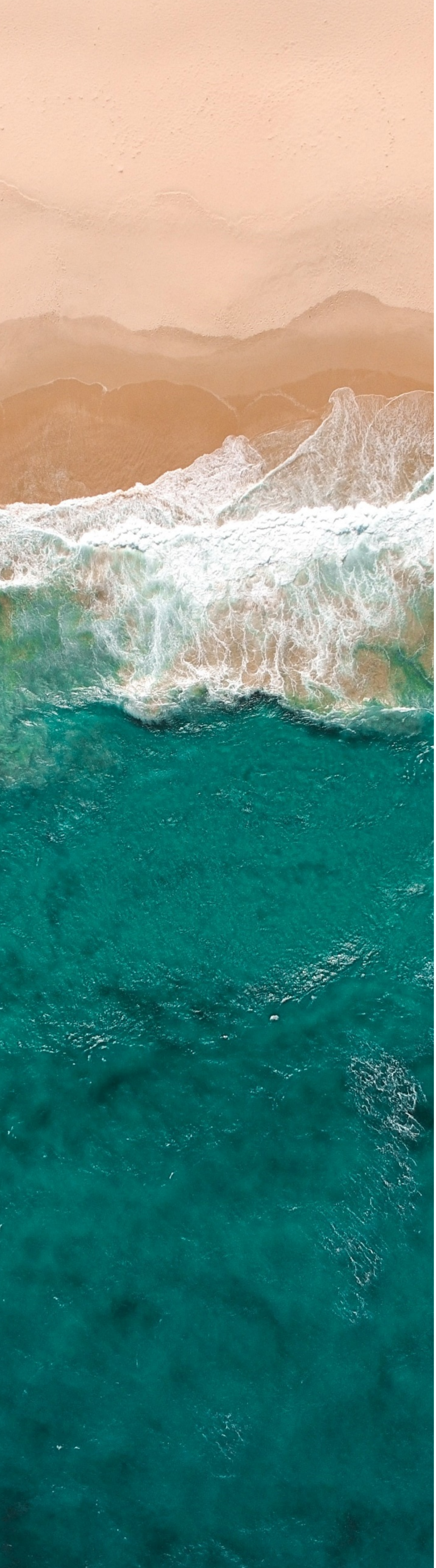
"China was the first major economy to exit lockdowns, but data up to the end of May shows a slightly less robust recovery than anticipated, and localised coronavirus clusters are precipitating strident containment measures. More monetary policy support is therefore to be expected, as well as continued investment in both 'old' and 'new' infrastructure. We therefore prefer domestic-oriented quality stocks."

Mark Matthews,
Head of Research Asia

Mathieu Racheter,
Equity Strategy Research
Analyst

CYCLICAL STOCKS

"Positive earnings revisions normally occur following recessions, and cyclical companies are the main driver of upside revisions in earnings. Therefore, we currently like cyclical sectors such as financials, materials and industrials where we see tangible upside in absolute terms but also relative to the rest of the market."



INTERESTED?

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THE TAILS OF YOUR PORTFOLIO

Cash and private markets

In this section, we take a closer look at the tails of diversified portfolios. While the left tail is cash, at the other end of the spectrum are illiquid private market investments.

The rationale for highlighting the tails is that much of the investment literature is focused on the core of diversified portfolios – equities and bonds. However, calibrating the tails of one's portfolio appropriately can go a long way towards building an investment portfolio geared to one's own investment objectives.

There is a saying that 'everything has a beginning, a middle and an end'. In the context of investing, this would mean that paying attention to the tails is as important as concentrating on the core.

TAKE CARE OF YOUR CASH

Keeping a certain amount of cash on the side for a rainy day can be a reasonable strategy. However, holding excess cash can come at a rather large cost over time.

MOTIVES FOR HOLDING EXCESS CASH

Transactional motive: An investor may have a short-term need for liquidity and therefore not want to commit the funds.

Precautionary motive: An investor may have a lower risk tolerance and thus limit investments in financial markets. Reasons for such a stance could be the balancing out of other risks, such as business-related risks.

