FK Market Commentary

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Marketing Lars Oberle, Daniel Köchli
Composition Lars Oberle
Assistance Jeremy Blaser, Mark Lazarev, Tom Jaussi
Frequency Quarterly
Art Direction HRCD Design Bureau, Heiko Rossmeissl
Images Milan Rohrer, Josefstrasse 20, 8005 Zurich, Switzerland

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Dear customers of Finanz Konzept AG, Dear readers!

The 4th quarter of 2020, though mostly calmer than the first half of the year, remains fickle. Recovery of equity price levels is progressing unevenly in Europe, yet US stocks have reached new all-time highs. Can such high historic valuations be sustainable while real economic conditions remain uncertain and consumption is suppressed by the pandemic? Any viable answer must address global monetary policy decisions by the central banks.

The Federal Reserve and the European Central Bank continue to express their willingness to support employment and fiscal programs with their monetary strategy and appear to have the power to let actions follow words, if need be. It is thus not unthinkable that stock indices may remain elevated despite adverse exogenous shocks – or in the present context perhaps rather *because* of them. With such tumultuous events as the storming of the US capitol, the central banks certainly have their work cut out for them.

We wish you an exciting read!

Yours sincerely,

Lars Oberle

Director - Finanz Konzept AG

·INTERNATIONAL·
INVESTOR
AWARD WINNER 2020
FINANZ KONZEPT
INDEPENDENT WEALTH
MANAGEMENT FIRM
SWITZERLAND// 2020

In Short

Money and Capital Markets Capital market interest rates in % (10 year bonds)

	30.09.20	31.12.20	3 M	12 M
CHF	-0.466	-0.551	↘	↘
EUR (DE)	-0.482	-0.575	↘	↘
GBP	0.145	0.394	↗	↗
USD	0.631	0.761	↗	↗
JPY	0.024	0.021	↘	↗

- The Federal Reserve increases its margin through more flexible inflation targets
- The ECB uses its entire arsenal to boost the Eurozone economy

We recommend:
- Short-term high-quality American corporate and government bonds (USD)
- Reduce long-term bonds (USD)

Stock Markets Indices

	30.09.20	31.12.20	3 M	12 M
SMI	10 040.33	10 703.51	↗	→
EUR STOXX 50	3 227.48	3 552.64	↗	↘
FTSE 100	6 183.71	6 460.52	↗	↘
S&P 500	3 051.36	3 756.07	↗	↗
Nikkei	22 273.40	27 444.17	↗	↗
DAX	12 243.10	13.718.8	↗	↗

- The market is very susceptible to brief and sharp corrections
- Expensive tech and US stocks

We recommend:
- Reduction of overheated Tech shares
- Additional caution with US equity levels; increased readiness to slow purchases or to reduce portfolio share if volatility increases

Forex Markets Currencies

	30.09.20	31.12.20	3 M	12 M
EUR / CHF	1.0670	1.0827	↗	→
EUR / USD	1.1206	1.2214	↗	↗
EUR / JPY	120.765	126.48	↗	↗
GBP / CHF	1.1702	1.2017	↗	↘
USD / CHF	0.9514	0.89841	↘	↗

- U.S. dollar remains under pressure from FED monetization of stimulus
- High volatility in emerging market currencies
- British Pound stabilizes

We recommend:
- Sell the USD into strength
- Buy the dips (EUR, JPY)

Commodities in USD

	30.09.20	30.12.20	3 M	12 M
Brent Oil (USD)	39.01	51.22	↗	↘
Gold (USD)	1 770.35	1 893.66	↗	↗
Silber (USD)	17.85	24.97	↗	↗
Platin (USD)	809.20	1 075.50	↗	↗

- Crude oil prices are recovering to January levels, but are still about 20% below them
- Copper prices at highest level since 2012

We recommend:
- Switch from palladium to platinum
- Weigh crude oil neutrally
- Hold gold/silver

Crypto-Markets

	30.09.20	31.12.20	3 M	12 M
BTC (USD)	9 071.12	28 841.57	↗	↗
ETH (USD)	227.82	751.63	↗	↗
XRP (USD)	0.1767	0.2118	↗	↗
BCH (USD)	223.40	358.76	↗	↗
LTC (USD)	41.38	129.48	↗	↗

