



NEUE BANK

Liechtenstein Private Bank
independent and consistent since 1992

Our Opinion
May 2021

Editorial

Dear Readers

«NEUE BANK traffic light now light green» – our analysis shows that the market environment has changed over the course of the reporting month.

Are you looking for advice and support in financial matters? Our investment advisers look forward to hearing from you and talking to you in person.

We wish you a stimulating read.

Your Advisory Team

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Disclaimer

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Today:

«NEUE BANK traffic light now light green»

Economy

The US labour market has recently fallen short of expectations. Only 266 000 new jobs instead of 1 million were created. The problem, however, is not that there are too few job vacancies. Instead, there is a wide range of reasons why these vacancies are not being filled. For example, the profiles of job seekers may not match the requirements (shortage of skilled workers). Continuing training and retraining would be necessary, but that takes time. Surveys also show that many parents will return to the labour market only once schools fully reopen, which is not yet the case everywhere due to the coronavirus. Also because of the increase in unemployment benefits, poorly paid jobs in particular have not been filled. Leading economic indicators are pointing to a strong upswing, however, which is confirmed only with a delay by the labour market, known to be a lagging indicator. This once again appears to be the case.

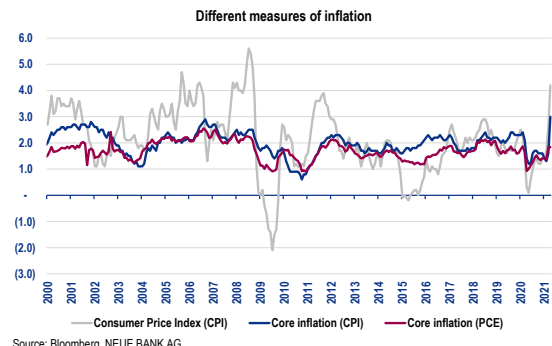
Bonds

Inflation has recently accelerated again in the US. This is why there is speculation – especially in the financial press – that expansionary monetary policy may be coming to an end. But the indices often cited in this regard, pointing to allegedly excessive inflation, are not particularly relevant. The Consumer Price Index (CPI) does in fact suggest higher prices, with an inflation rate of more than 4% per year.

«Given that we have been below this mark of 2% for some time, an overshoot will not immediately lead to restrictive monetary policy.»

But as the price development in the adjacent chart shows, the CPI can be smoothed very strongly by removing food and energy costs, which are very volatile (core inflation CPI). Consumers of course have to pay for these increased prices as well, but the strong price fluctuations make it difficult for central banks to establish an inflation target. The US Federal

Reserve (Fed) therefore bases its decisions on the Personal Consumption Expenditure Core Deflator (core inflation PCE). This is the rate at which nominal consumption expenditure is converted into real consumption expenditure. It is based on a broader basket of goods. Moreover, changes in consumer behaviour triggered by price changes are systematically taken into account through corresponding basket adjustments. The data sources are also different from those used to calculate the CPI. As a look at the chart below shows, the core inflation rate calculated according to the PCE is usually lower than that according to the CPI.



Last year, the Fed also announced that while the inflation target is still 2% per year, this is considered merely an average value. Given that we have been below this mark of 2% for some time, an overshoot will not immediately lead to restrictive monetary policy. Inflation-linked bonds with a short duration, which we have included in the portfolios we manage, have performed very well during this phase.

Equities

Again and again, studies of customer data at online banks show that private investors significantly underperform the market when investing in equities. This may be because they act too emotionally, because they diversify too little, or simply because they realise profits too early and wait out losses (prospect theory). Rising inflation and already high valuations lead us to expect lower market returns in future.

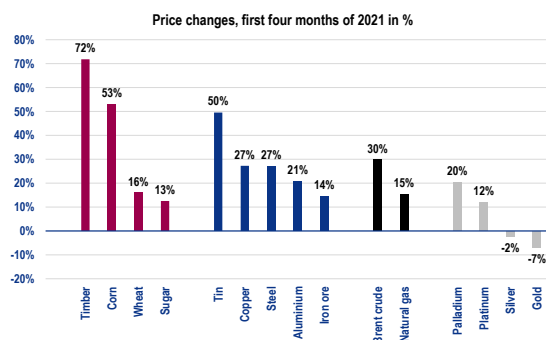


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Professional management with a disciplined implementation is therefore increasingly important to minimise the risk of negative returns. For years, we have relied on our proven NEUE BANK traffic light. While it still called for increasing risk in October, it now called for reducing risk in the reporting month, due to a worsening of market conditions. We remain overweight in equities, but we have reduced them. Thanks to our previous overweight in equities, we were able to generate an outperformance in our mixed mandates.

Alternative investments

This month, we would like to provide an overview of the development of various commodities, which are not least of all also responsible for the rise in inflation.



We've seen the strongest increase in timber. This is due to a construction boom in the US, where many employees began working from home. Those who expect to work from home for the longer term have taken the opportunity to move out of overpriced metropolises and can now afford their own home elsewhere. Single-family homes in the US are primarily made of wood, which favoured the price rally. Sawmills had misjudged this development and reduced their production at the beginning of the pandemic. There is enough raw timber available, but it will take time before capacities are expanded as needed. We advise private investors not to speculate in individual commodities, including timber.

Currencies

The British pound has managed the beginning of Brexit well so far. After the surprise Brexit vote nearly five years ago, the GBP/EUR exchange rate collapsed from above 1.30 to below 1.20 and has since fluctuated between 1.05 and 1.20. Since the beginning of the year, it has picked up speed, rising from 1.11 to 1.16. At the beginning of the year, our currency indicator also signalled a positive trend, which has persisted.

PRIMUS-ETHICS

With the PRIMUS-ETHICS asset management mandate, we give investors the opportunity to consider environmental and social aspects as well as financial aspects in their investment decisions. We invest your assets in ethically and morally irreproachable companies and apply professional approaches to implementation. Scientific studies underscore the positive correlation between sustainability and economic success. The client advisers of NEUE BANK AG look forward to showing you the special features of this asset management solution in a personal consultation.

Performance indicators in CHF¹

	2016	2017	2018	2019	2020	30.04.2021
PRIMUS-ETHICS Balanced	1.44%	9.23%	-4.94%	15.42%	7.63%	5.16%
Peer group	1.78%	8.68%	-7.20%	11.75%	2.98%	3.67%

¹Past performance is not an indicator of future performance and does not guarantee future success. Performance is presented in gross figures without taking into account your individual tax liability. Net performance is lower due to fees. Our Opinion is also available on our website: www.neuebankag.li

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