Speculative motive: An investor may be very active in buying and selling portfolio positions. As a consequence, the portfolio may hold substantial cash positions at times.

ARGUMENTS AGAINST HOLDING EXCESS CASH

Don't put all your eggs in one basket: The first rule of investing is not to put all of one's eggs in one basket but to be diversified. This rule also applies to cash.

No return on cash: Most cash in Europe has not been yielding a return for some time and the same is true for USD cash now.

Compounding matters: Albert Einstein is credited with saying: "compound interest is the eighth wonder of the world. He who understands it, earns it... he who doesn't... pays it." Investors with large cash positions pay a high price in terms of potential performance lost.

Inflation matters: As with any other asset, if one does not take care of cash, its value will decay over time. Cash loses its value because of the rise of the general price level as time goes by.

QUESTIONS TO CONSIDER

Purpose: What is the purpose of cash in a portfolio?

Income: Does the cash level support the desired cash flow generation (dividends and coupons) from the portfolio?

Wealth generation: Does the cash allocation allow for long-term wealth creation? Is the portfolio's overall composition likely to achieve an objective, such as making a major purchase or passing a certain amount to the next generation?

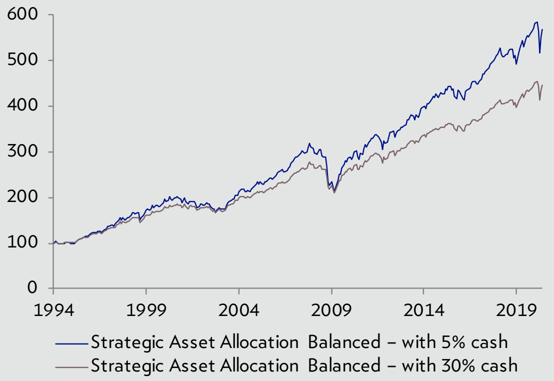
Timing: If the reason for holding cash is to wait for a better time to enter the market, is there a strategy in place?

AN ILLUSTRATION OF WHY COMPOUNDING AND INFLATION MATTER

COMPOUNDING MATTERS

Outperformance of fully-invested strategies despite three equity bear markets (2000, 2008/2009, 2020)

Performance, indexed

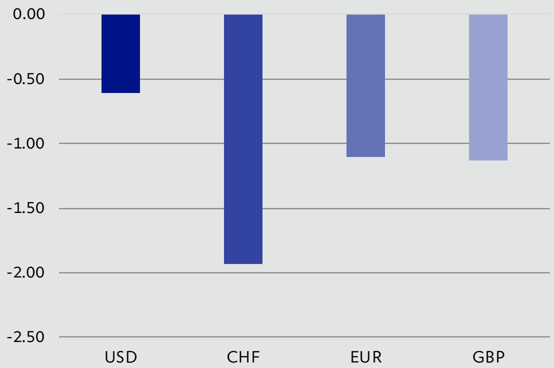


Data as of 29 May 2020, based on monthly return figures
Source: Thomson Reuters Datastream, Julius Baer Investment & Wealth Management Solutions

INFLATION MATTERS

Purchasing power is currently not preserved with cash and cash-like investments, such as money market funds

Real 3-month money market yields, annualised (in %)



Data as of 31 May 2020; average over the last 3 months; inflation: Julius Baer estimates
Source: Thomson Reuters Datastream, Julius Baer Investment & Wealth Management Solutions

INTERESTED?

Please contact your Julius Baer representative for further information on products that best suit your needs.

PRIVATE MARKETS

Many investors believe that unless an asset can be bought or sold on an exchange, it should be avoided. However, the perceived negative aspect of illiquidity can actually be positive.

TO BE OR NOT TO BE ILLIQUID

"To be or not to be illiquid? That is the question." Further, stretching Shakespeare's quote, the question becomes, "whether 'tis nobler in the portfolio to suffer the slings and arrows of public market volatility, or embrace low volatility private investments?"