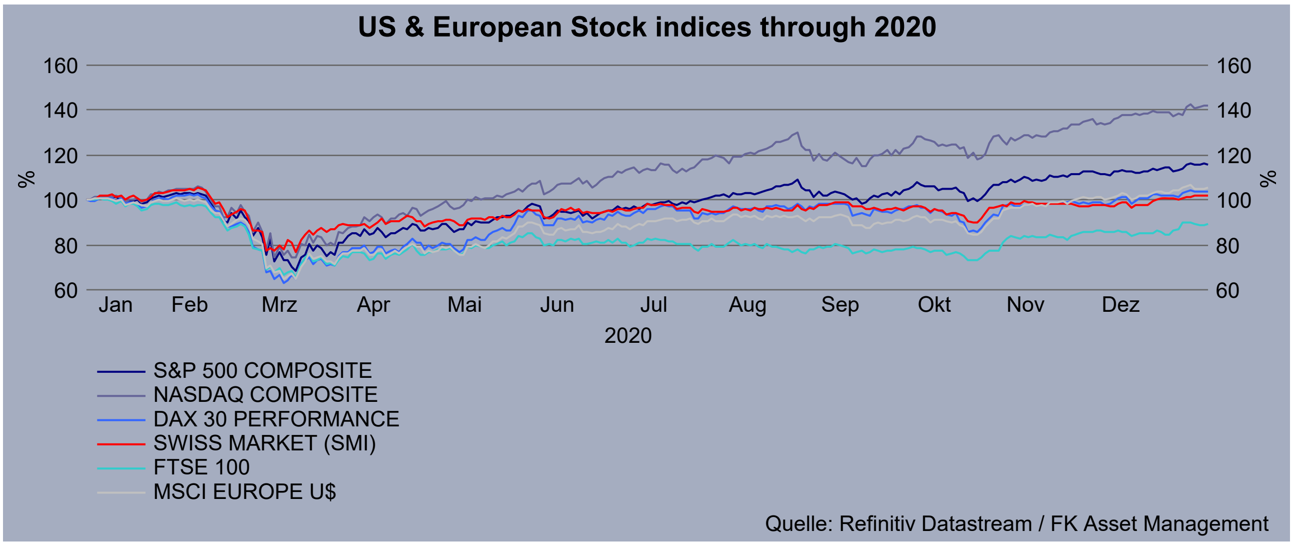
- Global crypto market reaches market capitalization of 1 trillion
- Massive bull run for Bitcoin!
- Corrections are expected

We recommend:
- Hold existing positions / realize partial gains in bitcoin
- Purchases of Ethereum in case of strong corrections

A historic year

Perhaps the most visible, if not the most impressive, demonstration of the unusualness of the past year is provided by equity markets. Sitting comfortably at 3373 on February 20, the S&P 500 dropped to 2237 by March 23 – further faster than even during the infamous Great Depression! That alone would qualify the entire year as historically significant. Yet, more was still to come, as nearly as rapidly as it had sunk, the index retraced its steps and reached new all-time highs, standing at a lofty 3756 on December 31st. This general pattern was mirrored globally, the SMI declining and recovering in comparable fashion. In other words, highly abnormal multi-year developments on multiple fronts have met with an in and of itself uncommon series of events, to create conditions quantitatively and qualitatively unprecedented in modern times. Consequently, timing and fortune played an outsize role these past twelve months in determining investors' returns.

