Liechtensteinische Landesbank 1861
Tradition meets Innovation.

October 2020

Capital & Markets

Contents

Editorial

Dear Readers

The rapid upward movement on the equity markets temporarily pushed the MSCI World to a new all-time high on 2 September. However, this positive development at first glance was in the end supported only by a few technology and communication heavyweights in the US equity market. Our current focus topic, «US equity market: Elevated risk of a price correction» on page 8, and our equity strategy article on page 9 will take a closer look at this phenomenon.

A strong recovery in economic output is expected in industrial countries in the third quarter. However, it can already be seen that the growth path is flattening and that uncertainties are tending to increase rather than decrease. Please read our economy and interest rates article on page 6.

Another focus of this issue is the US Federal Reserve's announcement of a change in monetary policy. Is the weakness of the US Dollar this year a precursor of even more significant shifts? Find out more in our currencies article on page 5 and our economy and interest rates article on the following page.

Our bond markets article on page 7 takes a look at investment grade corporate bonds and somewhat riskier high-yield bonds.

This month's discussion of alternative investments on page 12 examines whether real estate equities are losers of the coronavirus crisis. Our commodities article looks at the situation on the crude oil market.

You will find concrete investment ideas on pages 10 and 11, ranging from rather defensive stocks such as Bell (Switzerland) and Eni (Europe) to the game manufacturer Electronic Arts (US) and Toyota, with a look at hydrogen (Pacific).

We wish you a stimulating read.

Yours faithfully

Markus Wiedemann
Chief Investment Officer

Market assessment

Currencies – page 5

- The new Fed strategy is associated with expansionary monetary policy for years to come. A sustained appreciation of the US Dollar is therefore not to be expected. The British government is raising doubts about an orderly withdrawal from the EU. This is weighing on the Pound.

Economy and interest rates – page 6

- GDP appears to be growing strongly in industrial countries in the third quarter. However, the recovery is not equally dynamic in all sectors. There is still a high degree of uncertainty in forecasting the course of the economy. The recovery has also begun in the emerging markets. Inflation this year is likely to have bottomed out.

Bond markets – page 7

- Although the performance of corporate and high-yield bonds has been good in recent months, the market is not ignoring the rising default rate. This means that for now, risk premiums are unlikely to narrow to the levels seen at the beginning of the year.

Equity markets – page 9 to 11

- An initial small correction in the US technology stocks with high valuations occurred at the beginning of September. The US presidential election is approaching rapidly and is likely to have a stronger impact on the markets in the next few weeks.

Alternative investments – page 12

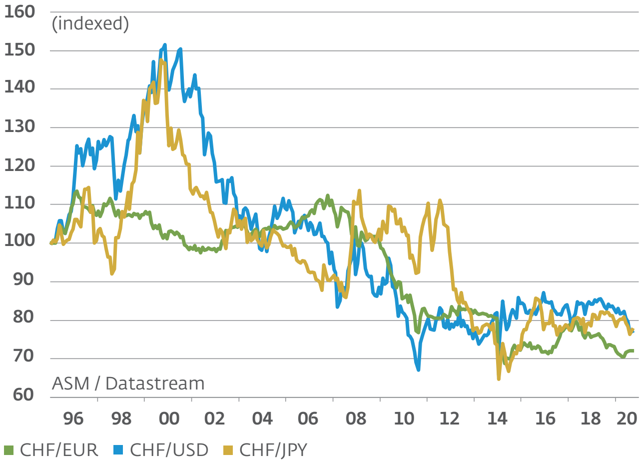
- The universe of global real estate equities is currently moving sideways and cannot keep up with rising equity markets.

- The good performance of the underlying asset classes is helping the hedge fund segment due to its directional orientation.

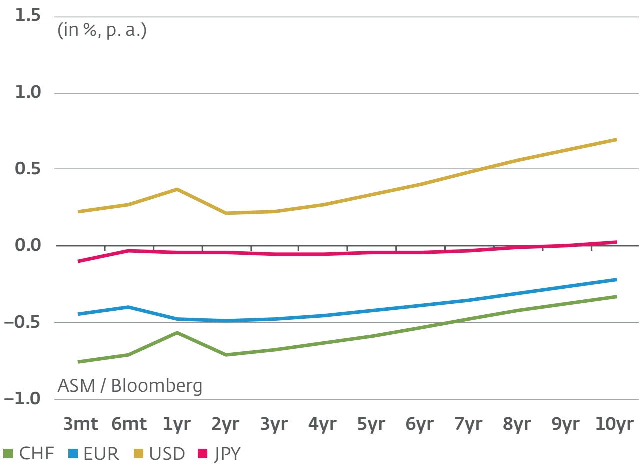
- Cat bonds have been gaining recently due to the narrowing of spreads and the reduction of above-average risk premiums.

- Demand is determining the price dynamics of commodities. Supply has been cut broadly and significantly.

CHF exchange rates EUR, USD, JPY



Yield curves CHF, EUR, USD, JPY



Macroeconomic indicators [1]

	Switzerland		Eurozone		UK		USA		Japan	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Gross domestic product, % yoy	–4.5	3.8	–8.1	5.5	–9.8	6.0	–4.0	4.2	–5.0	2.5
Consumer price index, % yoy	–0.6	0.1	0.4	1.0	1.0	1.8	1.0	1.9	0.1	0.5
Budget balance, % GDP	–5.0	–2.0	–9.6	–5.0	–13.3	–7.0	–17.0	–10.0	–11.0	–7.1
Public debt, % GDP	46	47	121	119	138	136	129	133	244	248
Current account balance, % GDP	8.5	9.0	2.4	2.6	–3.4	–3.7	–2.3	–2.5	3.0	3.2
Unemployment, %	3.4	4.0	8.1	9.3	5.7	6.9	8.5	7.6	3.0	3.2
Interest rates, 3 months Govt. bonds	[2] –0.8	[3] –0.7	[2] –0.6	[3] –0.5	[2] 0.0	[3] 0.0	[2] 0.1	[3] 0.1	[2] –0.1	[3] –0.1
Interest rates, 10 years Govt. bonds	[2] –0.5	[3] –0.4	[2] –0.5	[3] –0.3	[2] 0.2	[3] 0.3	[2] 0.7	[3] 0.8	[2] 0.1	[3] 0.0

[1] Sources: ASM, Bloomberg, OECD etc., [2] current, [3] 12-month view, as per August 2020

Currencies

The new Fed strategy is associated with expansionary monetary policy for years to come. A sustained appreciation of the US Dollar is therefore not to be expected. The British government is raising doubts about an orderly withdrawal from the EU. This is weighing on the Pound.

