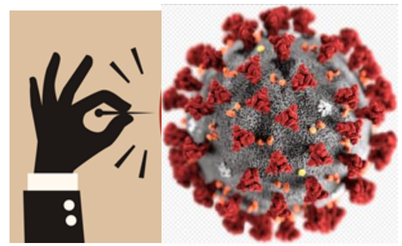
Selected Leading Bank Opinion

«Are We In An Equity Bubble?»



UBS

Rothschild & Co
Wealth Management

PICTET
1805
Asset Management

J. SAFRA SARASIN
ASSET MANAGEMENT

Iain Little, 26/1/21

GTI

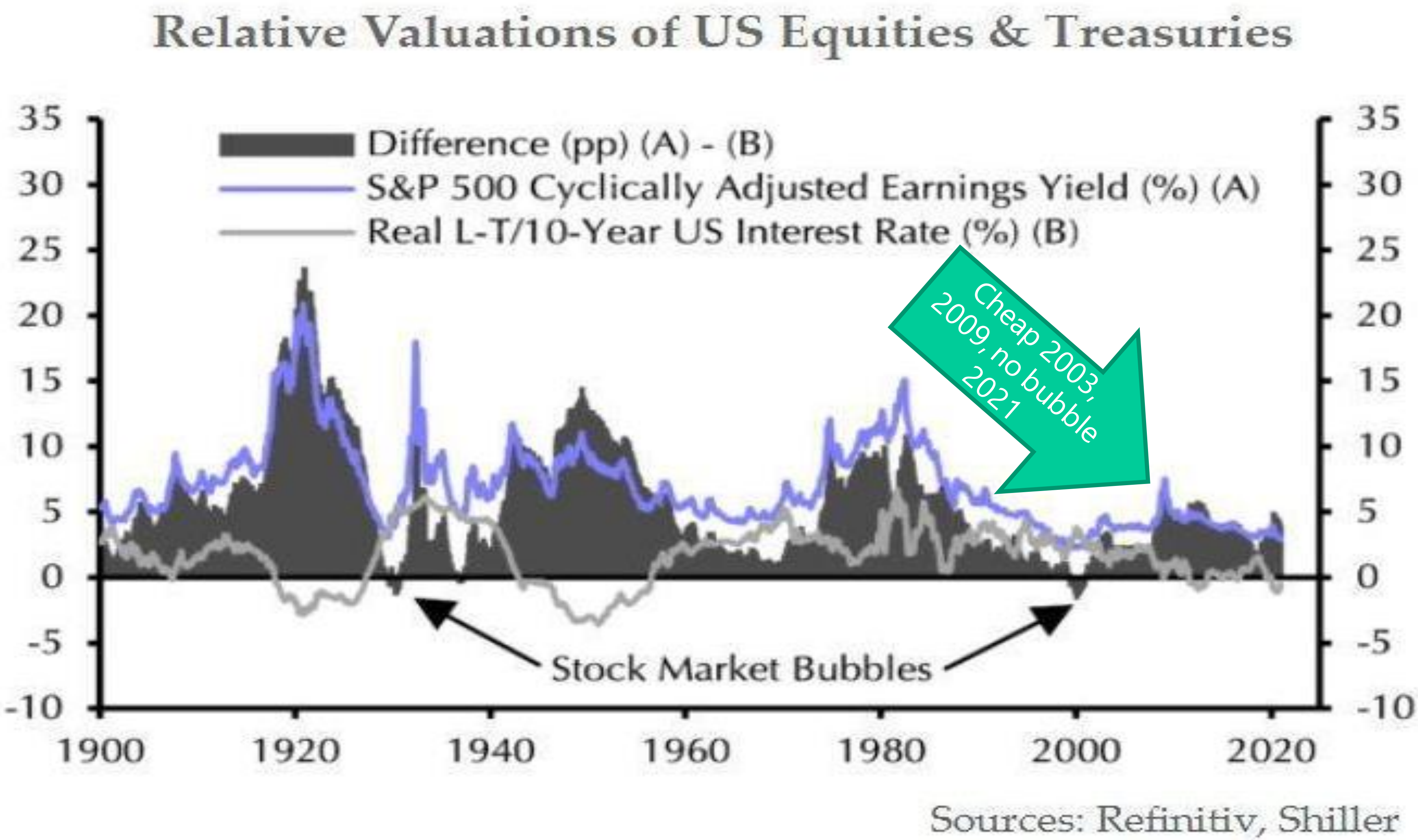
GTI

US market looks bubbly if we take the CAPE…

Shiller's Cyclically-Adjusted Price-Earnings Ratio for S&P 500

GTI

…but no bubble if earnings yield versus bond yield…



UBS
Are we in a bubble?...

	Equities	Government bonds	Cryptocurrencies	IPOs and SPACs
Are prices high relative to traditional measures?	**Yes.** Equity valuations are high based on P/E ratios.	**Yes.** Financial repression has pushed bond prices above fair value implied by expected growth and inflation.	**Yes.** Traditional metrics are not applicable, but a fourfold increase in three months looks excessive.	**Yes** in terms of the size of first-day IPO price rises and the amount of capital raised by SPACs.
Are prices discounting future rapid price appreciation?	**No.** Valuations can be justified in the context of bond yields. Long-term return expectations are low.	**No.** Few investors, including central banks, own government bonds in the expectation of rising prices.	**Yes.** Speculation appears to be playing an important role in rising prices.	**Yes.** First-day IPO performance is the highest in around two decades.
Are purchases being financed by high leverage?	**No.** Margin lending is currently lower than historical norms.	**Yes.** Central bank balance sheets grew by USD 8 trillion in 2020.	**No.** High levels of volatility mean leverage is difficult to employ.	**No.** IPOs are generally not funded by leverage.
Are buyers or companies making forward purchases?	**Yes.** Call option volumes are elevated.	**Yes.** Central banks have made forward purchase commitments.	**Yes.** The entire market is an effective "forward purchase."	**Yes.** SPACs are an effective "forward purchase" on a future investment opportunity.
Have new participants entered the market?	**Yes,** as seen from new account openings on digital platforms and increased share of capital flows from retail investors.	**Yes.** Central banks now own more of the government bond market; the Fed owns 24% of US Treasuries, up from 9% in 2009.	**Yes.** New wallet growth indicates increased participation.	**Yes.** SPAC sponsors now include politicians and celebrities.
Is there broad bullish sentiment?	**Yes.** The bull-bear spread of investor sentiment from the American Association of Individual Investors (AAII) is more than twice the average (19 vs. 8 on average since 1990).	**No.** Consensus expects yields to rise.	**Yes.** Cryptocurrency investors almost uniformly expect higher prices or user adoption.	**Yes.** SPACs raised a record volume of new funds in 2020.
Does tightening risk popping the bubble?	**Yes.** Higher bond yields or interest rates would make valuations look less appealing.	**No.** Central banks themselves control the path of the bubble. Inflation looks far off.	**Yes.** Higher interest rates may not be meaningful, but regulation or taxation is a potential risk.	**Yes.** Higher yields would likely reduce the appeal of growth stocks, which make up a high share of the IPO and SPAC markets.

