04/2021 QUARTERLY MARKET OUTLOOK

perspectives

IMPRINT
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Dear Clients,

Timing is everything

As with every other crisis in the past two decades, the central banks are once again adopting the same strategy – i.e. low interest rates and almost unlimited liquidity – this time in response to the outbreak of the pandemic and the subsequent economic downturn. However, central bankers are divided over when to end the ultra-loose monetary policy and tighten again. Only when it comes to the approach to take is there a consensus. First, the supposed excess liquidity in the financial system is to be reduced slowly and cautiously. The reason for this is that there is a desire to ensure that this first step towards normalisation neither stifles the economic recovery nor leads to turmoil in the financial markets like at the end of 2018 before interest rates are raised. Then, the equity markets tumbled from their highs by more than 15% in the space of a few weeks, with the exact amount varying between countries. Against the backdrop of what is currently the highest rate of inflation in over a decade and the positive equity markets, the debate on the timing is becoming all the more heated. Getting the timing right is like walking a tightrope at a dizzying height.

Mario Geniale
Chief Investment Officer

Economic perspectives

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Leading economic indicators continually pointed to an improvement throughout the first half of the year. Recently, however, consumer sentiment has worsened to some extent in the export markets that are important for Switzerland. The renewed increase in the number of infections, the slowdown in the rate of vaccinations, an increase in inflation and the gradual weakening of the procyclical monetary and fiscal policy are all dampening sentiment. At the same time, global production is overstretched to a certain extent owing to supply shortages in the case of intermediate products whilst demand is high. This is hindering business activity.

Swiss economy faring well

A recent survey conducted by the Swiss Economic Institute on the business situation has shown that it has improved in all sectors and that the Swiss economy is recovering on a broad front. Using the situation before the pandemic as a comparison, however, it is evident that there are major differences in the various fields. A strong economic recovery can be seen in the manufacturing sector, the retail trade, wholesale and for financial service providers, whereas the hospitality industry and other services sectors still have a long way to go before they get to that point.

If the vaccination rate continues at the current level and if the health system does not become overstretched and protective measures do not have to be reintroduced, even if the number of cases increases sharply, the impact on the Swiss economy is likely to remain limited. We expect economic growth in the area of 4% for the current year. *(muc)*

Markets

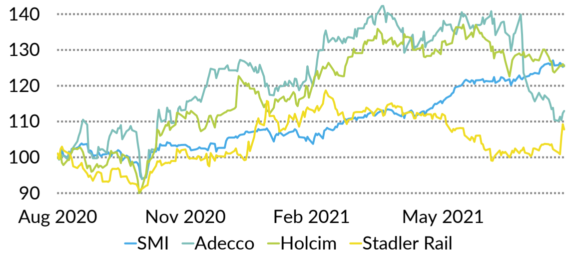
Fed makes about-turn in policy

A number of large obstacles are standing in the way of the seasonal autumn and Christmas rally: the US central bank is slowly putting the thumbscrews on and thereby applying less stimulus to the market, although recent new Covid-19 cases are weighing down consumer sentiment. The bond markets benefited from this. After the outstanding results achieved by companies in the second quarter – which were supported by base effects – investors are now facing a future of uncertainty. Adjustments in market expectations among investors encourage market consolidation. ***(goste)***

Equities Switzerland

The Swiss equity market has made up ground on international markets in the past four months. One of the three heavyweights in the index has already experienced a strong rally – the Roche share price rose by more than 20% between May and August. Companies were again able to meet many of the earnings expectations in this quarter as the economic upturn continues. The preference on the market is for cyclical stocks and second-tier securities. We recommend: **Adecco, Holcim** and **Stadler Rail.** *(amm)*

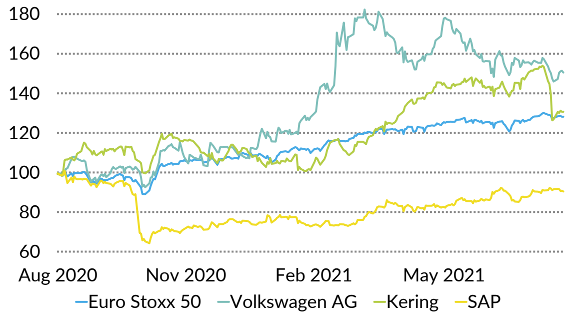
SMI



Equities Europe

Following the robust results published for the second quarter, the finance and industry-heavy equity market has its back to the wall. Although the high levels recorded by the purchasing managers' indices for August show full order books and an improvement in the labour market, supply shortages are leading to interruptions in production and an upward pressure on prices. The economic slowdown in China and the USA means that two purchasing countries are pointing to a decline in economic activity in Europe. We favour **Volkswagen, Kering** and **SAP.** *(goste)*

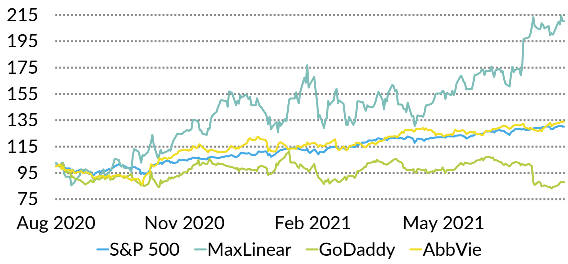
Euro Stoxx 50



Equities US

The economic slowdown is reflected in weak consumer sentiment. The robust labour market performance at first sight is built on shaky foundations, as the employment growth is based on part-time work and a build-up of public sector employment. Although Biden's infrastructure plan could provide impetus to the economy, it is reliant on the help of the central bank, which is pondering a reduction in bond purchases. A difficult undertaking: we recommend **MaxLinear, GoDaddy** and **AbbVie.** *(goste)*