One way to gain private market exposure is via so-called 'closed' capital funds. A manager of such funds only requires delivery of the capital committed when they have investments to make. This stable capital set-up allows the manager to develop the investment without the fear of having to buy in times of euphoria (when prices are high) or having to sell due to investors wishing to redeem, often when markets are falling. In this way, 'closed' capital funds offer security to their investors because the managers do not become forced sellers at unreasonable prices.

PRIVATE MARKETS

Private equity is a term used to define any investment not publicly traded or listed on a stock exchange. More generally, the term private markets includes all non-public investments, including private debt investments. With such investments, investors are required to commit capital for an extended time-period in return for accessing return sources that are not available in the public markets.

There is much empirical evidence showing that good private-market investors can achieve competitive returns; this is in part due to the illiquid nature of their funds. The lack of liquidity can protect investors from their own emotions and a propensity to sell investments in times of stress. Thus, they participate in the upside of the investments when they recover – they will still be 'in the trade'.

NOT AS ILLIQUID AS YOU MAY THINK

Non-listed 'private market' funds do exhibit a 'natural' liquidity through the purchase and sale of portfolio investments. This is because private market investors are temporary owners of assets, and they will always seek an exit at the right price and time. At this time, investors will receive their money back. Furthermore, there may be a private secondary-market offering investors an early exit route, if required.

TO CONCLUDE

It is not a black-and-white question of "to be or not to be illiquid". As part of a diversified portfolio, one should perhaps consider both liquid and illiquid investments. Private market investments can complement traditional portfolios by providing exposure to new and growing companies, technological developments, and at times of distress, assets that are not available through public markets.

Private market investments also have a longer investment horizon, which can make them a suitable investment for the next generation.

PRIVATE MARKET FUNDS VS. MUTUAL FUNDS

KEY CHARACTERISTICS OF PRIVATE MARKET FUNDS...	...COMPARED WITH MUTUAL FUNDS
• Finite fund life of usually 10 years	• Open-end, with no redemption restrictions
• Capital invested over time by the manager	• The capital is invested immediately
• Capital returned as investments are sold	• The capital is only returned upon redemption
• Difficult to access investment opportunities	• Easily accessible investments
• No public secondary market	• An active public market
• The portfolio is typically valued four times a year	• Frequent portfolio valuation (daily or weekly)
• Private market funds own the company and have an influence on its management and direction	• The fund has no operational say in the companies that it invests in
• Private managers tend to invest a significant part of their wealth in their funds	• This varies by fund but invariably managers do not invest in their funds to the same extent as in the private arena

Simon Ibbitson,
Head of Private Equity Sales

WHAT ATTRACTS YOU TO PRIVATE EQUITY?

“In my 20 years of working in the private market business, I have met some very smart and talented people – both financiers and entrepreneurs. Investing with them enables me to diversify my portfolio and gain exposure to assets not available in listed markets. I don’t have to worry about whether or not to buy, sell or hold; the managers take these decisions on my behalf. I am good with that because they are smarter investors than me. By the way, I also own public stocks, I see merits in having both.”

LIFE IN A DIGITAL WORLD

From offline to online

Life will change as we emerge from the coronavirus shadow. Lockdowns have required many to stay at home, work at home and most of our purchases have been online. Appointments with doctors have been face-timed. Governments are creating apps to track and trace infected citizens. Data privacy and cybersecurity have never mattered more.

The move from offline to online was already well underway but recently it has really taken off – we are now in the digital age.

LIFE IN A DIGITAL WORLD

If the lockdowns have taught us anything, it is that when it comes to the digital world, the possibilities are endless. Here we highlight three of the most interesting topics.

The move from offline to online was well underway before we had ever heard of Covid-19 but now the pace has ramped up significantly.