US Dollar (USD)

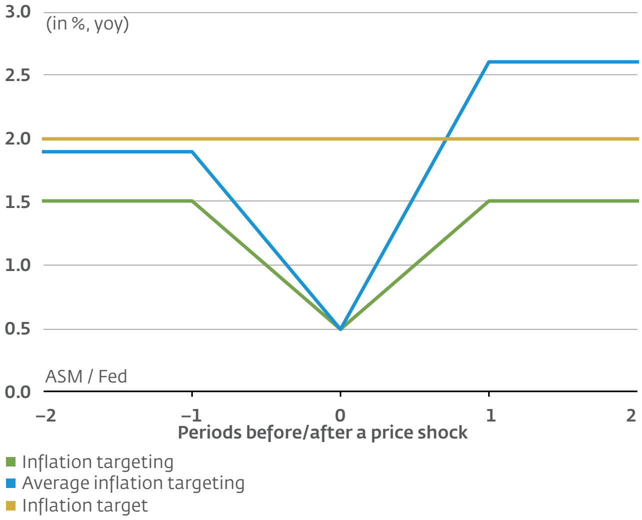
Following a review, the US Federal Reserve announced adjustments to its monetary policy strategy at the end of August 2020. Under the new strategy, the Fed will aim to achieve an average inflation rate of 2 % over time (average inflation targeting). If the target is not met in a given period, the new orientation allows higher inflation in subsequent periods. The central bankers will in future give higher priority to full employment than to price stability. The details of the new monetary policy remain unclear. For example, the relevant time frame and the allowable extent of inflation compensation are not clearly defined. The Fed has given itself considerable discretion. US monetary policy will remain expansionary for years to come. The new strategy entails risks. The upward trend in prices might accelerate beyond the desired target. But there is also a risk that the inflation target will not be met despite an extremely loose policy. These uncertainties are reflected in the current weakness of the US Dollar. Despite this, signs of economic recovery in the United States have recently benefited the US Dollar. In our view, the US Dollar should consolidate over the coming months. It is unlikely to exceed the mark of USD 1.20 per Euro.

Pound Sterling (GBP)

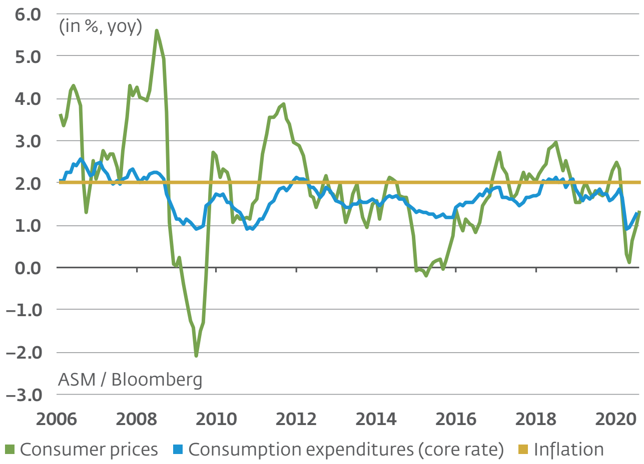
With the lifting of COVID-19 restrictions, the Pound has recovered, but it remains undervalued. Negotiations on a trade agreement with the EU are difficult. With its new legislative proposals, the British government is calling into question the transitional arrangements in force until the end of 2020. This is reflected in the recent weakness of the Pound. An orderly UK withdrawal from the EU is in doubt. Prime Minister Johnson gives the impression that he is willing to accept the economic consequences of a hard Brexit. His behaviour is increasingly undermining the mutual trust necessary for the negotiations. Political uncertainties in the UK, or even the failure of negotiations with the EU, would weigh on the Pound. The Pound could lose up to 10 % against the major currencies. In our view, opportunities for entry would arise if the Pound weakens beyond GBP 0.94 per Euro or approaches the CHF 1.10 mark.

Waldemar Lukas
Investment Class Researcher Fixed Income/Currencies

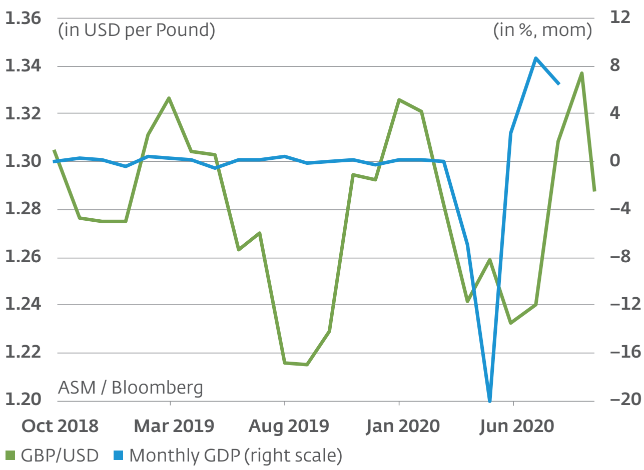
Schematic illustration of the new Fed strategy



Fed: Fulfilment of the price stability mandate



UK: The economy and the Pound



Economy and interest rates

In industrial countries, GDP is expected to grow strongly in the third quarter. However, the recovery is not equally strong in all sectors. In some service sectors, capacity utilisation is still significantly below normal levels.