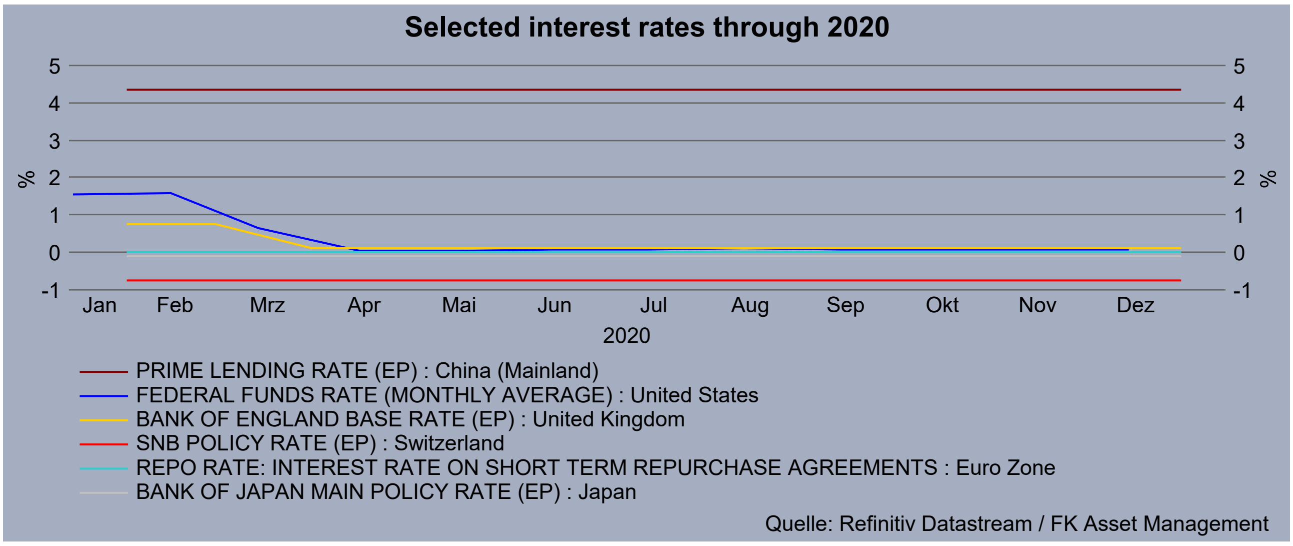
Naturally, with billions of people restricted in terms of movement and labor, these extreme financial gyrations have not gone unnoticed by the public. Narratives surrounding individual stock market & retail trader darlings or alternative asset types such as cryptocurrencies appear to have grown ever more heated. This ought to be a cause of concern, as on a historical price basis real returns from either stocks or bonds for the next several years can reasonably be expected to be barely positive or even negative. With significant numbers of new and inexperienced market participants whose return expectations and excitement are at greatly elevated levels, the growing divergence between sentiment and reality creates room for disappointment, folly, and painful results.



It is difficult to state however, that aggregate prices, while historically very high, are entirely irrational. Chronically low interest rates enable the justification of extraordinarily high multiples, based on discounting models alone. The growing risk of such a by-the-numbers approach is that it heavily relies on interest rates remaining at such low levels for years or even falling further. As time goes on, it becomes increasingly challenging to determine sensible asset allocation that captures sufficient upside without becoming exposed to unacceptable degrees of downside risk. Particularly when selecting individual securities in 'hot' segments such as tech, biotech, marijuana production and distribution or narrative-driven 'new paradigm' offerings it may be wise to be wary of the longer-term downside risk.

Debt markets working overtime

The year 2020 has pushed global debt markets to extremes with borrowing and massive fiscal stimulus targeted at offsetting repeated shocks to both supply and demand resulting from the coronavirus and the associated policy responses. In q4, the major central banks have opted to keep interest rates at current lows with the Eurozone remaining at 0, the US at 0.25, the UK at 0.1 Japan at -0.1, and China at 3.85% respectively. Correspondingly, levels of quantitative easing remain accommodative and central bank balance sheets continue to expand in the process of financing their respective governments' fiscal programs. As a result of simultaneous contractions of GDP and increased public sector borrowing, debt to GDP levels have leapt higher. In the UK for instance, debt to GDP passed 100% in October. Despite the emergency approval of several effective vaccines and the prospective advent of several more, significant uncertainties remain. They include the new strains spreading across South Africa, the UK and Canada, delays of and obstacles to the fast scaling of vaccinations and a potentially weaker rebound in consumer spending after lock downs are eased, to name but a few. Furthermore, even if the pandemic is weathered successfully, central banks may inadvertently cause 'flash' disruptions to markets by not appearing sufficiently dovish, since asset valuations across the board are pricing in years of highly accommodative monetary and fiscal policy. Times such as these require additional caution when it comes to dealing in debt securities, as there is little room to maneuver between low yields and tail risks of increased default rates.



Boom in SPACs

A further noteworthy development in financing practices has been the boom in IPOs using special purpose acquisition companies (SPACs). According to Refinitiv, roughly double the number of 2019 SPAC listings took place in 2020. Also often referred to as "blank check companies", these vehicles have been marketed as a remedy for the increased volatility and uncertainty present in markets as a result of the pandemic. It bears pointing out however, that SPACs have existed since the 1990s and tend to be most popular in highly speculative market phases, such as the period leading up to the 2008 financial crisis. It remains doubtful whether the present volumes will be maintained if monetary conditions turn.