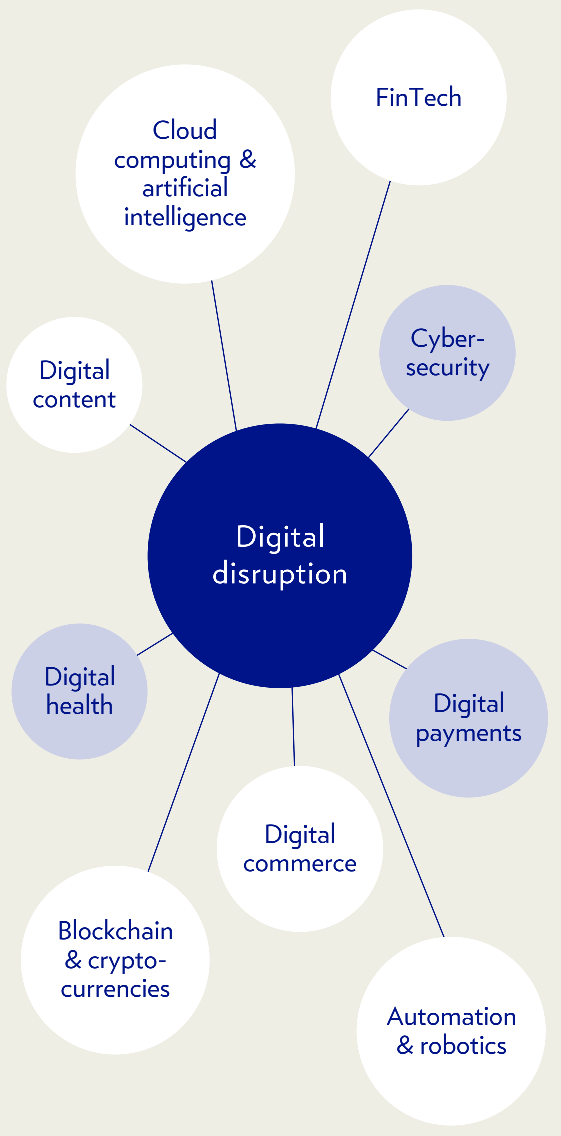
The coronavirus lockdown experience has impacted our lives in a myriad of ways. Global lockdowns have required many of us to stay at home or at the very least, physically distance ourselves from others. Unless you are a 'key-worker', the chances are you have had to get used to working (and for parents of young children, schooling) from home. Social media has permitted social distancing.

Many have been forced to buy groceries, clothes and educational material online. Medical appointments have been conducted via online platforms. Grandparents have 'met' their new grandchildren via messaging systems, whilst others have had to say a remote last goodbye.

Life will change for us all as we emerge from the coronavirus shadow but one thing is certain: we will all have more technology. And if the lockdowns have taught us anything, it is that when it comes to the digital world, the possibilities are endless.

Here we highlight three particular topics on the digital disruption shelf which we believe stand out because of the opportunities that they offer investors to participate in the benefits of digital disruption: digital payments, digital health and cybersecurity.

THE DIGITAL DISRUPTION SHELF



DIGITAL PAYMENTS

Over the last 10 years, payment network providers have delivered a remarkably steady revenue compound annual growth rate of around 10%. Going forward, we expect this positive trend to continue as digital payment solutions continue to take market share away from cash, partly due to their convenience and because of the structural shift towards electronic payments as life and work are increasingly going online.

The coronavirus crisis is only accelerating this trend, and shows clearly how important a proper online presence has become in order not to be too dependent on foot traffic. It has also highlighted the potential health risks associated with physical cash in a pandemic scenario. We believe that the crisis will further foster the transition to e-commerce.

DIGITAL HEALTH

The coronavirus outbreak has exposed the woeful shortcomings of some healthcare systems in developed and developing countries alike. Both governments and healthcare institutions will now be compelled to strengthen and improve the efficiency of their healthcare systems by adopting greater digital health technologies.

And it doesn't stop there. Individuals are also more readily taking on a role in assessing and monitoring their own health, purchasing more and more smart technology in terms of apps and devices. The latter have progressed from counting the wearer's steps to watching their diets, and keeping track of their vital statistics. Many citizens are also now using track and trace apps in an attempt to keep Covid-19 at bay.