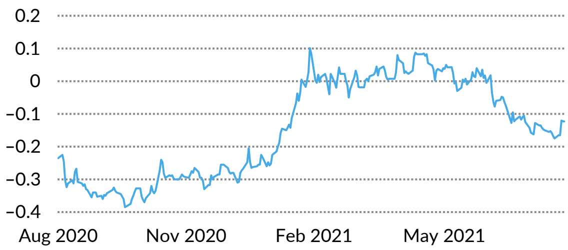
S&P 500



Bonds

The Delta variant of the Covid-19 virus has prompted many investors to look for safe havens. Government bonds from Switzerland, Germany and the USA were particularly affected. After being positive or traded positively at times this year, the ten-year Swiss franc yields are already back in negative territory. Swiss corporate bonds have likewise continued to perform well. This type of bond – as well as the new issues of interesting companies – continues to provide attractive investment opportunities. *(cal)*

10-year Swiss swap rates



Topic

Active or passive? Not much choice

It is almost impossible for anyone concerned with investing in equities to avoid funds. They are available for numerous countries and areas, for sectors and themes, and as actively and passively managed forms of investment.

Which are better: actively or passively managed funds?
Unfortunately, there is no right answer to this seemingly simple question. The decision really depends on what makes the most sense for the individual investor and their life situation. Before you decide whether to invest in an actively or passively managed fund, you should find out what both involve and weigh up which advantages and disadvantages are relevant for you.

Valuable analyses
Anyone investing in an actively managed fund trusts a fund manager and their analyses. The manager is continually engaged with the structure of the fund and makes buying and selling decisions on the basis of business and sectoral developments. The fund manager has to identify opportunities and risks, as well as constantly thinking about how to restructure the portfolio when events occur so that it performs as well as possible. The fund manager's time-consuming analyses provide benefits, but are also the reason the costs are higher.

Investors hope that an actively managed fund will perform better. Fundamentally, they assume that the market will be inefficient and see opportunities, for example with cyclical securities in an environment of an economic upturn. Active management also makes sense in niche markets, as well as to meet specific needs or in economically challenging times. For example, the fund can focus on individual factors or on strategies, such as growth and value or sustainability criteria.

Passive does not mean subdued
ETFs (exchange traded funds), i.e. passively managed funds, are all the rage. But how exactly do they differ from actively managed investments? A passively managed fund tracks a particular index as closely as possible, for example the Swiss SMI, the German DAX, the European Euro Stoxx, the US Dow Jones and the global MSCI World. This gives an accurate and transparent picture of how the market is performing without involving any analysis.

The composition remains geared towards the index, irrespective of which stage of the economic cycle we are at. ETFs are traded on the stock exchange, meaning that investors can monitor their performance. One way to do so is by logging in to CIC eLounge, which shows the latest prices.

Passively managed funds are cheaper and more liquid than actively managed funds, as they can be bought or sold in normal trading hours. The range is expanding; ETFs have increasingly caught the attention of investors in recent decades.

So which are best?
If an investor's main objective is to see the market performance, the answer is clearly passively managed funds. Although the low price and the index-linked construction of the fund will have a smaller deviation from the benchmark, an ETF cannot outperform the index to which it is linked. In an index, you concentrate more on the large stocks; less attention is paid to the small firms, which can result in opportunities being missed and up-and-coming companies being overlooked for a long time. Whether you opt for an active or passive approach will depend on your investment strategy and your preferences in terms of security, return and liquidity. A good combination is certainly advisable.

Your relationship manager will be happy to help you.

Marc Ammann
Asset Manager Portfolio Management

In brief

Classical sounds and new interpretations

The Collegium Musicum Basel is an orchestra that is steeped in tradition. From the 2021–22 season, Bank CIC will be supporting it as the main sponsor. It links traditional classical sounds with new interpretations and bravely ventures into uncharted musical territory. The Collegium Musicum Basel has been wowing audiences with unforgettable evenings of music for 70 years now.

For us, the new partnership means a commitment to the cultural diversity of Basel and underlines the virtues that an orchestra and a bank have in common: commitment, professionalism and reliability. However, the Collegium Musicum Basel and Bank CIC have other things in common as well: well-established teamwork, the technical perfection of every single member of the team, an unmistakeable identity and the courage to enhance the tried and tested with innovation. We are pleased to support the Collegium Musicum Basel as the new main sponsor. We look forward to all the varied and exciting concerts, and wish the orchestra all the best for the coming season. *(ter)*

www.collegiummusicumbasel.ch

YOUNG STAGE – festival full of emotion

From 5 to 9 November 2021, young performers from all over the world will meet at the 12th international YOUNG STAGE circus festival in Basel. It will be a contemporary circus: innovative, varied and sophisticated. YOUNG STAGE has become one of the world's leading circus festivals in recent years. Bank CIC has been the presenting partner since 2017, thereby actively helping to continue this success story. *(ter)*

www.young-stage.com

Current interest rates

in CHF, as at 9 September 2021

Savings	**Private individuals**	**Companies**
Savings account	0.100%	No offer
Investment account	0.100%	0.050%
Pensions		
3a retirement account	0.200%	No offer
Vested benefits account	0.150%	No offer
Payments		
Personal account	0.030%	No offer
Current account	0.000%	0.000%

Rates may be adjusted at any time to reflect market conditions.

Savings account / 3a retirement account: offer for clients domiciled in Switzerland.
Negative interest can be charged regardless of the balance (except with savings accounts and retirement provision accounts).
Conditions for clients domiciled abroad upon request.
The latest interest rates and conditions can be found at **cic.ch**

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