



“Deglobalisation”

Our Opinion
June 2023

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Dear Readers

On page 3 in the article “Deglobalisation” we show, among other things, what long-term challenges lie ahead for the economy and the financial markets.

Looking for advice and support on financial matters? Our investment advisors look forward to hearing from you and will be happy to talk to you personally.

We wish you a pleasant read.
Your Advisory Team

“Deglobalisation”

Economy

After the Second World War, numerous agreements and institutions – first and foremost the United Nations Charter, supplemented by the World Trade Organization, the International Monetary Fund, and the World Bank – ensured that countries could trade with each other, subject to certain rules, and that the world economy would prosper accordingly. This favoured globalisation, which ensured that goods were produced mainly where production was the cheapest. As a result, annual inflation in many regions remained stable at about 2% for decades, which not least of all also benefited consumers. This development now appears to have peaked, and there are numerous indications that support this observation. These indications include Russia’s invasion of Ukraine, to which most non-OECD members have been largely indifferent, calling into question the rules and agreements that previously had provided security. The pandemic, in turn, demonstrated the world’s heavy dependence on China as a manufacturing location, as the lockdown measures in China led to enormous supply chain delays. But the increasingly cold relationship between the United States and China is also endangering global stability. The resulting deglobalisation can lead to supply chain disruptions, and if trade is increasingly restricted to allies, this will ultimately result in higher structural inflation. Moreover, military spending is also increasing worldwide, leading to a decline in productive investments and ultimately reducing prosperity. This process is not only leading to short-term changes, but will have implications for our longer-term future as well.

Bonds

Financial market participants like to observe each other. It is apparent that fund managers have been overweighting bonds since the end of last year. Bonds, of course, appear much more attractive now that yields have noticeably risen. Moreover, declining energy prices are helping to contain inflation. The beginning of deglobalisation and the threat of an imminent recession are also leading to a preference for less risky assets. It makes sense to look back in time to see when this kind of overweighting last occurred – namely during the financial crisis, when the highest overweight was measured in March 2009 as equity markets had reached their lowest point.

Equities

This overweighting of bonds has been accompanied by an underweighting of equities, which was also last seen this clearly in 2008/09. Because this observation is also a reflection of sentiment, it shows that the equity expectations of fund managers – as important players on the financial markets – are currently cautious. A sober analysis indicates that this often marks the beginning of a bull market. Nevertheless, we are maintaining a neutral weighting in equities. Economic concerns and the historically rather high valuation of equities are currently keeping us from increasing our riskier investments.

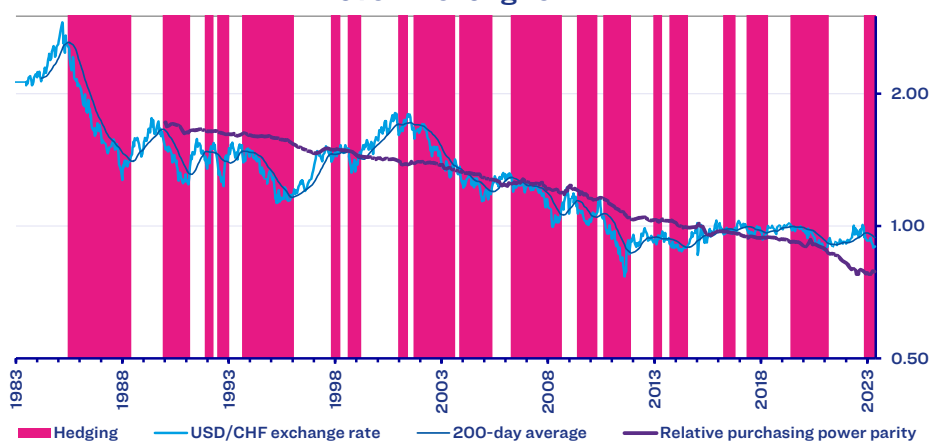
Neue Bank traffic light

- strongly bearish
- bearish
- neutral
- slightly bullish
- bullish
- strongly bullish

Currencies

Currencies are subject to fluctuations. Depending on the currency pair, these fluctuations can be very substantial, or they may even out over a longer period of time. The changes are based on purchasing power parity in the long run, but can deviate significantly in the interim. Older investors may probably still recall a USD/CHF exchange rate of 3.00 or even higher. Now, the exchange rate is 0.91. The following chart shows the development over the past 40 years. While the first 30 years show a downward trend, the trend since then has been sideways. But even within the persistent negative trend over 30 years, the USD has repeatedly experienced significant phases of appreciation.