NB

Not so

Source: UBS

January 2021 – UBS House View Monthly Letter 2

Equities (& other asset classes) expensive but not relative to bonds/ interest rates

Without FAAMNGs (FB etc) S&P 500 only rose +6% last year.

Cyclically adj PERs close to/ below LT av in all major markets x skewed USA

AAII has now fallen

UBS
…greentech, healthtech, Asian equities…

experiencing bubbles today (such as cryptocurrencies) do not appear to be highly interconnected with the financial system and are not particularly capital- or labor-intensive. This should limit the broader economic fallout and impact on corporate earnings more broadly, in the event of any individual bubbles collapsing.

Against this backdrop, we therefore retain a pro-risk stance. We focus equity exposure away from some of 2020's winners (particularly US mega-caps), and toward lower-valued emerging market stocks, where we see valuations as more attractive than global stocks. In Asia, we have a preference for Chinese equities, given strong earnings trends, reduced domestic and international policy uncertainties, and supportive monetary policy. We also move our preference for UK equities back to neutral after their good recent performance.

Within fixed income, in the context of continued low yields, we like hard-currency emerging market sovereign bonds and Asia high yield credit. For long-term growth, we continue to see the best current opportunities in a diversified exposure to companies positioned in 5G, fintech, greentech, healthtech, and within private markets.

Bubbles elsewhere not a major problem

We're looking for good funds in 5G+, fintech, greentech etc

Emerging Mkts

NB move away from USA

UBS

…EM increased, but gold + UK equities decreased…

Global asset class preferences

	Least preferred	Neutral	Most preferred
Liquidity		=	
Equities			+
United States		=	
Eurozone		=	
Switzerland		=	
Emerging markets		→	+
Japan		=	
United Kingdom		= ←	
Bonds		=	
High grade	−		
High yield		=	
Investment grade		=	
Emerging markets			+
Commodities		=	
Oil			+
Gold		= ←	

	Least preferred	Neutral	Most preferred
Foreign exchange			
USD	−		
EUR			+
JPY	−		
GBP		→	+
CHF		=	

Please note, the Global Asset Class preferences reflect the high level UBS House View. The TAA positioning of our different investment strategies might differ from this view, because our strategies seek specific investment objectives and can frequently adjust portfolio allocation to achieve these.

Also, these preferences may vary in different regions for various reasons such as currency considerations.

Least preferred

We expect this asset class to deliver the least attractive risk-adjusted returns over the next 12 months within our asset class universe

Neutral

We expect risk-adjusted returns over the next 12 months to be neither particularly attractive nor unattractive

Most preferred

We expect this asset class to deliver the most attractive risk-adjusted returns over the next 12 months within our asset class universe

Rothschild

No bubble, increase cyclicals, EM, Asia…

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Wealth Management

Favour equities over bonds

Still keen on USA and now EM Asia

Negative on CH

Negative sectors: utilities, staples, energy, real estate

Positive sectors: still tech, but now cyclicals too

Rothschild

Why Asia? Growth, catch-up, valuation...

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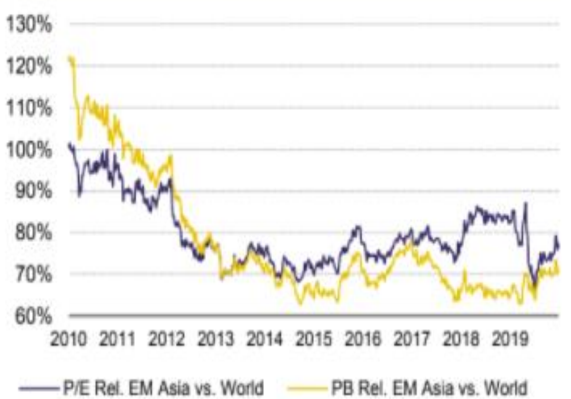
EM Asia

Performance of EM Asia is well supported by earnings and the region still trades at large valuation discount vs. MSCI World

Estimated P/E-Valuation MSCI World vs. EM Asia

P/E and P/B discount/premium of EM Asia vs. World



MSCI regional forward earnings

	2020e EPS Δ%	2021e EPS Δ%	2020-2021 Δ%
MSCI World	-23%	29%	0%
North America	-18%	25%	2%
Euroland	-33%	36%	-9%
UK	-43%	42%	-19%
Switzerland	-11%	16%	3%
Japan	-31%	38%	-5%
Pacific ex Japan	-20%	32%	6%
EM EMEA	-39%	34%	-18%
EM Asia	-7%	25%	16%
EM LatAm	-64%	142%	-12%

China/EM Asia outperforms the other regions

Asian equities 20-30% cheap v RoW

EM Asia Q4 2021 to exceed Q4 2019 eps

China radiation effect: only country with + 2020 growth

+29% eps 2021 should «burn off» high PERs in RoW

EUR zone lags, but little growth there

Pictet

No bubble, year-end equity upgrades...

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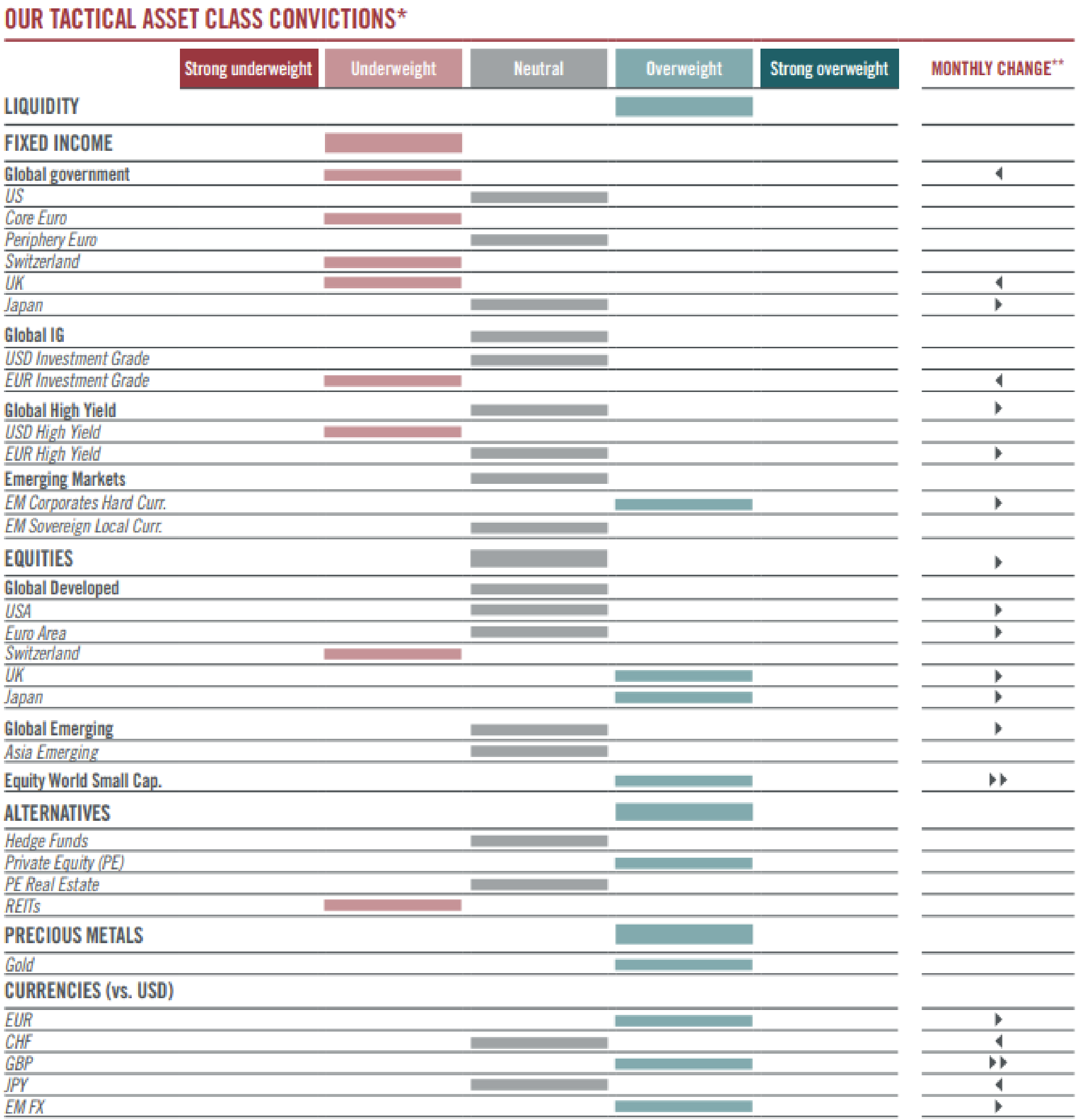