Current data shows a strong GDP increase for industrial countries in the third quarter. However, the recovery that began in May has not been equally strong in all sectors. Retail sales in the Eurozone are meanwhile back to pre-crisis levels, and they are even higher in the United States thanks to financial assistance from the government. The industrial sector has meanwhile made up about half of the setback. In some service sectors, the recovery is sluggish. For example, Switzerland recorded about one million fewer overnight stays in July than in previous years despite increased domestic demand. Overseas tourists in particular have stayed away so far, which is especially affecting urban tourism. The value added of cultural and sporting events, trade fairs, and air travel is also still significantly below pre-crisis levels.

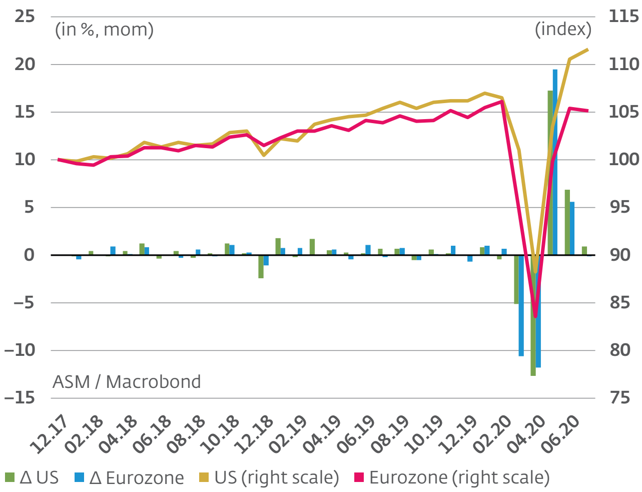
Emerging markets were hit particularly hard by the coronavirus crisis. In Brazil, the third recession in ten years has caused GDP to fall to 2009 levels. In India and South Africa, the setback undid the growth of the last five and ten years, respectively. A similar pattern of recovery can be seen as in the developed economies. The purchasing managers' indices for the manufacturing sector in most countries have meanwhile exceeded the expansion threshold of 50 points again.

There is still a high degree of uncertainty in forecasting the further economic trend. The number of new infections is rising again in Europe. If regional lockdowns become necessary, growth would be inhibited. Another escalation of the trade dispute cannot be ruled out either, following the worsening of the US trade balance in recent months. Despite these reservations, economic expansion should continue, but growth will slow down.

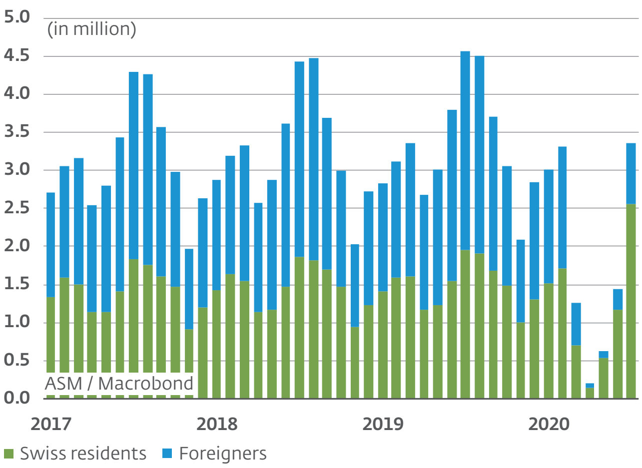
This year's inflation rates in industrial countries have likely bottomed out. Research on the development of core inflation in the United States has shown that the decline in the inflation rate is largely due to the fall in demand during the lockdown and the associated price cuts. These deflationary effects are now slowly subsiding. We do not expect a significant acceleration of the upward trend in prices in 2020/21.

Peter Goller
Chief economist

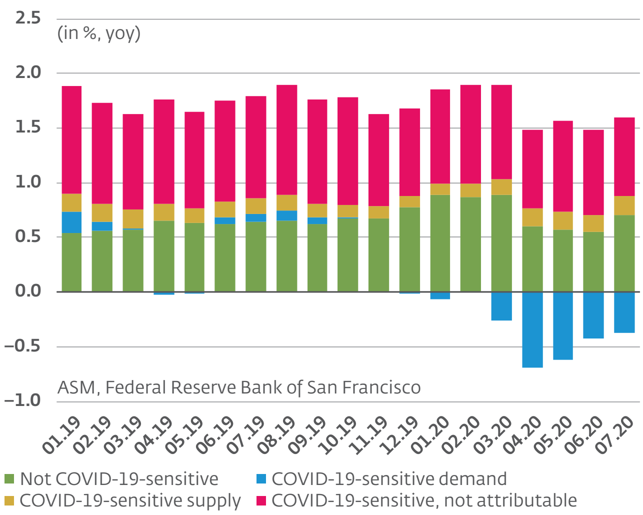
Retail sales



Switzerland: Number of overnight stays



US: Factors influencing core PCE deflator



Bond markets

Although the performance of corporate and high-yield bonds has been good in recent months, the market is not ignoring the rising default rate. This means that for now, risk premiums are unlikely to narrow to the levels seen at the beginning of the year.