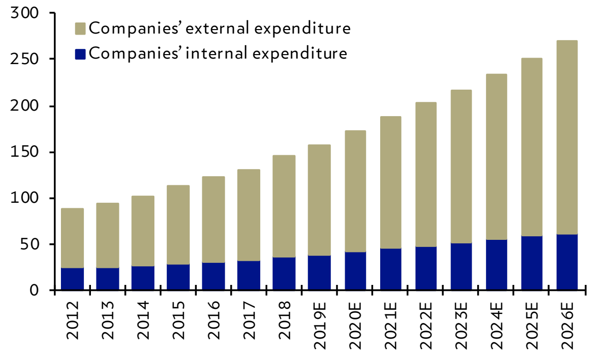
Online medical consultations became popular among Chinese consumers during the coronavirus crisis and telemedicine has seen a global surge during the lockdown. In our view, the outbreak should further foster a long-term transformation of the healthcare industry, rendering it stronger and more efficient.

CYBERSECURITY

As customer data becomes more valuable to hackers, and as governments enact regulations that penalise firms for customer data breaches and loss, nearly all firms that have an internet presence and collect information from their customers face increased risks.

GLOBAL CYBERSECURITY SPENDING

Annual, in USD billion



April 2020
Source: Gartner, Julius Baer Next Generation Research; E = estimate

Cyber breaches cost the global economy around USD 1.5 trillion per year, and this is expected to increase, with some sources projecting it could cost the global economy a staggering USD 6 trillion by 2021.

Companies simply cannot afford to treat cybersecurity as an afterthought in light of the way that the threat landscape is developing. With the rise of e-commerce, digitally-enacted financial theft is growing as well.

Covid-19 has seen huge swathes of the global workforce working from home meaning more digital connections allowing for more potential attack vectors presenting a clear challenge to the cybersecurity infrastructure of corporations.

We talk about reshoring elsewhere in this Investment Guide and this is certainly a trend in technology and security too as evidenced by the Huawei situation playing out between the US and China.

When groups shift towards more self-reliance in terms of technology, they naturally also begin to develop their own individual standards which can lead to more paths opening up to cyber criminals.

DIGITAL HEALTH

"The crisis should serve as a wake-up call for governments and medical institutions worldwide to better prepare for the adverse impact of future infectious threats, as vulnerabilities in our healthcare systems and inequalities in access to health services due to ever-spiralling medical costs have been revealed. Put simply, the extent of the outbreak will hasten the further digital transformation of healthcare to improve patient care via the greater adoption of digital health technologies, which should free up capacities at clinics and hospitals. This bodes well for digital health."

Dr. Damien Ng,
Next Generation Research Analyst

Alexander Ruchti,
Next Generation Research Analyst

CYBERSECURITY

"Going forward, we expect the trend towards more sophistication of cybersecurity aggressors to continue, which means that having a solid defence against cyber attackers will be as crucial as it has ever been. Global regulations are shifting towards making certain cybersecurity measures a necessity and increasing the amount of fines that non-compliant corporations might be charged with. Both elements are favourable for the sector."

INTERESTED?

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HAS GLOBALISATION PEAKED?

Four factors that point towards a less globalised future

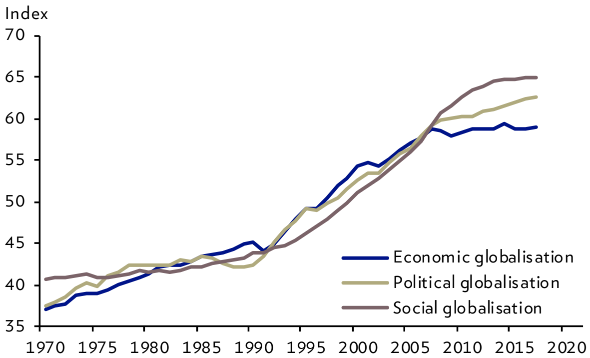
After decades of increasing global trade, the globalisation trend appears to have slowed and may soon start to reverse. The coronavirus pandemic has revealed the fragility of supply chains and as a result, companies may now start to lean towards more domestic production and sourcing. However, even prior to the current crisis, a number of factors had started to drive world economies towards being less integrated. In this section we look at four key factors, which may cause global trade to stagnate or even reverse.