Equity upgrades nearly everywhere

- UK & Japan (to overweight)
- USA (to neutral)
- EUR equities (to neutral)
- Small cap (to overweight)
- Emgg Mkts (to neutral)

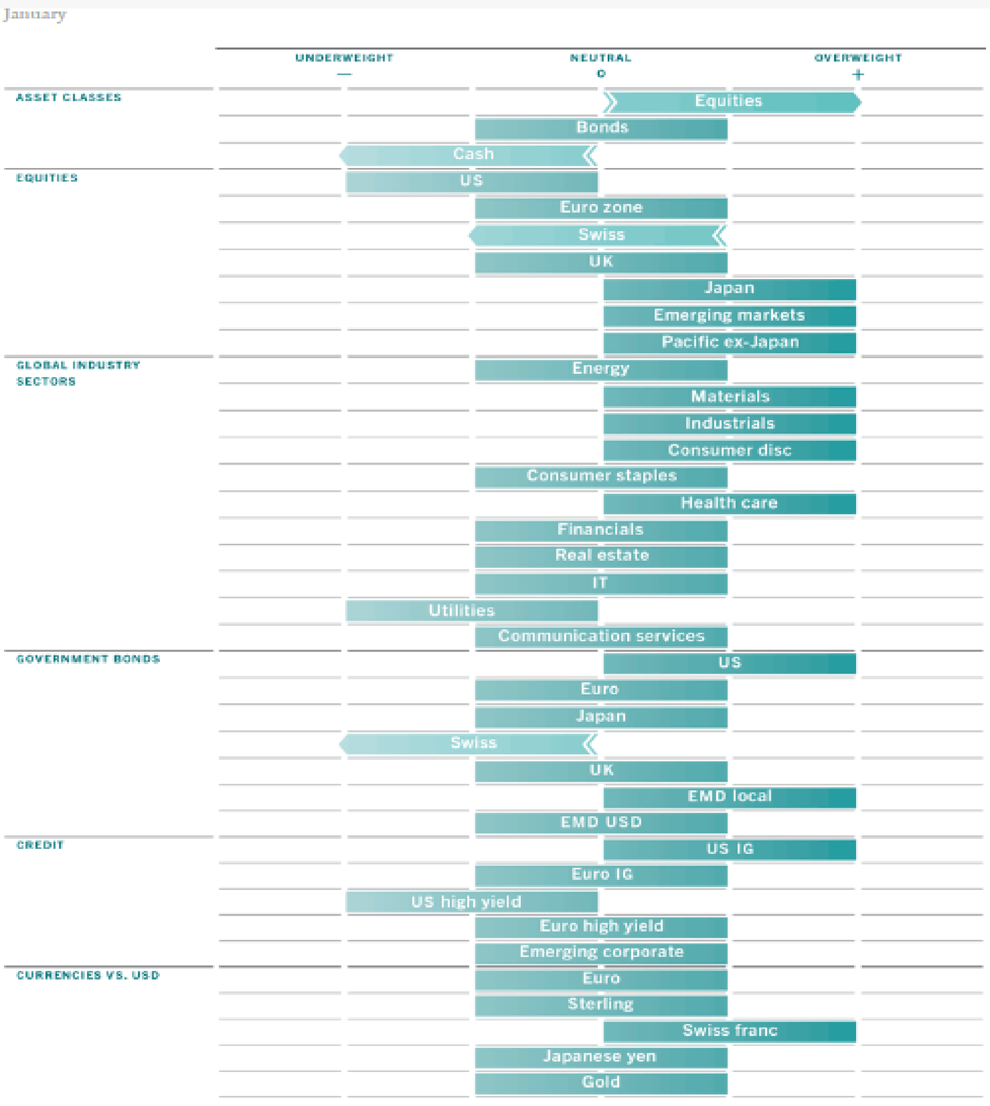
Dev Mkt Govt bonds: Underweight from neutral

Em Mkt Corp bonds: upgraded

Currencies: GBP (with UK equities), EUR, EM currencies

Pictet

…well, further upgrades in equities now…



Source: Pictet Asset Management

More equity upgrades, cash reduced

Swiss equities reduced (60% of SMI is defensives, highest in world)

5.8% global GDP v 5.1% consensus 2021

No risk of monetary tightening till Asia tightens H2 (China effect)

US bank deposits at record USD16 trillion, or 13% GDP – compared with the 45-year average of just under 3%