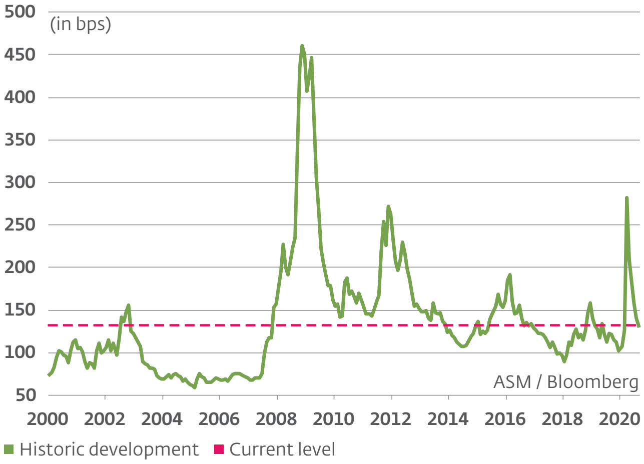
After the historically poor second quarter, the world economy is recovering. But for companies, the crisis is far from over. Since April, payment defaults have been above average. The rating agency Moody's reports that 155 companies have already been unable to meet their payment obligations this year, which is more than has been observed in recent years over the whole year. Most of the defaults have been in the United States. They have been low so far in Europe.

The default rate is increasing and is likely to reach its high in the first quarter of 2021. Despite this, risk premiums on bonds have fallen, even though they have meanwhile stabilised at a level that is still significantly higher than before the outbreak of the coronavirus crisis. The market appears to be pricing in an uncertainty premium in light of increased defaults and is taking a break for now to see how the pandemic and the world economy develop.

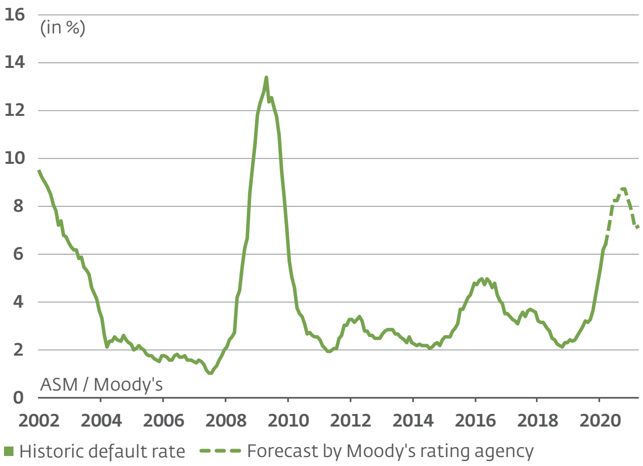
Interestingly, bonds with a credit rating of CCC, i.e. the riskiest securities within a hair's breadth of a default, have been in high demand in both the United States and Europe in recent months. This is motivated by the assessment that the economy has overcome the worst and that the recovery is continuing. Moreover, given that central banks have played an active role in recent years in supporting the economy and financial markets, they have raised investor expectations that they will be willing to act again if the situation deteriorates. Monetary policy has thus become a kind of safety net, giving investors enough confidence to invest even in risky securities in the current situation. Additional motivation is provided by the generally low interest rate level, which makes it difficult to earn any money at all with bonds. Nevertheless, a certain level of caution is still noticeable. The risk premium on high-yield bonds has not fallen to the same extent as on investment grade corporate bonds. While this may make high-yield bonds seem more attractive, the valuation difference is in fact likely to price in the risk associated with the rising default rate. Whether it is sufficient will depend on the future development of the economy. If it is not, a correction will not wait for long.

Roger Wohlwend
Investment Class Researcher Fixed Income

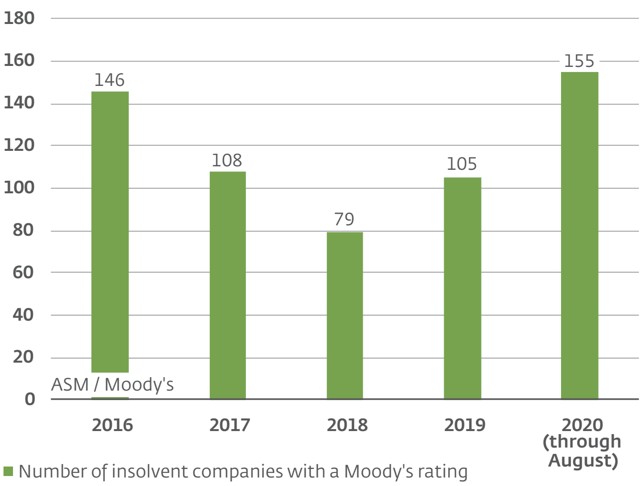
Risk premium on corporate bonds, global



Global default rate of high-yield bonds



A new record high of insolvent companies



US equity market: Elevated risk of a price correction

We currently consider the US equity market's valuation to be expensive, which limits earnings potential. Moreover, several internal market factors are deteriorating significantly. In our view, the market's susceptibility to correction has increased. How do we deal with this?

Apple and Tesla are increasing the number of outstanding shares via a stock split. The market reaction has been strange: more upward price jumps. At the same time, Tesla is taking advantage of the opportunity for a capital raise of five billion US Dollars, thus diluting existing investors. In general, investors in the US market have enjoyed a price performance of more than +50 % in the S&P 500 or even more than +70 % in the NASDAQ Composite since the low point after the first coronavirus wave at the end of March. A fine but important distinction is that index performance does not correspond to market performance. Looking at broader benchmarks or comparison measures based on different calculation methods, a more differentiated picture can be seen. For example, the broad Russell 2000 Index, which comprises small caps, is still trading significantly below the highs of February this year and is currently also losing positive momentum. The same applies to the Value Line Arithmetic Index, which is calculated using equal weighting. The important message to be taken away from this: The current rally is not broadly based. A few highly capitalised stocks are elevating the market.

