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WEALTH PARTNERS

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- **Finally – the end is in sight**

  In September, Fed chair Jerome Powell said that the U.S. central bank could start scaling back asset purchase programs as early as November and end it all together by the middle of 2022, while leaving interest rates between 0 and 0.25% for the time being. This marks the beginning of the end of ultra expansionary monetary policies which the Fed started in 2007-2008 and were magnified to prevent a potential global economic meltdown during Covid-19. Most other major central banks decided to leave rates and policy measures unchanged.

- **Could Chinese real estate giant Evergrande trigger another Lehman-collapse?**

  While the debt burden of this once premiere Chinese real estate company is a staggering USD 300 billion – roughly Finland's GDP – the risks are not comparable to Lehman Brothers. First, China would have the financial resources, economic influence and political power to engineer a bailout through the state-owned banks. Second, Evergrande's risks have been known for a long time and are quantifiable. Third, although China is increasingly important to the global economy, Evergrande's business is mostly in China and the borrowers are predominantly local, hence a default would not trigger a complete loss of confidence in the global financial system.

  Having said that, there is excess capacity of close to 30 million apartment units across China - enough to house 90 million people - larger than the entire population of Germany. This over-supply would be a huge drag on the economy. Given that real estate development and related services constitute almost 30% of Chinese GDP, a significant slowdown could depress annual GDP growth rates to well below 4%. This could have a big impact on global growth.

- **Digitalization, an opportunity for metals?**

  Combining the current three global megatrends – climate change, digitalization and ESG – we see a massive increase in demand for transition metals. This includes copper, nickel, silver, rare earths, lithium and aluminum and PGMs (metals that are both essential and precious, such as platinum, palladium, rhodium, iridium, osmium and ruthenium). Aside from a hedge against inflation risks, attractive valuation paired with rising demand create an appealing investment opportunity. In order to provide the enormous amounts of energy needed in the transition from fossil to renewable/clean energy, to build out the infrastructure for digital and remote work, there is a massive need to invest in the mining and exploration of these metals.

- **Asset Allocation**

  We are tactically neutral on equities. We remain underweight fixed income given the extreme and unjustifiable valuations and keep a 5 percent allocation to gold. We are also starting to build up an allocation to commodities. Regarding currencies, we recommend to be hedged to a large extent into a portfolio's base currency. For China, we are in a wait-and-see mode despite the recent sell-off.