



NEUE BANK

Liechtenstein Private Bank
independent and consistent since 1992

Our Opinion
Oktober 2021



Editorial

Dear Readers

On page 4, in the article "Debt perpetuum mobile", we report on one way in which sovereigns can manage their debt sustainability - despite record high levels of government debt - in the future.

In the October issue of "Our Opinion" you will find up-to-date information on market data, asset allocation, equities, funds and private label funds.

Looking for advice and support on financial matters? Take a look at our solutions on page 15. Our investment advisors look forward to hearing from you and will be happy to talk to you personally.

We wish you a stimulating read.

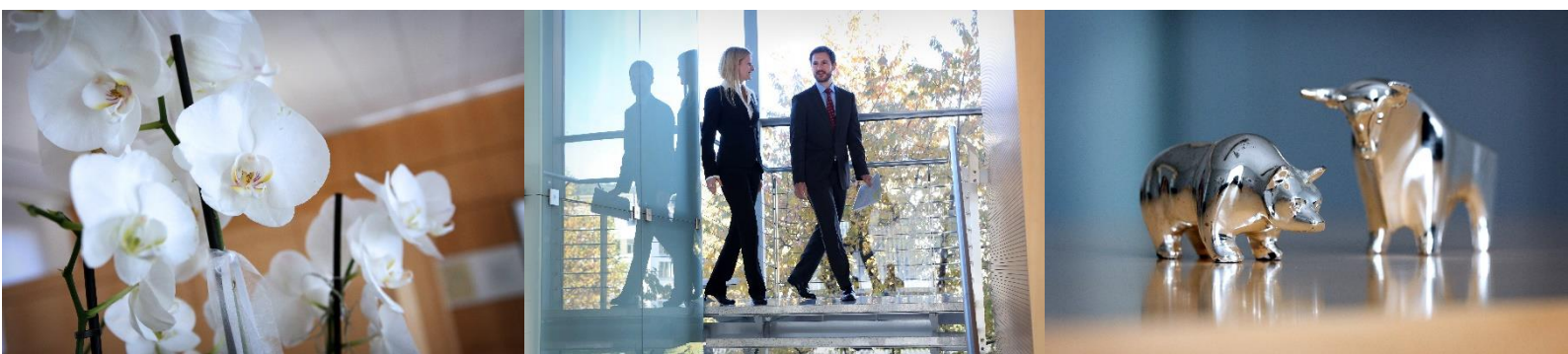
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Today:

Perpetual debt

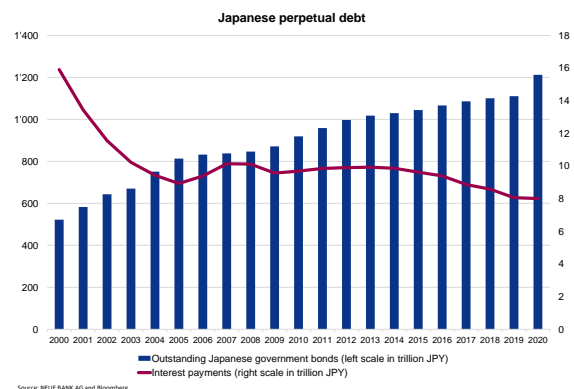
Bonds

Almost on a daily basis, financial experts have been criticising the approach taken by central banks. Hardly anyone would have wanted the current extent of the monetary and fiscal policy initiated in 2008. But neither at the time nor in 2020 did central banks have a choice other than opening the monetary floodgates. The alternative would have been a collapsing financial system with dramatic consequences for the entire world population. The central banks opted in favour of the lesser evil by supporting the financial markets and national governments with trillions of US dollars. As a consequence, the debt levels of many countries have reached record highs. Despite these records, it is unlikely that governments will undertake effective debt reduction reforms. On the contrary, governments will continue to struggle with persistently high spending and low economic growth.

"The Japanese example of 'perpetual debt' is seen as a model for circumventing the world's debt problems.»

So how will governments be able to manage their debt sustainability? Japan can serve as an example here – the country with the highest public debt (260% of GDP). Already in 1999, the Bank of Japan (BoJ) cut its key rates to 0%. In March 2001, it began an extensive programme of buying government bonds (quantitative easing) and has used yield curve control since September 2016. The BoJ is able to buy unlimited volumes of 10-year Japanese government bonds to keep their yields around the target of 0%. Although

government debt has more than doubled since 2000, the interest burden has continued to fall (see chart below).



This means that zero interest rates guarantee Japan's debt sustainability. The Japanese example of 'perpetual debt' is seen as a model for circumventing the world's debt problems. Even if the worldwide government debt ratio were to rise to the Japanese level of 260% of GDP, the interest burden at zero or negative interest rates would not be a problem. The example shows: Despite decades of extreme monetary policy measures, a financial and monetary system does not have to collapse, and the continuation of those measures does not necessarily lead to disaster.

Equities

In September, the MSCI World index corrected by nearly 6% due to concerns about high inflation, supply chain and labour shortages, and problems in the Chinese real estate sector; in October, the world equity index was already able to make up part of its losses. Especially the good start to the earnings reporting season for the past quarter in the United States

helped equity markets to rebound. The NEUE BANK traffic light also turned around in mid-October, jumping from neutral to slightly bullish.



The signal to switch from yellow to green was triggered by the sharp reduction in volatility. Accordingly, we bought back risk positions and are slightly overweight again in equities.

Economy

After the strong economic recovery in recent months, global growth momentum has slowed down again recently. This was expected, however, given that growth had been driven substantially by recovery from last year's collapse and the stimulus measures adopted by central banks and governments. The slowdown is accordingly more of a normalisation. We do expect the global economy to continue to grow by more than the long-term average of 3% in the coming quarter, given that our indicators are still expansionary.

Alternative investments

After a consolidation phase over the summer, the price of crude oil has reached record highs. One reason is the gas shortage in the UK and Europe, which is why oil is increasingly serving as a substitution. Additionally, OPEC has been holding off on ramping up oil production. Despite high reserve capacities, OPEC decided in the summer to increase production only slowly. If the rally continues at this pace, the risks of a further rise in inflation also increase, but we do not currently expect this to happen.

Currencies

150 years ago, the Japanese government introduced the yen (JPY) as its standardised coinage. Despite the highest public debt in the world and the aforementioned massive interventions by the BoJ, the JPY continues to serve as a safe haven for capital, especially in times of crisis. The reasons include political stability, liquid financial markets, low interest rates, and high net foreign assets. Here again, Japan serves as an example of how a monetary system can continue to enjoy the confidence of investors despite high public debt.

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	30.09.2021
PRIMUS-ETHICS World Equities	-3.41%	11.11%	-1.75%	34.29%	9.57%	21.82%
Peergroup	6.77%	9.57%	-5.64%	28.93%	12.52%	18.22%

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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