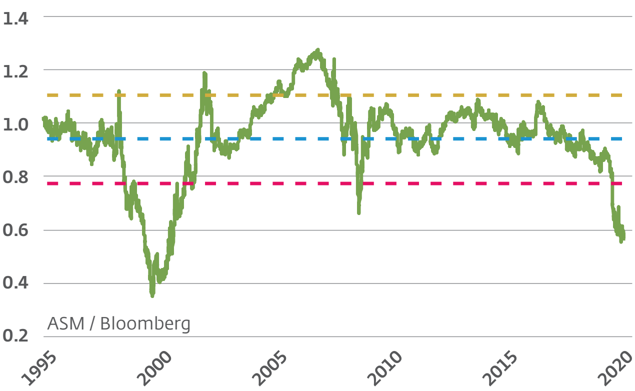
The valuation of US equities is at a record high – as evidenced by nearly all valuation ratios. Currently, investors are justifying the high share prices with reference to the equally record-low interest rates: the lower the interest rates, the higher the present value of a cash flow far in the future. This consideration increases the attractiveness of stocks that promise high future earnings. This is certainly an important reason why growth stocks are exhibiting better price performance than their value stock competitors. In terms of preferred styles, however, the investment community is collectively looking in the same direction right now. Such strong attention paid to the growth premium is rare historically and – above all – not stable over time. Our assessment: Investors are focusing exclusively on growth stocks in the current rally. The factor premium associated with value stocks is currently underappreciated on the market.

Although the market is not always accurate as a pricing mechanism – which is how active management justifies its existence – it is, however, a suitable instrument in principle for determining the value of a financial investment. The value of a share is nevertheless open to discussion at any time: By definition, buyers buy shares that are too cheap, while sellers sell their shares in expectation of lower prices. The options market is a tool for examining the positioning and expectations of investors in an aggregated form. The put/call ratio provides information on whether the market is expecting prices to rise or fall. A very one-sided positioning can be an indication of a trend reversal. If all passengers sit on the same side of the boat, there is a higher risk of tilting. We are currently observing a surplus of call options compared with just a few put options. The market is hedging against further price increases by buying call options, so to speak. Our conclusion is that the ratio has seldom been higher or the expectations in a further rise in share prices more pronounced.

Based on these observations, we are diversifying our portfolios and paying attention not to enter into style, sector, and factor exposures that are too concentrated. An investment portfolio must also be able to withstand a significant price correction on the US equity market.

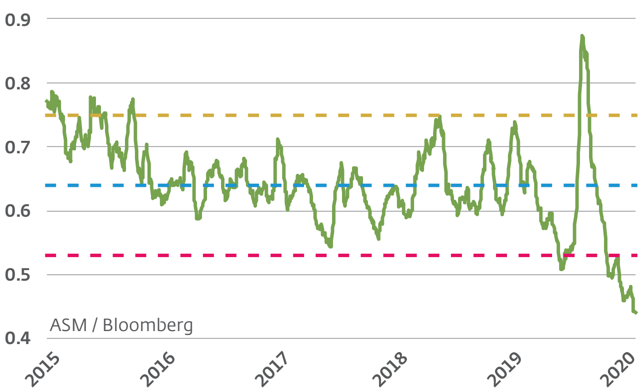
Timo Gruber
Fund Manager

Value stocks vs. growth stocks



■ S&P 500 Pure Value vs. S&P 500 Pure Growth
■ Mean
■ Deviation from the mean by +1 standard deviation
■ Deviation from the mean by –1 standard deviation

Ratio of put to call options



■ CBOE Equity Put/Call Ratio (average over 20 days)
■ Mean
■ Deviation from the mean by +1 standard deviation
■ Deviation from the mean by –1 standard deviation

Equity strategy

An initial small correction in the US technology stocks with high valuations occurred at the beginning of September. The US presidential election is approaching rapidly and is likely to have a stronger impact on the markets in the next few weeks.

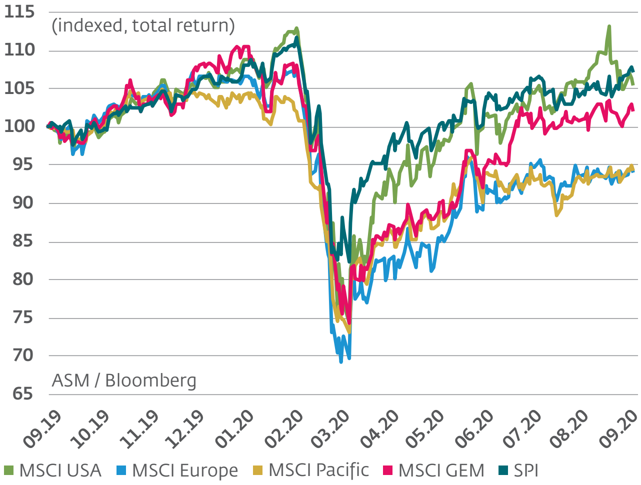
After the good summer months, are we facing a chilly autumn on the equity markets? Share prices are already largely pricing in next year's expected earnings recovery. Cyclical sectors in particular need a strong recovery in corporate earnings in order to grow into their valuations. The adjacent chart shows regional performance (in CHF) over one year, with the MSCI World gaining 2.5 % since the beginning of the year. The last meeting of the US Federal Reserve was not actually very spectacular. The mere fact that not an even bigger support programme was announced sufficed to cause share prices to fall. This once again shows that the market cannot do without support from the Fed.

Technology is the dominant factor when analysing regional performance. Comparing Europe with the United States, the first striking fact is the high weight of US IT with a share of 29 %. In Europe, the weight of IT is just under 8 %. The chart illustrates that performance of the IT sector was generally positive in both regions, but even better in the US. There is the additional phenomenon that even within the US, the concentration on very few companies has led to a skewed distribution of returns. The five largest companies – Apple and Microsoft (technology), Amazon (consumer discretionary), and Alphabet and Facebook (communication) – now account for 25 % of total US market capitalisation. Other sectors are performing very similarly across regions. In what is currently the cheapest sector, banks in the two regions are in a race with each other (see chart), which means that the US market has not had a performance advantage in this sector.