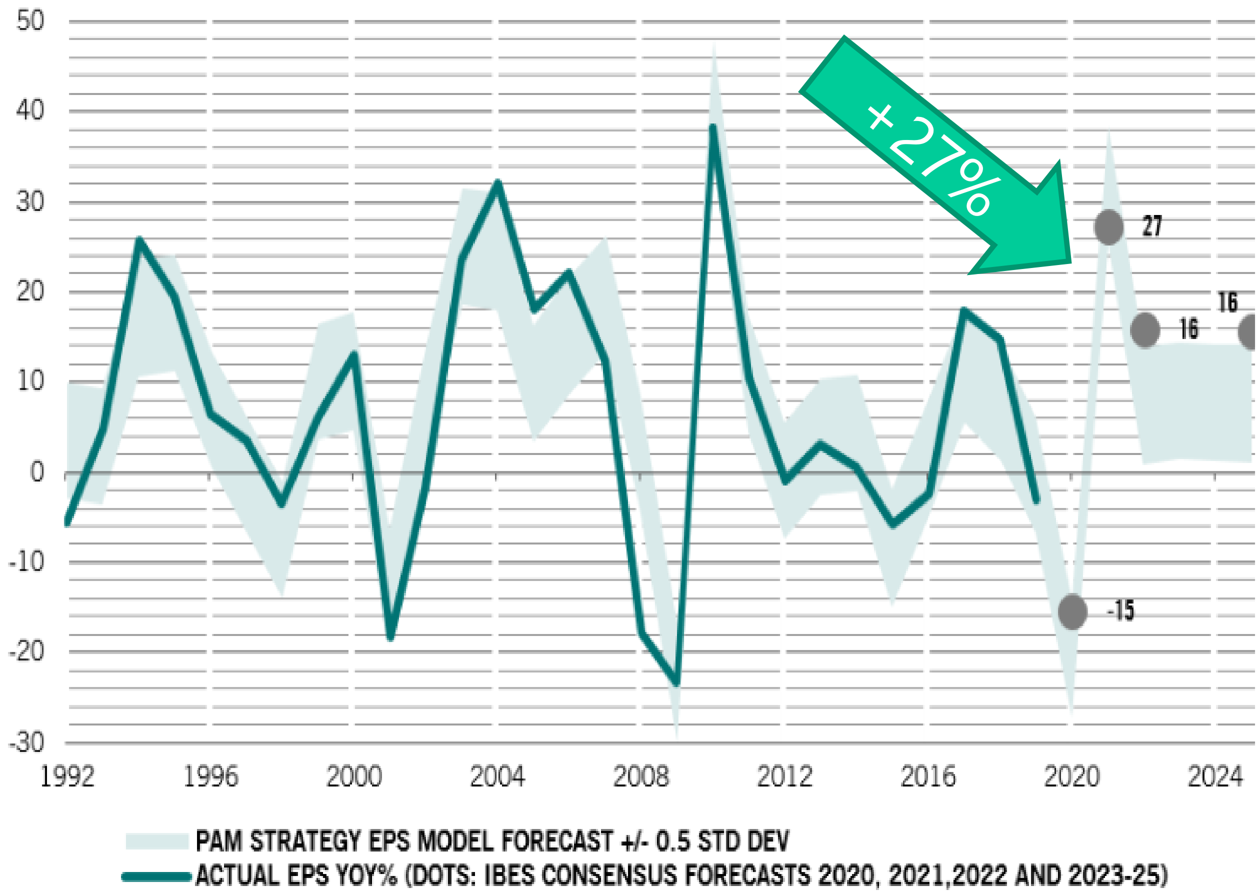
Equities +10% 2021, cf +20% normal recession ends (valuations high)

Pictet

…but earnings had better increase +25%…

Fig. 2 - Earning its way

MSCI All Country World constituent earnings: past and projected, % change year-on-year



Source: Refinitiv Datastream, IBES, IMF, Pictet Asset Management. *Calendar year % change in EPS. Data from 31.12.1992 to 20.12.2020.

PAM model going for +27% earnings growth globally

Model seems to work quite well

In 2022 and 2023, mid teen increases earnings growth

PERs contract (monetary tightening) but eps growth outweighs it

Beware tech: regulation, fines (10% of revs in UK), rotation

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No bubble, but slight recovery…

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Economic outlook & investment strategy

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Economic outlook

- More stringent restrictive measures to fight the new and more contagious variant of the virus will further depress GDP growth in Q1 in Europe.
- China's strong economic rebound and inventory restocking should continue to support global manufacturing, providing a floor under global growth.
- The distribution of vaccines sets the stage for a broader economic recovery later this year, that in the near term will be supported by generous fiscal transfers and monetary accommodation.
- A Democratic Congress should allow Biden to push ahead with policies aimed at boosting jobs, investment and green energy. But the razor-thin majority should cap the administration's ability to go 'big' on spending and taxing.
- Global inflationary pressures likely to remain weak over the next 6 months, but should rise more steadily over the medium- to longer term.

Asset class views

FX

- USD to weaken further into 2021
- Longer term, cyclical currencies to benefit

Fixed income

- Nominal yields to rise moderately with steeper yield curves
- Rising rates will introduce more volatility to credit markets. Credit environment still generally constructive.

Global equities

- Equities to push higher as recovery remains intact, but only gradually as valuations are already elevated
- Prefer cyclicals and value

Asset allocation

- **Bonds:** Underweight
- **Equities:** Overweight equities, with focus on EMU, UK and EM equities, Industrials, Energy and Financials

Inflation picks up H2, but not in H1

Equity focus EM, UK, USA

Sector focus industrials, energy, financials

Weaker USD

China leading recovery

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…not much change in January…

Asset class views

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Global Asset Class Views	–				+
Equities	□	□	□	■	□
Fixed Income	□	■	□	□	□
Alternatives	□	□	□	■	□
Cash	□	□	■	□	□

Fixed Income	–				+
Govt Bonds USD	□	■	□	□	□
Govt Bonds EUR	□	■	□	□	□
USD Credit	□	□	□	■	□
EUR Credit	□	□	□	■	□
EM Sovereign Bonds	□	□	□	■	□
EM Credit	□	□	□	■	□
EM Local Currencies	□	□	□	■	□

Currencies	Depr				Appr
EUR vs USD	□	□	□	□	■
EUR vs CHF	□	□	■	□	□
USD vs JPY	□	■	□	□	□
EUR vs GBP	□	□	□	■	□

Equities – Countries	–				+
USA	□	■	□	□	□
Euro area	□	□	□	■	□
UK	□	□	□	■	□
Switzerland	□	□	■	□	□
Japan	□	□	■	□	□
Emerging Markets	□	□	□	■	□
China	□	□	■	□	□

Equities – Sectors	–				+
Energy	□	□	□	□	■
Materials	□	□	□	■	□
Industrials	□	□	□	■	□
Consumer Discretionary	□	□	□	■	□
Technology	□	□	■	□	□
Consumer Staples	□	■	□	□	□
Healthcare	□	□	■	□	□
Banks	□	□	□	■	□
Insurance	□	□	■	□	□
Real Estate	□	□	■	□	□
Communication Services	□	□	■	□	□
Utilities	□	■	□	□	□

Source: J. Safra Sarasin, 12.01.2021

Favour equities, alternatives

EM fixed income favoured

Favourite sectors: energy (most), industrials, tech

Least favourite sectors: utilities, staples

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…watch inflation pressures…

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US inflationary pressures are already building

