KEHRLI & ZEHNDER

INVESTMENT COMMENT

April 2021

- **Off to the races**

  Central bank policies and ever increasing generous support programs from governments (especially the U.S.) are flooding Wall Street AND Main Street with cash. These programs aim to improve infrastructure, the climate, competitiveness and consumption, while at the same time put cash into individuals' and companies' pockets and induce spending and investment. The funding would come from higher taxes and higher borrowing.

  Coupled with pent-up demand as the world exits an extended induced state of hibernation, this could lead to earlier-than-expected inflation and rising rates. This will likely happen first in the U.S. and only later in Europe given the different stages of vaccination rollouts.

  We continue to favor equities (as long as rates do not get out of hand). Given significantly higher than usual savings rates across the world during the pandemic, we will witness a spending frenzy of biblical dimensions once economies open. We would recommend to overweight equities in the U.S., the U.K. and China. We continue to expect a faster than usual adaptation of new technology that is driven by pandemic-induced changes in behavior and preferences. European exporters should outperform domestic stocks given the return of global demand. Timing depends very much on when governments will re-open their economies.

- **TIPS**

  The above-mentioned dynamics will lead to inflation and an impact on bonds. Upward pressure on prices is further driven by supply-side constraints (from raw materials to semiconductor chips), rising oil prices as well as the still unquantified disruptions from the Suez Canal blockage.

  We could concurrently be seeing the bottom of the 40-year bond yield cycle and record low inflation rates. The secular trends of deregulation, fiscal restraint, lower taxes and rate cuts are coming to an end. We expect to see a reversal to a much frostier investment environment and probably rising interest rates. With the return of inflation, we recommend to shift some fixed income allocation into Treasury inflation-protected securities (TIPS).

  Besides, the world will only be willing to finance America's debt-driven, multi-trillion revitalization programs if yields were higher. As the second-largest creditor of U.S. debt after Japan, China may have a reduced appetite for U.S. debt given the West's continued criticism of its domestic policies.

- **Asset Allocation**

  Our tactical equity allocation is currently slightly overweight. There is no change to our view on fixed income – we prefer inflation protected securities and selective emerging market and Asian debt. We continue to hold hedge funds given their agility amidst volatile markets. We will keep our slight overweight in precious metals – potentially using the recent pullback in gold prices to diversify into platinum. We continue to keep a low foreign exchange exposure.

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