**The USD has depreciated against the CHF
over the long term**



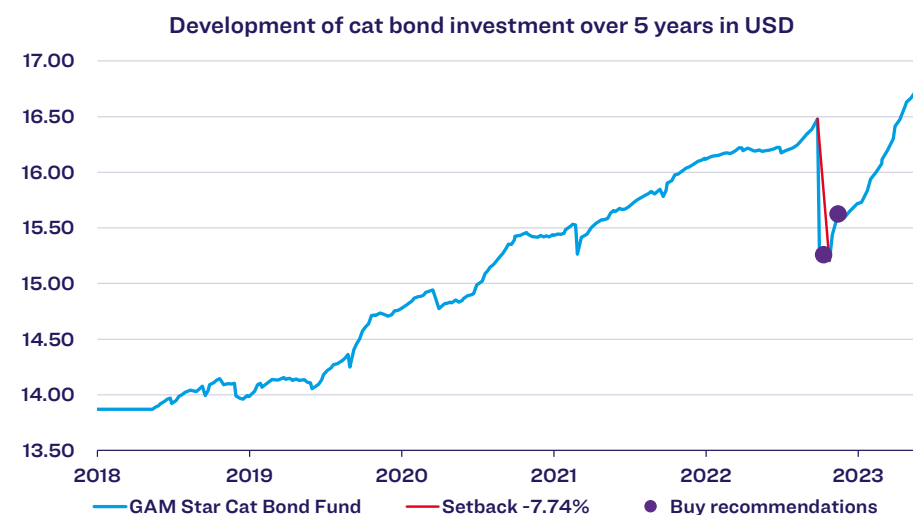
Source: Bloomberg, Neue Bank AG

Measured in terms of relative purchasing power parity, the USD should also have continued to depreciate by about 20% over the past 10 years, however. This underscores how long financial markets can decouple themselves from real economic figures, and accordingly how difficult

it is to engage in foreign currency management. Years ago, Neue Bank developed an indicator showing when hedging is recommended. This indicator relies solely on technical factors. The system has proven its worth, especially for longer-lasting trends. Since 2 December 2022, the indicator has been signalling depreciation, which is why we are hedging part of our USD investments in our CHF portfolios.

Alternative investments

Last October and November, we reported on how cat bond investments came under pressure due to Hurricane Ian. The setback seemed excessive, but due to various uncertainties, the market had not recovered at that time. We recommended buying cat bonds to take advantage of their weakness.



Source: Bloomberg, Neue Bank AG

The GAM Star Cat Bond Fund, which we identified as best in class, likewise came under pressure (see chart), but it has meanwhile more than made up for its setback at the time. Since our buy recommendations, the fund has gained more than 7%. This is not a trading position for us, however, but rather an investment that we are holding for the long term. Because this asset class is correlated with neither equities nor bonds, it serves as an excellent portfolio diversification.

PRIMUS–ETHICS

With the PRIMUS-ETHIK asset management mandate, we give investors the opportunity to incorporate environmental and social considerations into their investment decisions alongside financial aspects. We invest your assets in ethically and morally sound companies and apply professional approaches to their implementation. Scientific studies prove the positive effects of sustainability on economic success. Neue Bank AG's client advisors will be happy to show you the special features of this asset management solution in a personal meeting.