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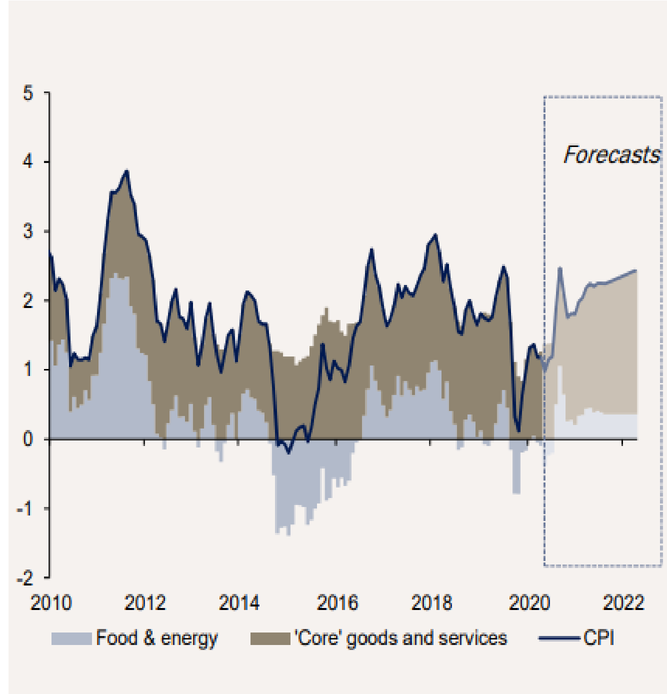
Global Macro

ISM prices reached highest level since 2018

Core inflation to accelerate in 2H



USA inflation on the rise

Forecast to rise H2 2021

This time the Fed may not be so aggressive in containing it

Source: Macrobond, J. Safra Sarasin, 12.01.2021

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…once economies pick up…

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Inflation is always and everywhere a monetary phenomenon

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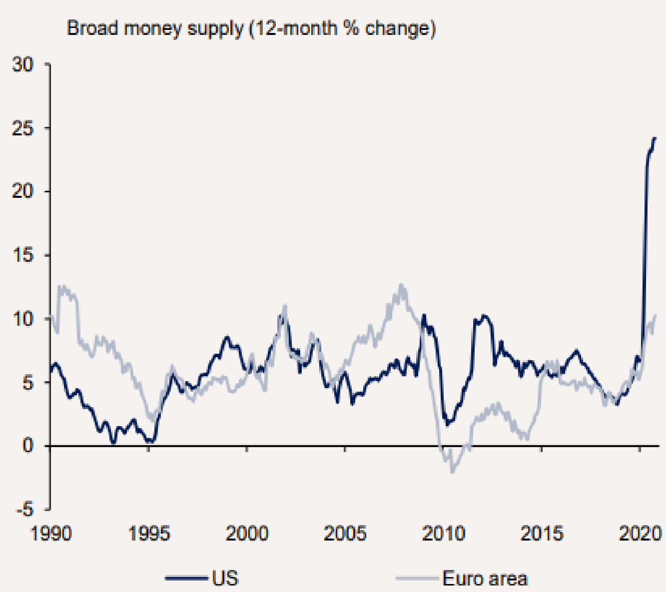
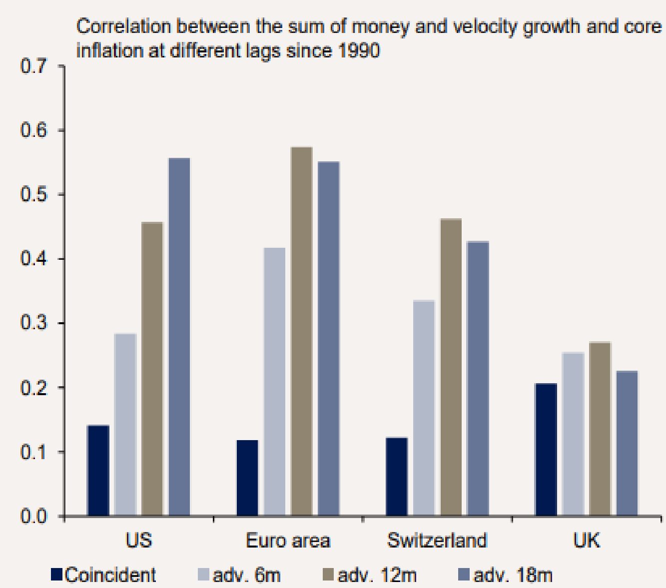
Global Macro

Money supply to lead to higher inflation ...



... once uncertainty falls



Pick ups in growth/ velocity lead to inflation

But there are lags…

And very little reaction immediately/ «coincidentally»

Source: Macrobond, J. Safra Sarasin, 12.01.2021

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…but gold may be dull, unless…

Gold to consolidate moderately throughout 1H21

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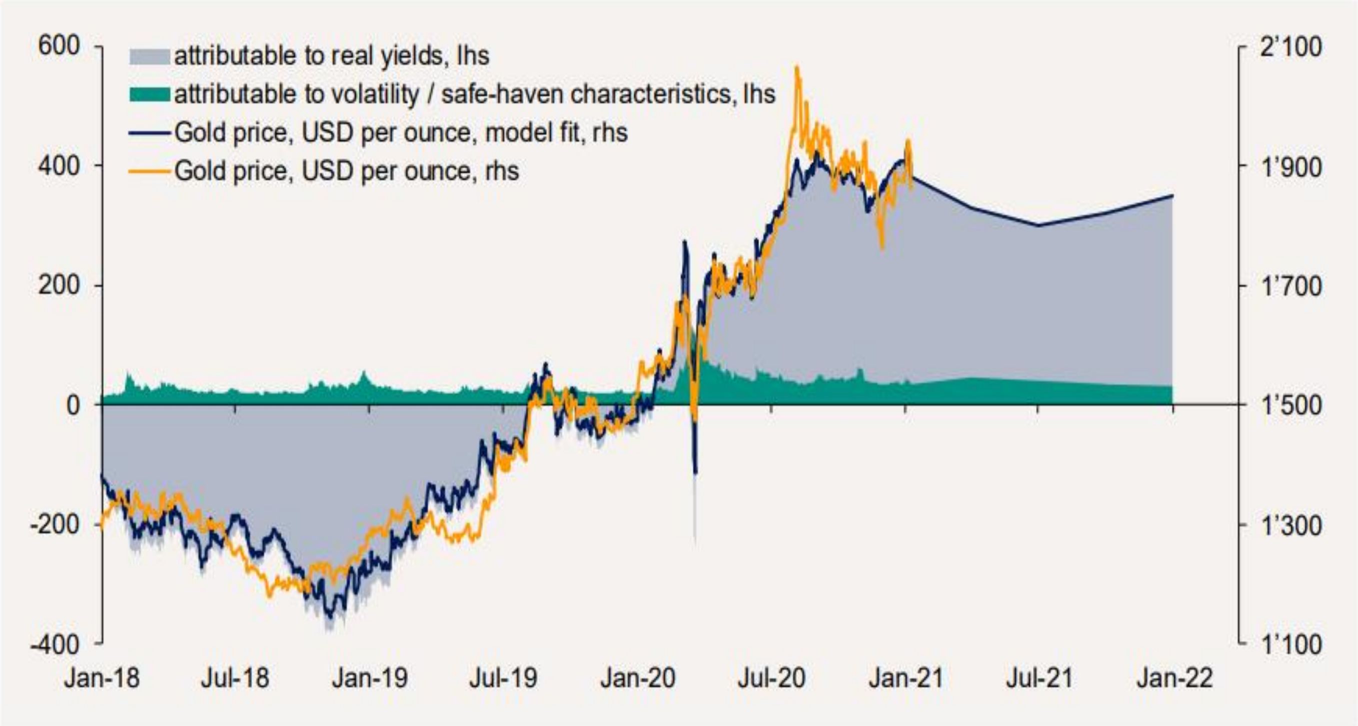
FX

Modestly rising real yields and waning virus uncertainties should weigh on gold



Note: Real yield and safe-haven attributions are calculated as their beta (obtained from a level regression) multiplied with the yield level / VIX

Source: Macrobond, J. Safra Sarasin, 12.01.2021

Pick ups lead to inflation

What if uncertainty/ volatility picks up?

