Julius Bär

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EDITORIAL

Dear reader,

At the beginning of the 2020s, we entered a new era that can be described as 'state-sponsored capitalism' and includes a new paradigm: the fusion of fiscal and monetary policy. In the longer term, Western economies will be reflated, and when this occurs, we expect real assets to outperform.

But for this year, the motto is 'contain and heal', not least as we expect a slow return to 'normal'. Thus, we are constructive on financial markets, but as always, it remains critical that investors stick to their strategic asset allocation.

We wish you a successful and especially a healthy year and thank you for your continued trust in Julius Baer.

Yours faithfully,

Nicolas de Skowronski
Head of Wealth Management Solutions
Member of the Executive Board

Yves Bonzon
Group Chief Investment Officer
Member of the Executive Board

SECULAR OUTLOOK 2020–2029

Thoughts from our CIO

2020 marks the end of the neoliberal era and the beginning of a system we call 'state-sponsored capitalism'. Covid-19 only serves to accelerate this shift.

Today, central banks are intervening massively on capital markets, while governments quickly ramp up fiscal stimulus. We are thus slowly losing free markets, and political signals are overtaking market indicators, making tactical moves harder to implement profitably. All this increases the merits of a strategic asset allocation guided by secular trends, such as China's rise to core asset class status, life science disruptions, and energy abundance.

→ What are the major investment implications of the end of the neoliberal era?

→ Is your portfolio positioned to participate in the secular trends of this decade?

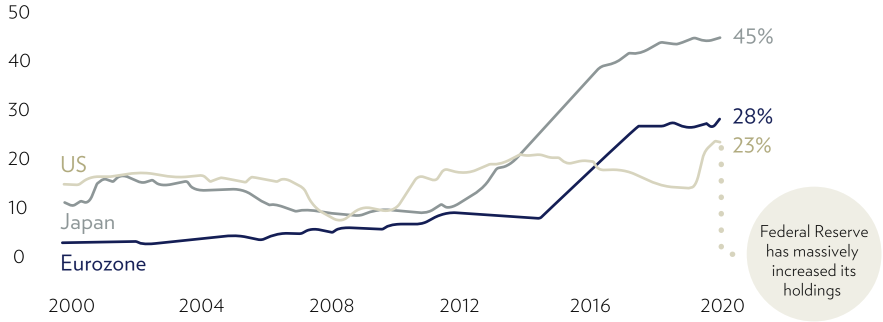
→ How should investors act if they still want to manage their portfolios tactically?

KEY IMPLICATION

- Our investment approach relies on a robust strategic asset allocation and allows to tactically de-risk portfolios when needed.

LOSING FREE MARKETS

Share of government bonds held by local central banks, in %



Source: Bloomberg Finance L.P., Refinitiv, Julius Baer Investment & Wealth Management Solutions

THE BIG PICTURE

Contain and heal

After the unprecedented exogenous shock in 2020, we believe the health crisis will be contained in 2021 and continuous policy support will sustain the recovery.

We expect the world to reach pre-crisis output levels in the second half of 2021, but the pace of the recovery will vary. China reached this point already in the second half of 2020, the US should follow sometime mid-year, while the eurozone, Japan, and most emerging countries will lag.

The new US administration may improve relations with global partners, but many tensions will remain.

→ Is your portfolio positioned to benefit from the ongoing global economic recovery?

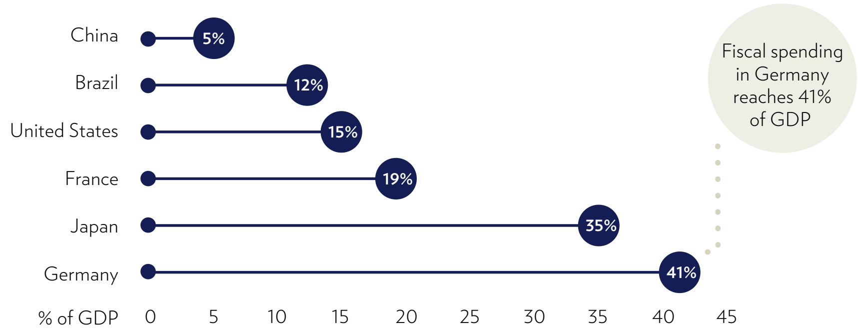
→ After markets have already rebounded significantly, where are the attractive investment opportunities for 2021?