The US elections are rapidly approaching, and the question arises whether and how one might position oneself for the possible election outcomes. The most important factor resulting from a Democratic election victory, with corresponding majorities in Congress, would most likely be a relatively quick reversal of the 2017 tax reform. An increase in the corporate tax burden from 21 to 28 %, i.e. by one third, would have direct consequences for shareholders. This means that the entire US equity market would become significantly more expensive at the level of price/earnings ratio. We do not believe the market is already pricing in this scenario. In this situation, we recommend that investors keep their equity exposure slightly below the strategic allocation until the elections are over.

Christian Zogg
Head Equity and Fixed Income Management

Equity markets in Swiss Francs – 2 years



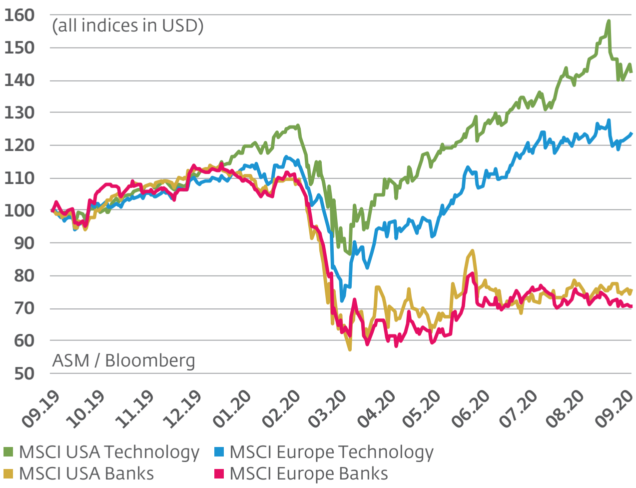
Regional valuation

	EPS growth		Price / earnings		Dividend yield	FCF yield*
	***FY20	FY21	FY20E	FY21E	FY20E	FY20E
USA	–15.0 %	24.0 %	25.4x	20.1x	1.6 %	3.9 %
Europe	–33.2 %	37.1 %	22.4x	16.1x	2.9 %	3.4 %
Switzerland	–10.7 %	15.9 %	21.6x	18.2x	2.8 %	3.9 %
Pacific	–18.1 %	25.5 %	20.7x	15.5x	2.6 %	4.5 %
GEM**	–6.2 %	31.2 %	17.9x	13.6x	2.2 %	4.0 %

* free cash flow yield, ** global emerging markets,
*** FY = fiscal year

Source: ASM / Bloomberg

Sectoral comparison of US and Europe



Switzerland

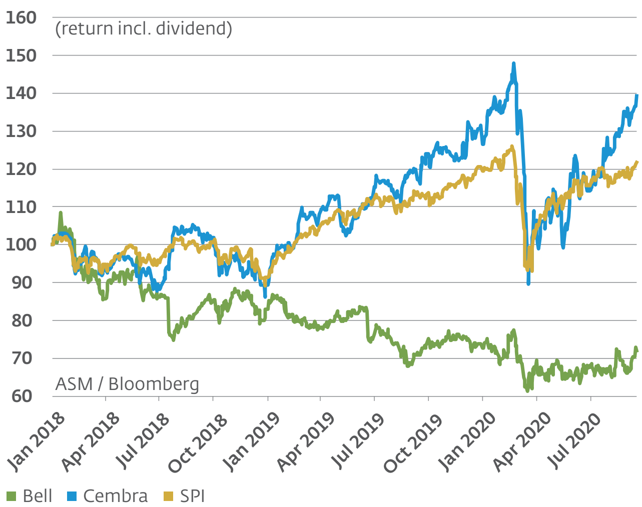
We now recommend buying shares of the food manufacturer Bell due to stable market conditions and an attractive valuation. On the other hand, we recommend taking profit on Cembra in light of economic factors.

The two heavyweights Bell (two-thirds owned by Coop) and Micarna (100 % owned by Migros) dominate the Swiss meat and seafood market with over 50 % market share. Their ownership clearly defines the respective roles and main customer relationships. Given that no other supplier comes even close to reaching such market shares, this de facto duopoly benefits from economies of scale and entry barriers. Bell has been able to increase its sales by 5 % per year over the last ten years thanks to acquisitions and international expansion. At nearly 7 % NOPAT/enterprise value, the share is attractively valued and does not even require growth for an attractive future total return. We therefore now recommend Bell as a buy.

At Cembra, the leasing business could become more difficult because car manufacturers will compete even harder for market share during the crisis – including with low leasing rates. In addition, consumer demand is gloomy due to the high level of uncertainty. This affects the leasing business as well as growth in consumer credit and credit card sales. Credit losses could also follow, given that the coronavirus is hitting certain industries very hard, with low income groups being hit even harder. This constitutes a risk, since Cembra's business model includes enabling consumers with often lower incomes to consume despite their lack of funds. We recommend selling Cembra shares and realising profits.

Thomas Kühne
Fund Manager LLB Equities Switzerland

Take profit at Cembra – buy Bell



Europe

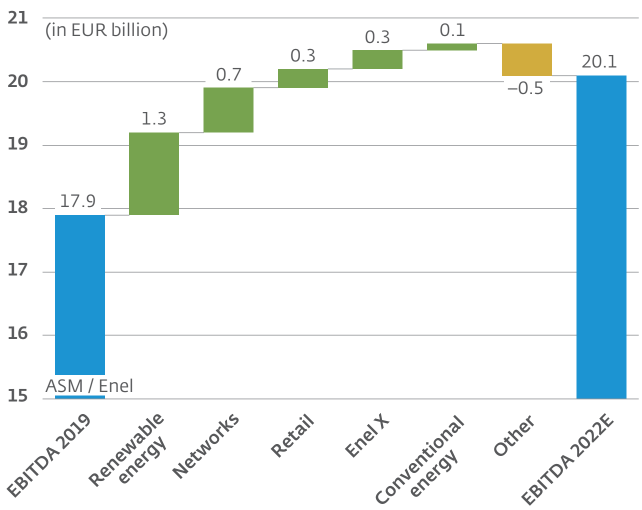
After the recovery phrase over the past few months, European equity markets have recently begun moving sideways, so we believe it is time again to take a closer look at the more defensive sectors.

