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EDITORIAL

Dear client,

The coronavirus may be a common enemy, but the macroeconomic policies of the US, the European Union, and China have clearly diverged. In our view, the global macroeconomic policy mix should be enough to support the recovery but not enough to trigger structural inflation.

As the vaccination roll-out continues across the world, there is light at the end of the tunnel, but the journey ahead for investors is likely to be a bumpy one. While there is further upside potential for equities, after their strong performance over the last year, returns in the coming months may be more muted.

We thank you for your continued trust in Julius Baer and wish you a successful rest of the year.

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

THE BIG PICTURE

More rotation, less direction

Distortions in the data mean that higher inflation readings are simply a red herring.

The extent of the global economic recovery is still being underestimated; it should broaden and deepen in the next few months, having thus far been driven by consumption in the US and production and investment in Europe and China.

China remains key within emerging markets for many reasons. India has now also emerged as a contender for investors looking to diversify regionally.

We believe there is further upside for equities, although this might be more muted following the strong gains in the last 12 months.

→ Is your portfolio nimble enough to be able to benefit from the ongoing global economic recovery?

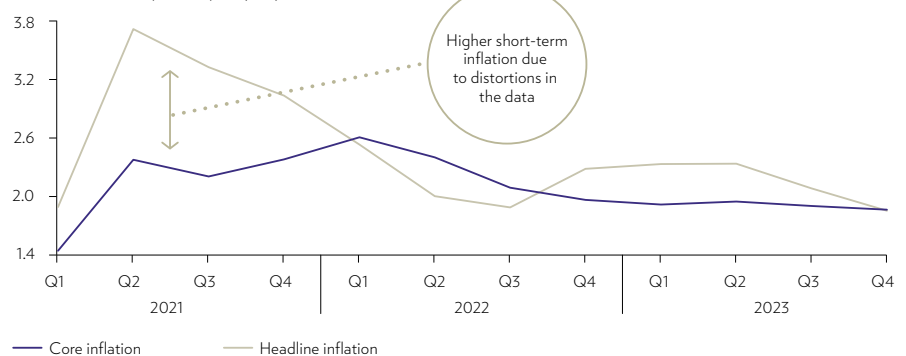
→ After markets have already rebounded significantly, where are the attractive investment opportunities now?

WHAT WE LIKE

- Healthcare is our preferred defensive sector, and we also see upside for financials and small caps. The IT sector cannot be ignored – don't be short innovation.
- China remains a force to be reckoned with and offers various investment opportunities.
- There is still room for income generation in the riskier segments of the USD bond market.

HIGH INFLATION READINGS – A RED HERRING

US inflation forecast year-on-year (in %)



Source: Refinitiv (data), Julius Baer Economics Research (forecasts); data as at 30 April 2021

RISING CONSUMPTION

Boom time ahead

In light of the magnitude of the US administration's fiscal stimulus package, we believe that an economic boom is in the making.

In addition to the stimulus measures, as the vaccination roll-outs progress and lockdown measures are gradually lifted, pent-up demand is expected to be released into the economy.

Even during an economic boom, markets can become choppy every so often. So it ultimately tends to pay off to keep one's feet on the ground.

→ What sets this recovery in US consumer spending apart from past recoveries?

→ Which segments of the market are set to benefit the most from the unprecedented surge in consumer spending?

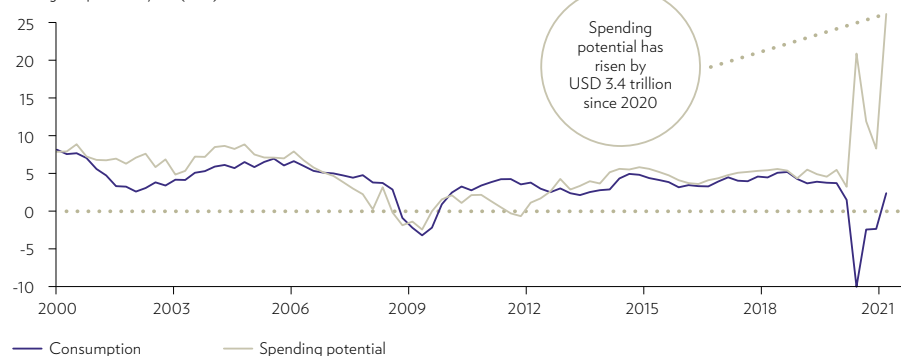
→ Some good old-fashioned volatility can even occur during a consumption boom. So are there any strategies for a full market cycle?