WHAT WE LIKE

- Cyclical and small-cap stocks for a global economic recovery.
- Structural themes such as technology and healthcare (including digital health and life sciences) are a must-have.
- The hunt for yield speaks in favour of medium credit risk via crossover and emerging market hard-currency debt.

FISCAL SPENDING WILL BE CRITICAL

Direct and indirect fiscal spending during the coronavirus pandemic



Source: International Monetary Fund Fiscal Monitor October 2020, Julius Baer Investment & Wealth Management Solutions; GDP = gross domestic product

US–CHINA COMPETITION

Growth spurt ahead

China and the US faced a mutual 'Sputnik moment' when China became an economic superpower. In the longer term, intense competition should spur further innovation in both nations and thereby increase economic growth.

The fast economic recovery after the Covid-19 pandemic, the improved US–China relations, and the country's new five-year plan are additional reasons for a broad-based exposure to China.

Meanwhile, the US economy is likely to leverage on its strong position, too. We believe that growth will expand and cyclical sectors will deliver an above-average performance.

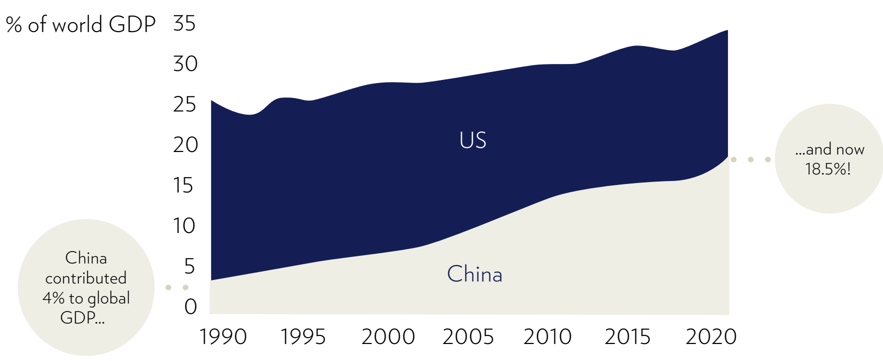
→ Does your portfolio reflect the economic rise of China to core asset class status?

→ With private saving rates increasing strongly during the pandemic, consumers have plenty of spare cash to spend – have you rebalanced your portfolio accordingly?

WHAT WE LIKE

- Exposure to Chinese assets, with a tilt towards 'new economy' stocks and bonds in local currency.
- US technology will remain a leader of the bull market as competition intensifies between China and the US.
- The 'return of the consumer' will drive respective sectors, in the US and in China.

THE RISE OF CHINA



Source: International Monetary Fund World Economic Outlook, Julius Baer Economic Research
Data as at 30 June 2020, adjusted by purchasing power parity; full-year 2020 figures are estimates; GDP = gross domestic product

VALUATION

Expensive everything?

Following the recovery in financial markets in the second half of 2020, and given the global uncertainties, valuations across asset classes based on traditional metrics seem stretched.

However, they do not tell the entire story in our view, and we continue to see valuation-based opportunities.

In fact, investing when valuations are low is like sailing with the wind in your back, but when valuations are high, you are sailing against the wind.