Did not uncertainty / vol give gold a big boost in Q1 2020?

What other factors (than these 2) could influence gold?

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…and cyclical sectors

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Equity Strategy: Sector allocation

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Global Equities

Robust cyclical recovery boost energy and cyclical sectors, tech downgraded to neutral

Overweight	**Energy**	Soft US dollar should help as well as recovering demand as vaccine leads to gradual normalization of travel and mobility
	Banks (↑)	Attractive valuations and potential recovery on back of strengthening macro data
	Industrials	Supported by global manufacturing rebound, verified by latest batch of solid PMI numbers in December
	Consumer Discretionary	Valuations seem stretched but sector benefits from global cyclical upswing – in particular European discretionary
	Materials	Sector with highest correlation to US inflation expectations and heavily geared into EM cycle
Neutral	**Healthcare (↑)**	Significant underperformance and fading USD headwind limit downside potential
	Communication Services (↓)	Stretched valuations and upside for rates in reflationary environment are headwinds
	Information Technology (↓)	Stretched valuations and upside for rates in reflationary environment are headwinds
	Insurance	Low valuation consistent with sluggish growth outlook for insurance companies
	Real Estate	Clouded outlook for commercial real estate, as full fallout from current lockdowns will only materialize towards end of Q1
Underweight	**Consumer Staples**	Upside for rates puts staples into difficult spot as most defensive sector
	Utilities	Slow topline growth and rates headwind lower attractiveness but renewable utilities to benefit significantly from new US admin

Source: J. Safra Sarasin, 12.01.2021. An upward arrow (↑) indicates an upgrade for the sector, while a downward one (↓) indicates a downgrade. The number of arrows indicates the number of levels the sector has been upgraded or downgraded over the past month.

Cyclicals and laggards

Staples: what's wrong with «most defensive sector» for a private client?

Our focus: staples, healthcare, comms looks right for a conservative client

CONCLUSIONS: Commonality

- ***Watch earnings up/down-grades in 2021 as equity sector focus and portfolio positioning moving towards cyclicals***

- Econ recovery => cyclicals, EM, green themes, no bubble (UBS)
- Equities, no bubble, stick with USA and tech (Rothschild)
- Upgrades to equities, growth, no bubble (Pictet)
- UK, EM, China, cyclicals, small cap, energy, no bubble (BJSS)

- EM Asia, UK, green themes «hot spots»
- Gold not that popular, hasn't done much since Q2, but...??
- Greater conviction than in Q3, after vaccine news Q4

EXPECTED ASSET CLASS LONG TERM RATES OF RETURN

FORECASTS FOR 2021

UBS

…next 15 year returns for all asset classes…

UBS

Our capital market assumptions

Forecasts in local currency (except EM equities), annualized

	Forecasts for the next 15y	
	Return p.a.	Volatility p.a.
Liquidity		
Cash USD / EUR / CHF / GBP	1.6% / 0.5% / 0.1% / 1.0%	0.0%
Bonds		
USD / GBP high grade bonds 5–10 years	2.2% / 1.3%	5.1% / 4.6%
EUR / CHF high grade bonds 5–10 years	0.6% / 0.7%	4.1% / 4.3%
USD inflation linked bonds	1.5%	4.7%
USD corporate intermediate bonds (IG)	2.7%	4.8%
USD / EUR high yield bonds	4.9% / 3.6%	10% / 9.1%
USD / EUR senior loans	5.2% / 4.2%	7.5% / 7.4%
Emerging market sovereign bonds (USD)	4.9%	9.5%
Equities		
US	7%	15.9%
Emerging Markets (USD)	9.4%	20.7%
Eurozone	7.2%	17.8%
UK	8.1%	16.1%
Japan	5.1%	19.2%
Switzerland	6.4%	13.7%
Commodities	5.4%	17.5%
Alternatives – Hedge Funds (FoF; USD)	3.6%	5.6%
Alternatives – Other / Risk Parity (USD)	6.0%	10.1%
Alternatives – Private Markets – Private real estate (USD)*	6.3%	9.1%
Alternatives – Private Markets – Private equity (USD)*	10.5%	14.0%
Alternatives – Private Markets – Private debt (USD)*	8.0%	4.7%

* equilibrium returns
Source: UBS CIO GWM, as of 12 October 2020

NEXT 15 YEARS

Emerging Market equities highest returns, **+9%**

UK **+8%** strong

Japan **+5%** and CH **+6%** lag

Private equity markets **+10%**

Govt bonds **+2%** maybe too high?