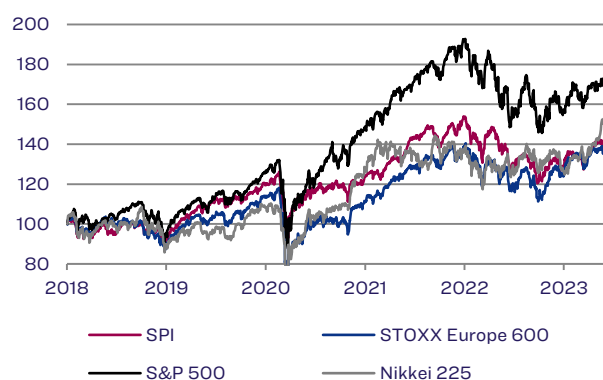
Key Performance Indicator in CHF¹

	30.04.2023	2022	2021	2020	2019	2018
PRIMUS-ETHICS Einkommen	4.43%	-12.87%	6.49%	8.55%	13.12%	-1.08%
Peergroup	3.69%	-13.61%	3.28%	7.00%	11.60%	-5.48%

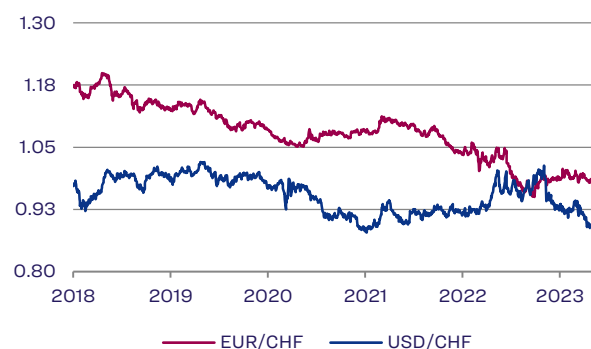
¹ Past performance is not an indicator of future performance and offers no guarantee of success in the future. The presentation of performance is gross without taking into account your individual tax liability. The net performance is lower due to fees. You can also find Our Opinion on our website: www.neuebankag.li S.E.& O.

Market data

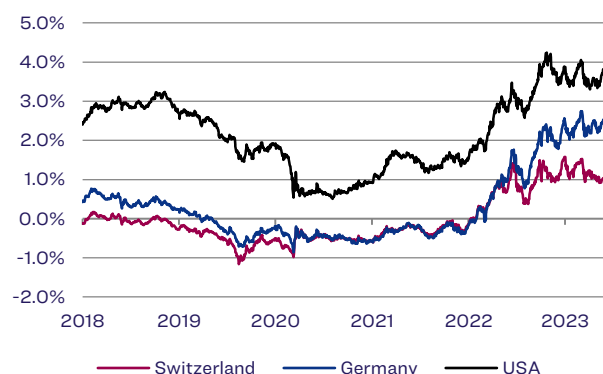
Stock market (indexed)



EUR/CHF and USD/CHF



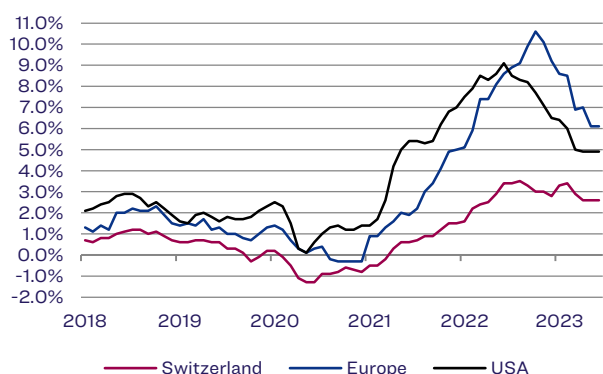
10-year government bond yield



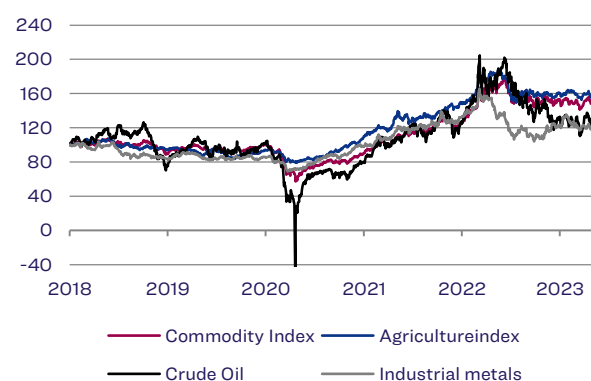
Precious metals (indexed)



Inflation rate



Raw materials (indexed)



The price developments are shown over 5 years.

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