



NEUE BANK

Liechtenstein Private Bank

independent and consistent since 1992

Our Opinion
August 2021





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Editorial

Dear Readers

This month we show you in the article «The markets have been performing well – is that a reason to sell?» that not all indicators are suitable for aligning of the timing of crucial transactions.

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.

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Today:

«The markets have been performing well – is that a reason to sell?»

Equities

When equity markets have been performing well, market participants tend to bet on a correction and sell all or part of their shares. In principle, there is nothing wrong with occasional rebalancing to prevent an increase in portfolio risks. On the other hand, a strong tactical underweighting of equity exposure – merely due to rising share prices – can endanger long-term goals. This is especially true if investors don't have a clear plan for how to re-enter the market if the expected setback fails to occur. Historical market returns as such have no influence on future returns, as we illustrate in the following table:

Previous year gains have no influence on the following 12 months

	Percentage of positive subsequent years	Average price change in the subsequent year
After annual equity market gains of more than 20%	70.83%	7.75%
All years in which the equity market gained less than 20%.	66.67%	7.61%
All years since 1928	67.03%	7.65%

Source: Bloomberg, NEUE BANK AG

When the markets recorded 20% or higher price gains (measured by the S&P 500 from 1928 onwards), i.e. performed well, they gained a further 7.75% on average in the following year, which is about the same as in all other years. At 70.83%, the proportion of years with a positive price trend was even somewhat higher than normal. Valuations also have practically no predictive power for the following year. Research likewise shows that a high proportion of bullish investors (euphoria) does not necessarily lead to a market correction. But these are all factors often cited in the financial press to predict

corrections and crashes. This means caution is always advised when these arguments are used to persuade investors to sell shares. Of course, valuations have an influence on future returns. But this correlation is measurable only when viewed over the medium to long term.

«Valuations also have practically no predictive power for the following year.»

Market sentiment can indeed also make certain price developments more likely, especially during a panic, when many market participants trade without a plan. When developing our NEUE BANK traffic light, we have taken such and other phenomena into account and have been able to profit from them over the past years. The traffic light is currently light green (slightly bullish), and our equity exposure is still slightly overweight.

Economy

While the purchasing managers' indices in the US and Europe are close to their record highs, the Chinese counterpart is only barely above the growth threshold of 50. This decline is due to higher raw material and logistics costs as well as supply bottlenecks in world trade. The next few months will show whether these problems are temporary, given that such effects – at least during rapid economic upswings – are not uncommon.

Bonds

The yield spread of US high yield bonds over government bonds fell to 2.17% in July. This was the second lowest level since this measurement began in 1987. Only in 1994 was the yield spread at an even lower level of 2.11%. We are not holding any high-yield bonds at the moment. We believe the



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premium is far too low and the investments are therefore not particularly attractive. Moreover, there is hardly any diversification effect between equity investments and junk bonds, since both have very cyclical price developments. Equities are also much more liquid, which is why we prefer this asset class.

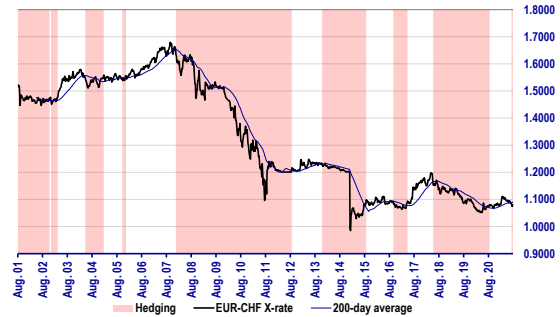
«We are not holding any high-yield bonds at the moment.»

We are, however, holding investment grade corporate bonds (BBB and better), short duration bond funds and, as a satellite investment, convertible bonds, thanks to which we have managed to outperform the benchmark also on the bond side. Overall, we remain underweight in bonds.

Currencies

During the reporting period, our currency indicator for the EUR signalled a trend reversal against both the USD and the CHF. We are therefore hedging at least part of the EUR in the corresponding USD and CHF reference currency mandates. Although we do not see any fundamental overvaluation, we are acting according to the motto: "The trend is your friend."

Extended phases of currency corrections cost performance



Source: Bloomberg, NEUE BANK AG

As the above chart shows using the example of the EUR/CHF exchange rate, this helps to limit losses in the case of extended downtrends (shaded red), while still being able to profit from countermovements in the case of recoveries.

Alternative investments

Also in precious metals, we pay attention to trends. In the reporting month, both silver and platinum saw trend reversals. From a tactical standpoint, we believe that selling/underweighting is a good idea. However, the mandates we manage have not included precious metals for quite some time, given that we also draw on other investment segments in our satellite investments. Along these lines, we continue to hold a listed private equity investment.

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 USD¹

	2016	2017	2018	2019	2020	30.06.2021
PRIMUS-ETHICS World Equities	-5.18%	22.81%	-4.76%	31.89%	23.34%	14.12%
Peergroup	3.46%	24.95%	-9.71%	26.63%	22.56%	11.68%

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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