CONSUMER SPENDING POTENTIAL – RISING LIKE NEVER BEFORE

WHAT WE LIKE

- Companies benefiting from a surge in consumption, with a focus primarily on the US, and to a lesser extent on Europe.
- Small caps, as they typically outperform in periods of economic expansion.
- Alternative strategies and structured products that have an eye on the downside.

Change to previous year (in %)



Spending potential: based on after-tax earnings, government transfers, housing, and financial wealth.

Source: Thomson Reuters Datastream, Julius Baer Economics Research; data as at 30 April 2021

SUSTAINABLE INVESTING

More than a feel-good investment

Investor interest in companies with a strong environmental, social, and governance (ESG) background received an additional boost when the pandemic struck.

And these companies delivered, showing that their responsible business practices made them more resilient in a suddenly worsening business environment.

Evaluating sustainability has become an integral part of any investment analysis.

Incorporating such non-financial information may improve our ability to identify risks and opportunities, ultimately yielding superior investment returns.

→ The topic of sustainability has gained momentum. Are you already incorporating ESG factors into your portfolio decisions?

→ How can you achieve a financial return and make a difference on issues that matter to you?

SUSTAINABLE INVESTING – INTEREST IS GROWING

WHAT WE LIKE

- Sustainability leaders, as they provide a hedge in times of crisis.
- Impact funds that aim to generate a positive social or environmental impact.



The global sustainable investing market is estimated to be worth more than **USD 30 TRILLION**

The number of signatories to the UN Principles for Responsible Investment is **4 TIMES HIGHER** than in 2010

ESG criteria are considered by **2/3 OF INVESTORS**

ESG = Environmental, Social, and Governance

Source: UN Principles for Responsible Investment, Julius Baer Sustainability Report 2020

ADAPTIVE COMPANIES

Getting fit for the future

Companies that quickly adapted to the new circumstances as the pandemic broke out can now reap the benefits of a comparative advantage.

Adaptive businesses are able to increase productivity and respond more swiftly to changing client needs and market developments. Such firms are well-positioned to outperform.

Some of these companies can be found within our Next Generation universe, which covers the themes that we believe represent the most promising trends for the coming years.








→ Across the globe, many businesses have dealt admirably with the pandemic and its aftermath. Does your portfolio include companies that are highly adaptive?

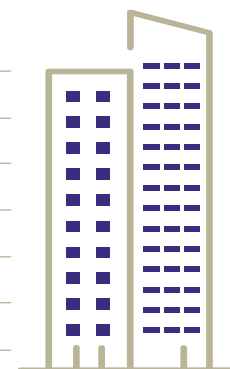
→ Have you considered the most promising Next Generation trends and themes in your asset allocation?

ADAPTIVE COMPANIES – FACTORS FOR SUCCESS

WHAT WE LIKE

- Shares in companies that have weathered the crisis well and even emerged stronger.
- Actively managed solutions representing our analysts' highest-conviction investment ideas or the Next Generation universe.
- Tracker certificates focusing on companies operating in the cybersecurity, cloud computing, or genomics space.

-  Swift reaction to changes in client demand
-  Quick reallocation of resources
-  Prioritisation of new ideas
-  Efficient decision-making
-  Toleration of failure
-  High IT standard
-  Risk-taking



Source: Julius Baer Investment & Wealth Management Solutions



INTERESTED?

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

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