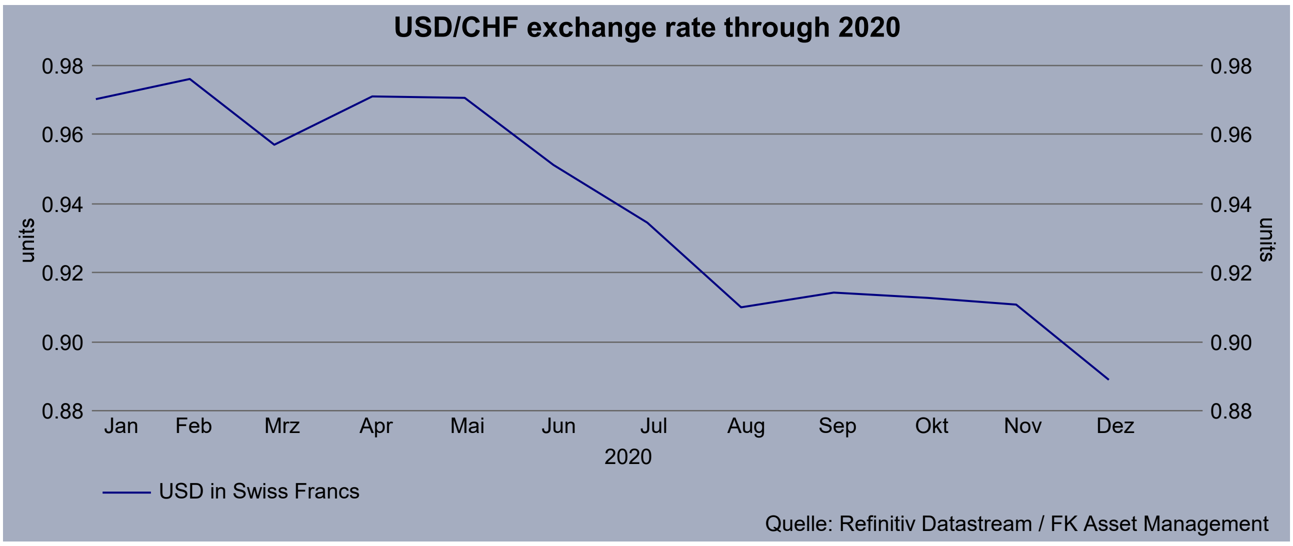
Weakening US Dollar, strong Swiss Franc

Predictably, the FX markets have not been spared the volatility of economic, financial, and political conditions. 2020 included US/UK/Canada/Australia vs. China political and trade conflicts, the conclusion of Brexit, greater repression of dissent in Hong Kong, active violations of Taiwanese air space by Chinese aircraft, a deepening of the brutal crises plaguing the Lebanon, intensification of the clashes in the Middle East & Africa (e.g. Yemen, Iran, and Ethiopia) in addition to the pandemic and its near omnipresent repercussions. Perhaps the most persistent effects on FX rates stem from central banks' monetary policy support of financial assets, employment and fiscal programs. Of the G20, six members have spent over 10% of pre-pandemic GDP on fiscal stimulus as of October. Japan, the top of that list, committed a staggering 21.1%, followed by Canada (16.4%), Australia (14%) and the United States with 13.2%.

The Swiss Franc generally held or appreciated against the major currencies, particularly in the second half of 2020. Even after recovering from the initial outbreak related crash to 1.12 CHF in March, Pound Sterling, at around 1.20 CHF in December, remains below its January levels of roughly 1.27. The Euro remained relatively stable after h1 2020, returning to 1.08 CHF – whence it had started the year. The US Dollar has steadily drifted lower against the Franc, starting at around par and spending much of December around 0.89 CHF.

Major cryptocurrencies such as Bitcoin and Ethereum, too have appreciated drastically. While it is difficult to separate and quantify participants' rationales for entering the space once again after the 2018 spike and fall (especially as crypto technology does not produce any valuation anchoring cash flows), it is not unlikely that the aggressive monetary and fiscal measures have simultaneously decreased the public's faith in their stability and respective fiat, as expectations for future inflation are rising and stimulus payments are finding their way into risk assets rather than primary consumption.

Finally, in what is likely to be perceived as a mostly political decision, Vietnam and Switzerland were labelled 'currency manipulators' by the US Treasury Department, while China - which exerts far tighter control over the off-shore Renminbi - was left unnamed. Although this could indicate future diplomatic pressure on the Swiss government, it may turn out to be little more than rhetoric, seeing as there is a new administration with potentially very different priorities incoming in January 2021.



Commodities

Vaccine success stories hit gold price

The price of gold has fallen about 10 percent from the August record of two thousand dollars per ounce. The attractiveness of the precious metal is decreasing due to the news about the success of the coronavirus vaccines and the recovery of the world's largest vaccine raw materials.