HAS GLOBALISATION PEAKED?

Nationalism, the risk of supply chain disruption, developments in emerging markets and technological advancements may all be leading us towards a less globalised world.

Covid-19 has wreaked havoc across the globe. As borders were closed, flights cancelled, exports restricted and supply chains disrupted, the interconnected world that we once knew was very soon barely recognisable. The coronavirus pandemic will likely accelerate the trend of peaking globalisation, but even prior to the current crisis, a number of factors had started to drive world economies towards being less integrated.

GLOBALISATION HAS LOST MOMENTUM



Data from 1970 - 2017
Source: KOF Swiss Institute, Julius Baer Equity Research

For a long time there was a clear trend of increasing global trade but this dropped off significantly in the Great Financial Crisis in 2008. It subsequently recovered but never returned to the rate of growth seen in the decades preceding the crisis.

In this section we consider four factors that may cause global trade to stagnate, or even fall in the future and then look at one case study which reflects this changing trend.

INTERESTED?

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1. NATIONALISM

The re-emergence of nationalism, as exemplified by President Trump's "America First" rhetoric and the UK's referendum vote in favour of Brexit, to name just a couple of examples, had already put the brakes on globalisation. Nationalism has been fuelled over the years by the failure of governments to adequately support the economic losers of global integration in their home countries.

If we continue to move towards a more protectionist world, companies may reduce their operations in countries where they fear that tariffs will be implemented or customs delays may slow down their supply chains. This is in fact already visible in the data – global trade growth slowed significantly in 2019 and with the added impact of the coronavirus pandemic, a huge fall is expected in 2020.

2. RISK OF SUPPLY CHAIN DISRUPTION

The pandemic has served to remind businesses about the vulnerability of global supply chains. This has only added to supply chain concerns which were raised by the still ongoing trade disputes, in particular between the US and China. As a result, many companies are re-assessing their supply chains and may start leaning towards domestic sourcing and production, and thus become less dependent on trading partners abroad.

In addition, with the very competitive environment in many industries, firms are usually looking for ways to differentiate their offering and in terms of the service offered, the speed to market is becoming key. As a result, many companies are localising their supply chains.

Self-sufficiency and reshoring will probably reappear on political agendas and many governments will likely want to reduce dependencies on other countries, particularly when it comes to critical supplies.

3. DEVELOPMENTS IN EMERGING MARKETS

Emerging markets' share of global consumption has risen by around 50% over the last decade driven by the growing middle class in these countries. By 2030, developing countries, led by China and emerging Asia, are projected to account for more than half of overall global consumption according to McKinsey Global Institute.

China is leading the way but the rising middle class is also evident in other developing countries including India, Indonesia, Thailand, Malaysia, and the Philippines.

Nations who were once heavily dependent on exporting what they made are now consuming more of what they produce domestically and exporting a smaller share. Moreover, emerging economies are gradually moving towards the next stage of economic development – they are building more comprehensive domestic supply chains, and thereby becoming less reliant on imported intermediate inputs.

4. TECHNOLOGICAL ADVANCEMENTS

One of the key forces behind the momentum of the globalisation trend was the search for lower costs of production by companies in nations where incomes were higher. However, we have seen that with the constant technological advancements has come more and more automation, which has reduced production costs, and in so doing reduced the advantage that low-income countries once had.

Considerations other than low wages, such as access to skilled labour or natural resources, proximity to consumers, and the quality of infrastructure, are now much bigger factors in companies' decisions about where to base production.

In other words, new technologies are reshaping global value chains. These are becoming more knowledge-intensive and reliant on high-skill labour, while low-skill labour is becoming less important as a factor of production. Contrary to popular belief, labour arbitrage (defined as exports from countries whose GDP per capita is one-fifth or less than that of the importing country) now only drives around 18% of global goods trade.