Utilities are one of the sectors that currently has an attractive valuation and should also benefit from an attractive long-term structural growth trend thanks to the European Commission's planned Green Deal. The European Commission's goal is a climate-neutral Europe by 2050. To achieve this, greater emphasis is to be placed on renewable energy sources. The hydrogen strategy also presented by the European Commission will likewise lead to a strong increase in electricity demand from renewable energy sources in the coming years.

To participate in this megatrend, we currently recommend Enel shares. The company is the largest producer of renewable energy worldwide with an installed capacity of more than 46 gigawatts. In addition, Enel is planning to invest heavily in expanding its renewable energy capacity over the next few years and at the same time to significantly reduce electricity generation from environmentally harmful thermal power plants. One of the aims is for the expansion of renewable energies to increase EBITDA by more than 12 % by 2022 compared with 2019. Despite the high share of renewable energy and good growth prospects, Enel is currently trading at a discount to the sector and the market. We believe Enel's high dividend yield of currently more than 4 % to be an additional positive factor.

Robert Binder
Fund Manager LLB Equities Europe

Enel – EBITDA forecast through 2022



North America

Electronic Arts Inc. is a leader in the video game industry. A consistent digital sales strategy is contributing to a significant increase in margins and cash flows. The coronavirus pandemic is not likely to slow down the company's success – on the contrary.

Electronic Arts Inc. (EA) develops games like FIFA, Madden NFL, and Battlefield that are rolled out worldwide on Microsoft and Sony consoles as well as computers and smartphones. The pillars of the company's success are its strong game brands, its digital distribution channel with content streaming, and its new bundle strategy, where access to game libraries is sold together with the hardware. Also in the entertainment industry, software solutions are playing an increasingly important role relative to hardware, and the transformation to the cloud is opening up major growth potential. Sequels over several years create the basis for recurring, relatively secure game revenue.

Over the next few years, sales growth is expected to be in the high single-digit percentages, with a gross profit margin of more than 75 %. EA's balance sheet shows no debt, but rather a comfortable cash cushion. EA's valuation is significantly lower than that of industry competitors. Even though the game industry is very dynamic, only few developers are able to build strong game brands. Many smaller companies are one-hit wonders, not real competitors. Should the coronavirus pandemic dampen consumer spending in the medium to long term, we consider EA to be very well positioned: immediate, easy availability of content, no risk of infection when playing at home, and far fewer ethical concerns compared with online gambling.

Timo Gruber
Fund Manager LLB Equities North America

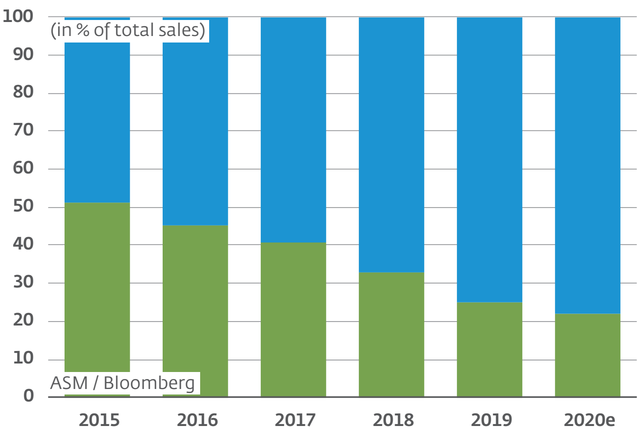
Pacific

Such stuff as dreams are made on: H2 – hydrogen! At the 32nd Summer Olympics, Japan wanted to show the world how hydrogen technology and innovation can pave the way to sustainability. The pandemic had other plans.

But Japan has been intensifying this development for several years with its consistent hydrogen strategy. Some companies keep surfacing in the various production, storage, and distribution initiatives: Toyota, Honda, Panasonic, energy suppliers, and the trading houses. But what makes hydrogen so interesting? The trump card is its ability to couple energy in a wide range of forms and applications, bringing together transport, buildings, electricity, and heat. Where hydrogen is produced by water electrolysis using excess green energy, it is not only green, but also solves the storage problem. Toyota, for example, has built up a wealth of expertise, manufacturing everything from fuel cells to the finished Mirai vehicle model. Unlike other electric vehicles, hydrogen vehicles produce their electricity themselves, which means they have their own power plant on board. Electric power is fed into the electric motor and/or battery as needed. The greatest advantage for the user: electric drive, short charging time, and long range. The disadvantages: the current lack of infrastructure and the high acquisition costs. Japan is investing in a nationwide hydrogen station network. If it is worth investing in the technology, costs can consequently also be reduced. Toyota has an attractive valuation and is again likely to generate a free cash flow yield of more than 10 % in the next fiscal year.

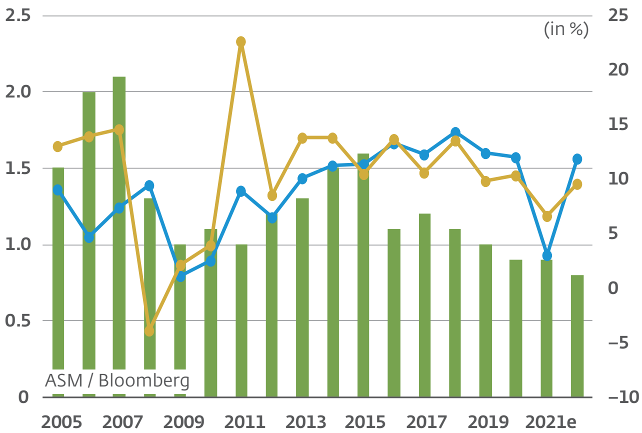
Christoph Hilfiker
Fund Manager LLB Equities Pacific

Sales by distribution channel



■ Online (digital sales via live services, downloads, subscriptions, etc.)
■ Offline (sales with physical games, bundles, etc.)