Investors are reducing their holdings, and analysts are confident that the peak of the metal price has passed. Experts believe gold prices will continue to fall next year as the global economy recovers.

However, as a means of protecting against inflation, gold could still regain the decline if prices accelerate and central banks postpone interest rate hikes. So far, investors prefer to invest in other precious metals that are not under pressure. Silver, for example, is showing good growth, while platinum in November reached its highest level since September.

Oil prices are rising on hopes of a quick recovery in demand

Unlike gold, positive news on vaccine development has more than positive impact on oil prices. Successful COVID-19 vaccine trials by Pfizer and BioNTech, as well as Moderna, are the key market drivers. Market participants believe that the emergence of the vaccine will have a positive impact on the recovery of fuel demand, as it will lift quarantine restrictions worldwide. However, the risks should not be forgotten. The number of disease cases continues to increase worldwide, and the authorities of many countries are forced to introduce new quarantine measures. This factor may have a negative impact on the price of oil.

Excursion

New technologies and tokenization promise to create novel financial solutions

Banking, an industry that is so old it appears as though it must always have been here, is facing the prospect of being disrupted on multiple fronts. Younger fintech startups have emerged that challenge the established banks' hegemony over traditional domains such as currency exchange, international transactions, and savings products. Yet likely even more significant in the long run is the emerging new field of digital assets which most banks have thus far either failed to adopt or been slow to incorporate.

Digital assets as a category includes a slew of new products – of which the perhaps best known are cryptocurrencies and the instruments built thereupon. Naturally, these are the products that presently attract a lot if not most of the public excitement. But possibly just as interesting are the possible applications of digital incarnations of established fiat currencies, such as the digital Swiss Franc (DCHF). While Bitcoin and similar blockchain based tokens face constraints in terms of their transaction efficiency inherent to their design, tokens such as DCHF are conceived in the hopes of making old-fashioned transactions, simpler, faster, and cheaper beyond what present banking systems offer. And even beyond that, tokenization will make it possible for many investors to access an abundance of previously inefficient or restrictive investments. In the form of a token, art, real estate, commodities and securities can become arbitrarily divisible and tradeable in an efficient fashion – without necessitating physical intervention on the part of the investor.

We at Finanz Konzept AG have been observing these developments for some time and are not oblivious to the possibility of a new generation of banks and fintech services competing successfully for market share with present leaders. As such we have been working to make sure our clients have access to this new set of assets and the benefits of more technologically advanced systems of transaction.

In this fashion we seek to take advantage of the competitive financial location that is Switzerland and be prepared for the inevitable changes coming the world of financial services and investment.

Services

The right solution for every need

We offer you a wide range of products and services to choose from.
Our goal is to fulfil your personal and individual needs.

SERVICES OVERVIEW

FK Discretionary Mandate

1. Discussing of your needs

2. Identifying your risk profile

3. Strategy decisions

4. Implementation of your investment goals

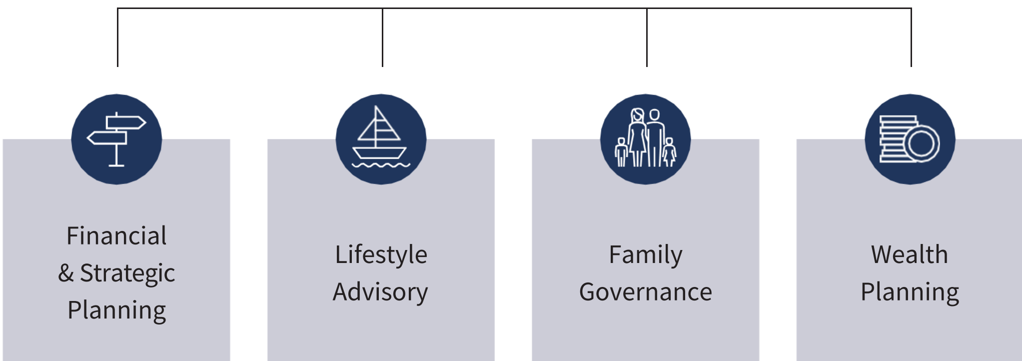
5. Active monitoring and management of assets

FK Execution Only Mandate

- Funds
- Social Investing
- Robo-Advisory
- Krypto-Investing

FK Family Office Services

FK Financial Consulting



Finanz Konzept AG
Schulhausstrasse 42 · 8002 Zürich · Schweiz
Telefon 0041 44 204 34 64 · info@finanz-konzept.ch
www.finanz-konzept.ch