FURTHER INFORMATION

FURTHER INFORMATION

Please find below further information on benchmarks and indices used in the review section of this Investment Guide.

MARKET REVIEW

EQUITY REGIONS

REGION	INDEX	REGION	INDEX
Emerging markets ex China	MSCI Emerging Markets ex China Net TR USD	**USA**	MSCI USA Net TR USD
Switzerland	MSCI Switzerland NR CHF	**Japan**	MSCI Japan NR JPY
Eurozone	MSCI Europe Net TR EUR	**UK**	MSCI United Kingdom NR GBP
China	MSCI China Net TR USD		

NR: net return, TR: total return

EQUITY STYLES

STYLE	INDEX	STYLE	INDEX
Quality	MSCI World Quality Net TR USD	**Cyclicals**	MSCI World Cyclical Sectors TR USD
Value	MSCI World Value Net TR USD	**Defensives**	MSCI World Defensive Sectors TR USD
Growth	MSCI World Growth Net TR USD	**Small caps**	MSCI World Small Cap Net TR USD
High dividends	MSCI World High Dividend Yield Net TR	**Large caps**	MSCI World Large Cap Net TR USD

TR: total return

EQUITY SECTORS

SECTOR	INDEX	SECTOR	INDEX
IT	MSCI World Information Technology Net TR USD	**Financials**	MSCI World Financials Net TR USD
Materials	MSCI World Materials Net TR USD	**Consumer cyclical**	MSCI World Consumer Discretionary Net TR USD
Oil & gas	MSCI World Energy Net TR USD	**Consumer defensive**	MSCI World Consumer Staples Net TR USD
Industrials	MSCI World Industrials Net TR USD	**Real estate**	MSCI World Real Estate Net TR USD
Communications	MSCI World Communication Services Net TR USD	**Utilities**	MSCI World Utilities Net TR USD
Healthcare	MSCI World Health Care Net TR USD		

TR: total return

FIXED INCOME

SEGMENT	INDEX	SEGMENT	INDEX
DM government bonds	Bloomberg Barclays Global Agg Treasuries TR Value Unhedged USD	**DM high yield**	Bloomberg Barclays Global High Yield TR Value Unhedged USD
Inflation-linked government debt	Bloomberg Barclays Global Inflation-Linked TR Value Unhedged USD	**EM hard currency**	Bloomberg Barclays EM Hard Currency Aggregate TR Value Unhedged USD
DM high quality IG	Bloomberg Barclays Global Agg Aa TR Value Unhedged USD	**EM local currency**	Bloomberg Barclays EM Local Currency Government TR Unhedged USD
DM low quality IG	Bloomberg Barclays Global Agg Baa TR Value Unhedged USD		

DM: developed markets, EM: emerging markets, IG: investment grade, TR: total return

COMMODITIES

COMMODITY	FUTURE	COMMODITY	FUTURE
Brent crude oil	1st Crude Oil, Brent	**Platinum**	1st Platinum
Natural gas	1st Natural Gas	**Aluminium**	1st Primary Aluminium
Gold	1st Gold	**Copper**	1st Copper
Silver	1st Silver	**Iron ore**	1st Iron Ore

1st: front month futures contract

SCORING OUR CALLS

TOPIC	BENCHMARK INDEX USED	TOPIC	BENCHMARK INDEX USED
Chinese onshore stocks	MSCI China A Onshore Net TR USD	**Income-oriented strategies (equity)**	MSCI Europe High Dividend Yield NR EUR
Chinese offshore stocks	MSCI China Net TR USD	**Flexible fixed income strategies**	Barclays Benchmark Overnight USD Cash
Biotech	NASDAQ Biotechnology	**Behavioural equity strategies**	MSCI ACWI Net TR EUR
Information technology	MSCI ACWI Net TR USD	**Digital health players**	MSCI World Health Care Equipment & Services Net TR
Investment grade corporate bonds	ICE BofA US Corp 1-10yr	**ESG leaders**	MSCI World 100% Hedged to EUR Net TR

ESG: environmental, social and governance, NR: net return, TR: total return

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