Pictet

…USD asset class returns next 5 years…

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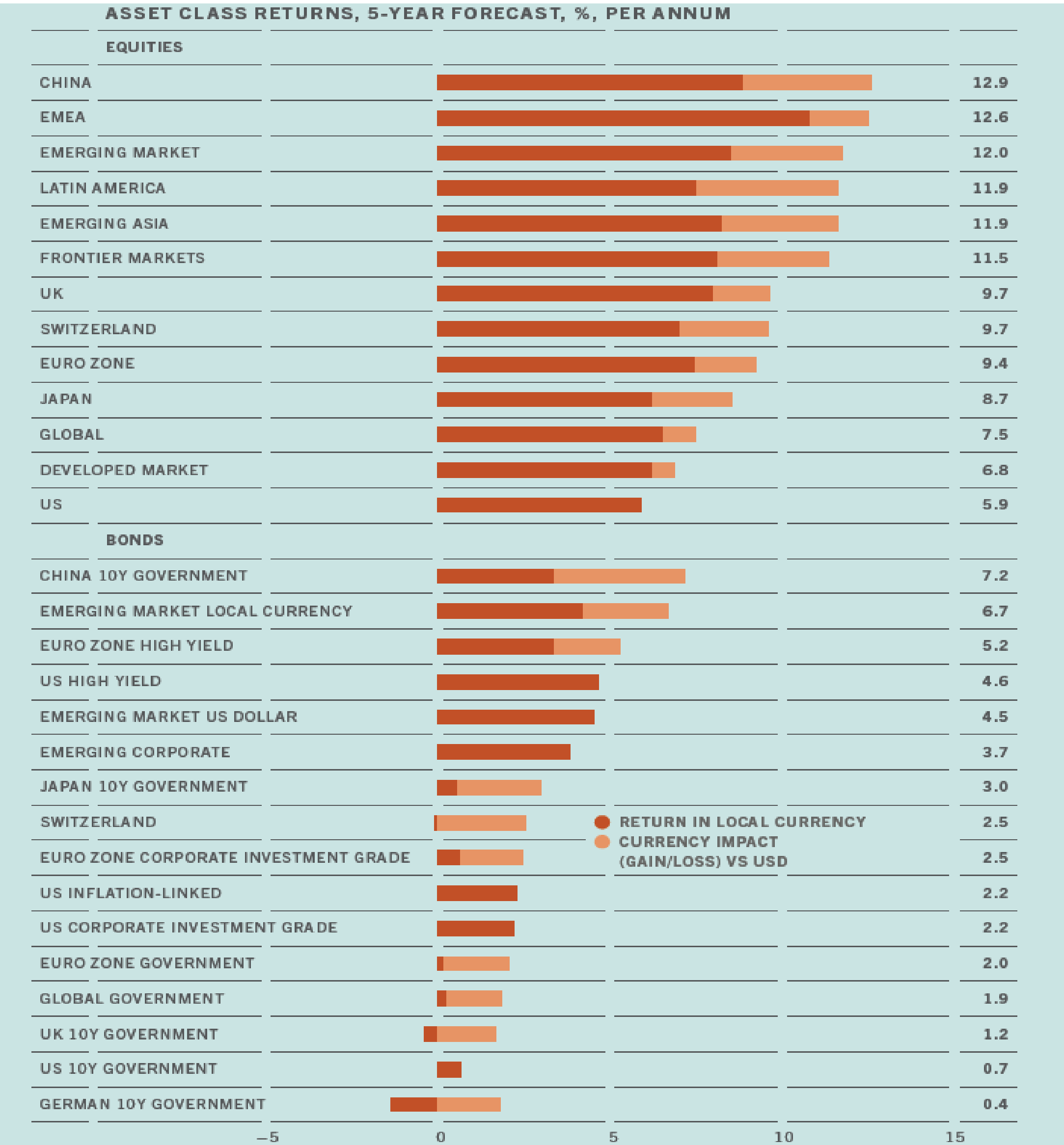


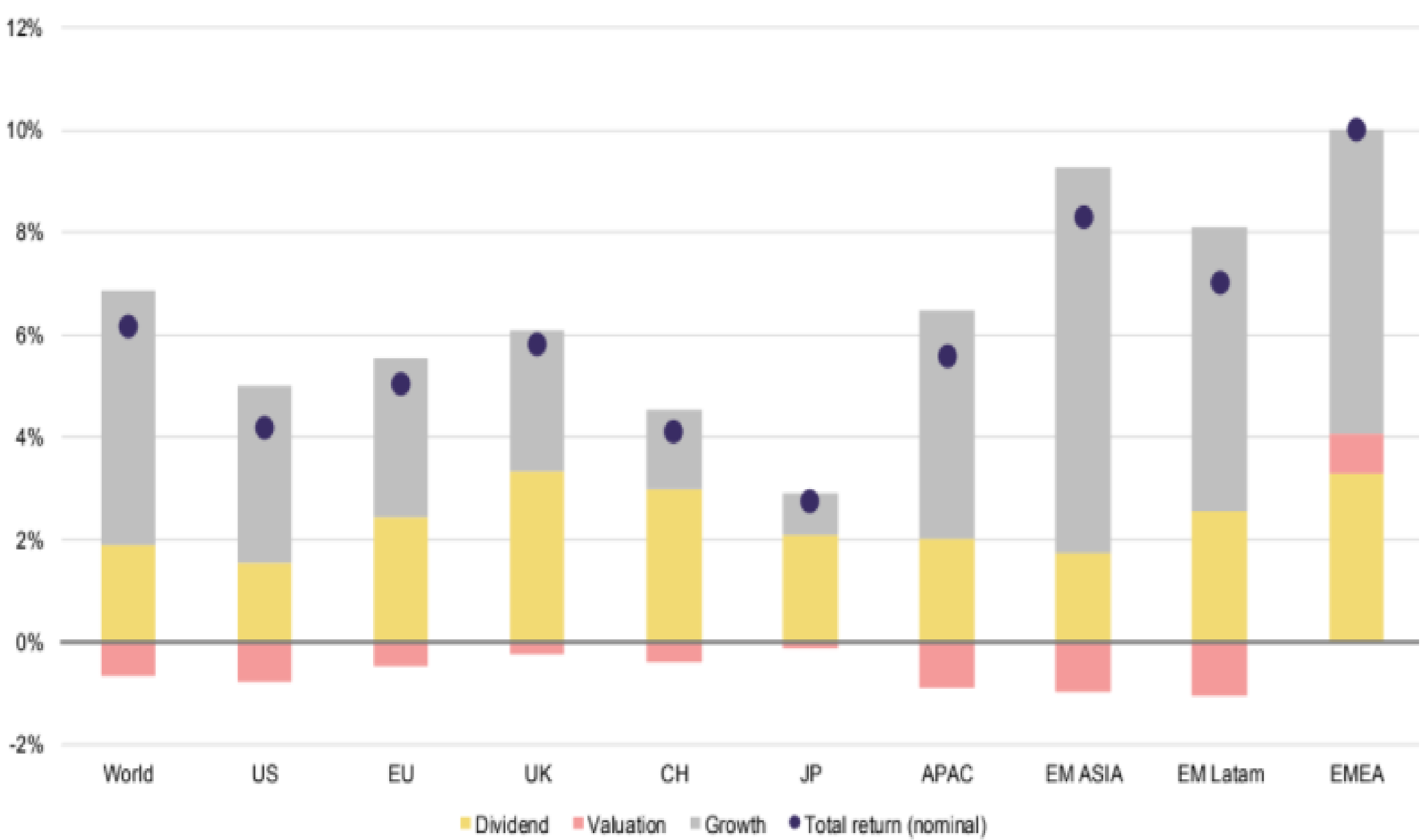
- USD returns **(local currency returns)**:
- USD weakness accounts for c15% many total return numbers
- USA underperforms
- Developed markets **+7.5% (+7.0%)**
- Most of Europe **+9.5% (7-8%)**
- UK **+9.7% (+7.5%)**
- Emerging equity markets **+12.0% (+8.0%)**
- Best EM equity = China **+12.9% (+9.0%**)
- Best EM debt = China
- **+7.2% (+4%)**, as RMB strengthens
- Local currency EM bonds **+6.7% (+4.5%)**

Rothschild

…+6.5% nominal returns next 10 years…

Rothschild & Co
Wealth Management

Plausible 10-year returns on stocks (% pa)