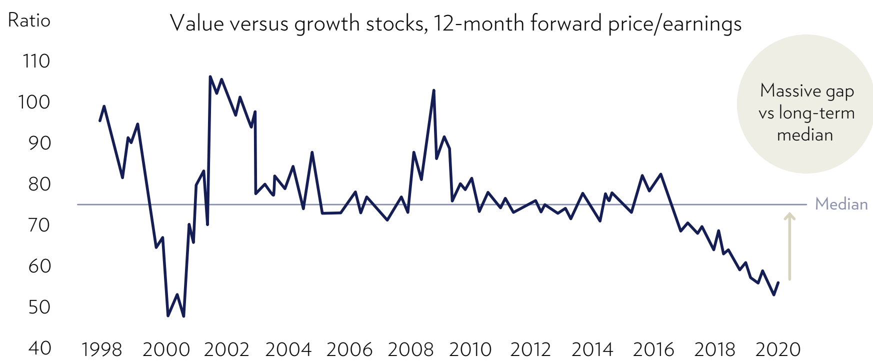
→ Are there any segments in the equity market that are simply too undervalued to ignore?

→ Which asset is the most overvalued?

WHAT WE LIKE

- Many value stocks are too undervalued to ignore.
- Cash alternatives can be considered, as cash offers no yield, no upside, and a sure loss after inflation.
- Sudden market corrections may provide attractive opportunities to increase exposure to sound firms.
- Alternative strategies can flexibly adjust to different market scenarios; selection is key.

VALUE STOCKS: TOO UNDERVALUED TO IGNORE



Source: Thomson Reuters Datastream, Julius Baer Investment & Wealth Management Solutions
Data as at 25 November 2020. Past performance and performance forecasts are not reliable indicators of future results

LOW PROBABILITY – HIGH IMPACT

Three 'what ifs' in 2021

What if we suffered a global internet and infrastructure outage? Supply chains are cut; cash in banks is inaccessible; hospitals are unable to access vital data; streets are gridlocked and planes grounded.

What if the world has a swift recovery from Covid-19? Inflation picks up early in 2021 and we see gross domestic products back at pre-crisis levels.

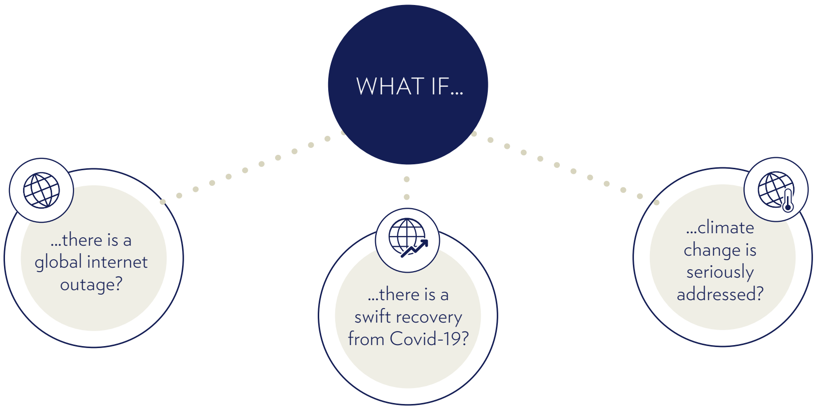
What if the world really embraces the issue of climate change? Manufacturers clean up their acts and 'dirty' nations commit to early carbon-reduction targets.

→ Are you invested in and protected by the key players when it comes to averting a cyber apocalypse?

→ If a faster-than-expected global reflation sees investors scrambling back into emerging market stocks, is your portfolio prepared?

→ Does your portfolio have exposure to sectors that would benefit from wholehearted action to tackle climate change?

ONE THING WE KNOW AFTER 2020 – ANYTHING CAN HAPPEN, CAN'T IT?



WHAT WE LIKE

- Cybersecurity infrastructure forms a first line of defence for governments and businesses alike.
- The ultimate value trade – emerging market stocks.
- A key component in the fight against climate change is the global move towards renewable energy sources.

WOULD YOU LIKE TO FIND OUT MORE?

Please contact your Julius Baer representative or visit our Market Outlook website.

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