+6.5% nominal returns next 10 years = **+4.5%** real returns

Best nominal returns EM Asia **+9%/ 7%** real, EMEA **+10%**

Worst returns Japan **+2.5%,** USA **+4.5%/ 2.5%** real

Growth biggest single factor

UBS

…5th January estimate +25% in eps…

UBS

Overall earnings should return to pre-crisis levels in 2021

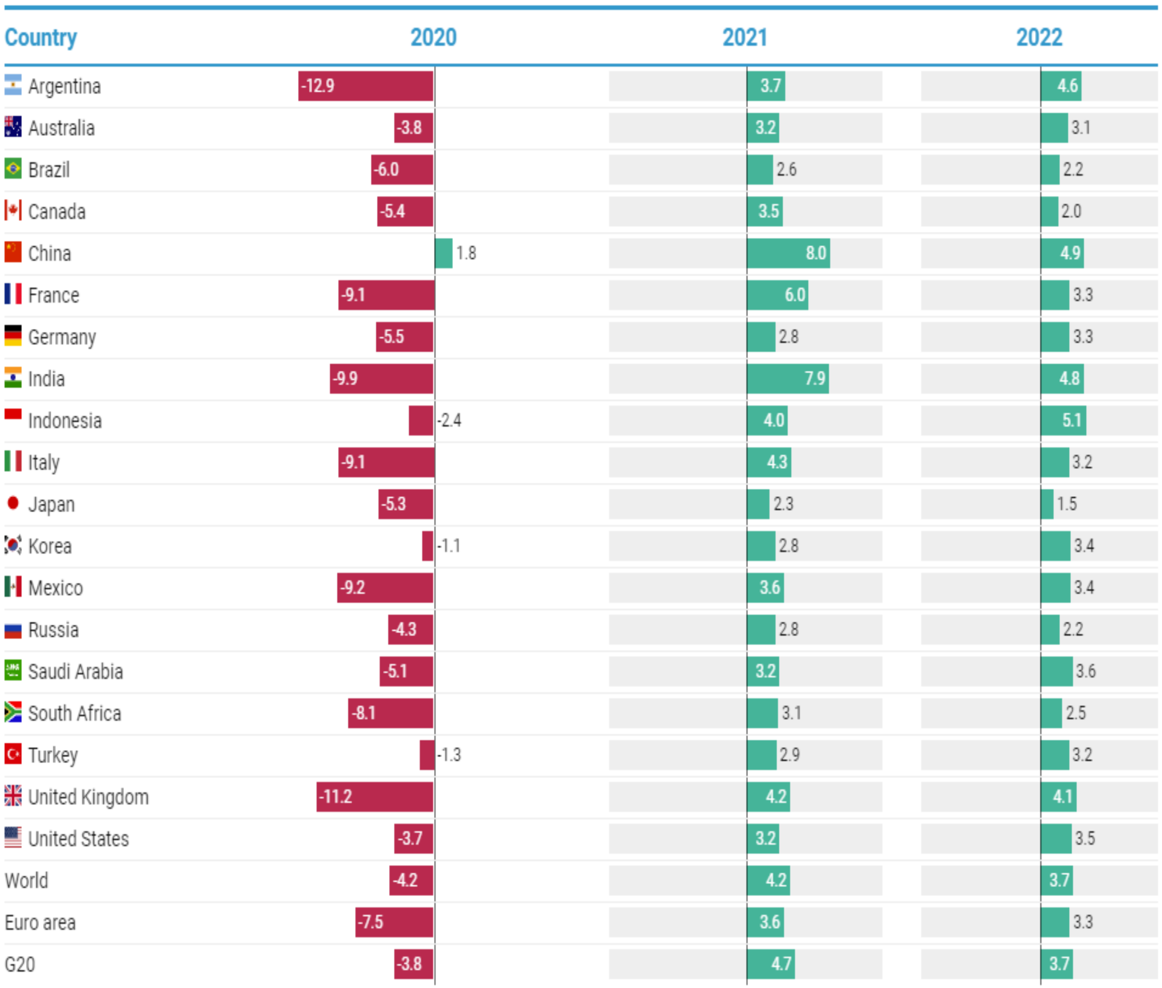
CIO estimate for earnings per share, rebased to 2019 = 100.

Earnings rebased	2019	2020	2021	2022	Share price performance year-to-date
US	100	84.5	103.3	120.5	9.7%
Asia ex-Japan	100	98.7	118.3	137.3	9.9%
Euro area	100	58.4	85.7	102.1	-6.8%
UK	100	55.0	75.9	89.9	-16.5%
Switzerland	100	91.0	101.9	112.5	-2.4%
EM	100	93.4	114.5	132.7	5.9%
Developed markets	100	83.2	103.8	119.8	6.3%
Global	100	84.4	105.2	121.9	6.3%

Note: Consensus estimates for 2022
Source: Refinitiv Datastream, UBS, as of 11 November, 2020

- «Risk On» overall; monetary and fiscal policy supportive
- Equity earnings catch up with pre-Covid levels end 2021
- USA outperformed RoW 10 out of last 11 years (Care!)
- EM + Asia ***best*** earnings per share (eps) growth 2020
- EUR area and UK ***worst*** eps growth 2020
- Global eps **+25%** in 2021

OECD Economics:
Growth pushed out to 2022 from 2021…



Generally, growth has been pushed out to 2022 from 2021…

…2020 GDP advanced economies **-4.2%** but recover fairly slowly in 2021 **(+4.2%)** and 2022 **(+3.7%)**

China only country to be positive in 2020 (**+1.8%**), with big snap back 2021 (**+8.0%**)

India **-9.9%** in 2020 but dramatic recovery 2021 (**+7.9%**)

UK worst performing major economy in 2020 (**-11.2%**), due to Brexit and Covid, but does better than EUR area in 2021 and 2022

Emerging markets do best 2021+ but not by so much as in the past

Covid «2»/«3» will be swing factor

Pictet

…inflation (*care as this is not discounted!*)…

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At some point, aided by the deployment of more unconventional monetary tools, central banks will succeed in generating inflation. Our best guess is that major central banks would be comfortable with a rate between 3 and 4 per cent – a moderate overshoot would compensate for recent periods when it was too low, allowing them to retain their sound credibility. Crucially, inflation of this magnitude would also help debt to GDP ratios to shrink even if governments were running primary budget deficits of around 5 per cent.

However, huge amounts of spare capacity in the economy mean that inflation is very unlikely to spring up significantly over the next year or two. It is only over a longer time horizon that a 3–4 per cent rate is a distinct possibility. Ultimately, policymakers face the choice between higher inflation and some form of direct or indirect restructuring of public debt. In which case, it won't be government bonds but gold and other alternative forms of money that will be winners.

A// OECD Inflation of **3-4%** pa halves a family's capital in real terms in just over a decade…*and also govt debt*

B// Fiscal pump priming with budget deficits of 5% of GDP is possible at the same time

A + B = Policy Nirvana, and some investors may not even notice erosion as people think «nominal» (but spend «real»!)….and the bottom 25% have no assets anyway…

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