Toyota – leader in fuel cells



■ Price/book ratio (left scale)
■ Free cash flow yield (right scale)
■ Return on equity (right scale)

Alternative investments

Real estate equities

Real estate equities are not losers in the coronavirus pandemic as such. We are maintaining our overweight.

Empty hotels, empty offices, empty shopping centres. An urban exodus from expensive rental flats in the big cities to single-family homes in the suburbs or even in the countryside – made possible by working from home. Nursing homes with massively higher costs due to hygiene equipment and «war payments» in homes with COVID cases, at lower occupancy. The apocalypse could not have been much worse for real estate equities – so does that mean hands off the sector and our LLB Equities Real Estate Global (CHF) fund?

Not so fast. The sector – and especially our fund – are dominated by equities that benefit from the coronavirus pandemic. It is worth taking a look at the largest positions. American Tower, Equinix, Weyerhaeuser, Prologis, and Public Storage are the clear global market leaders in their respective sectors that benefit from the pandemic. The number 2 and 3 in the mobile communications antenna sector – Crown Castle and SBA – are also part of this group. Mid-America and Camden focus on housing in the American South – the Sunbelt, a region that was already a natural magnet for people moving from places like New York even before COVID. The other major positions also hide several pearls, such as Easterly and Alexandria. While these are classified as part of the office sector, they focus on buildings for armed units (FBI, DEA, etc.) and laboratories that cannot be replaced by home offices.

Thomas Kühne
Fund Manager LLB Equities Real Estate Global

Commodities

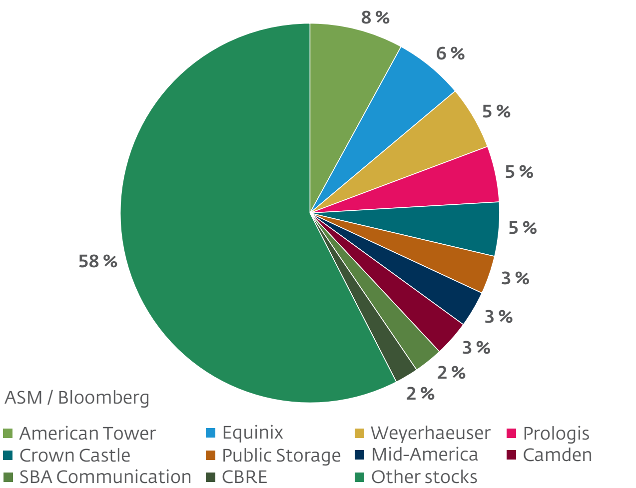
The entire commodities segment is recovering only at a below-average rate from the coronavirus crisis. The broad benchmark, the Bloomberg Commodity Index Total Return, is still about 10 % below the level at the beginning of 2020.

The dynamics of crude oil are an example of the developments in the – cyclical – commodities segment. Suppliers reacted quickly and decisively to the coronavirus demand shock. Supply was reduced by up to 25 %. Most significantly, US companies shut down large parts of their shale capacities. The preceding surplus production replenished inventories for a short while, depressing the price of crude oil. Looking at the WTI oil futures curve, the following is striking: One year ago, the curve was in backwardation, and the expected price of a barrel of WTI in 2025 was USD 53. Currently, the curve is in contango and is even more pronounced than one year ago and three months ago. The market is therefore implying a situation of oversupply that is not getting better. In light of the massive supply reductions, this points to a persistent weakness in demand. The fallen price expectations for a barrel with delivery in March 2025 of less than USD 47 also support this assessment.

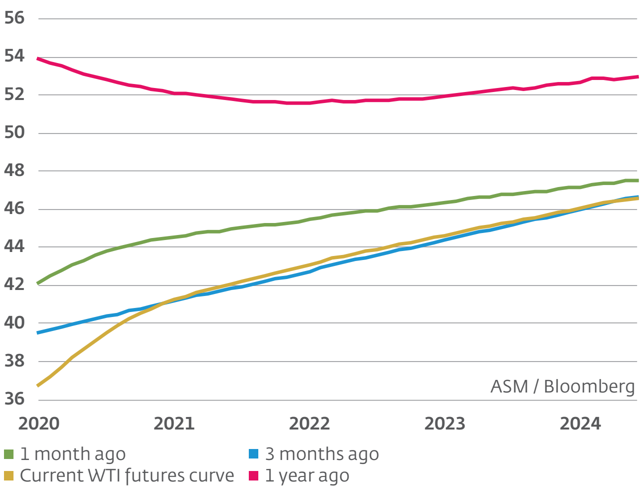
Because commodities are traded in USD, currency developments play a significant role especially for demand from emerging economies. An improving demand situation would therefore require continued weakness of the US Dollar. The further course of the coronavirus crisis is also still important. A second global lockdown would be an extremely negative event for commodity prices, given that the recovery in demand would be severely impaired.

Timo Gruber
Investment Class Researcher Commodities

Positions in LLB Equities Real Estate Global (CHF)



WTI oil futures curve



Advisory models

LLB Invest – your assets in good hands

Traditional investment advice and asset management meet innovative, modern advisory models. Whether you want to delegate the management of your assets and enjoy the other things life has to offer or you prefer to take the active role in making investment decisions, LLB offers a tailor-made solution for both private and institutional clients: LLB Invest.

Straightforward and easy to understand
We provide transparent and professional investment advice and asset management. You decide on the right solution for investing your assets.

Flexible and individual
You and your personal wishes are central. LLB Invest can be tailored to fit you perfectly.

Clear and transparent
Our advice is systematic and understandable. We carry out ongoing analysis of your assets, provide detailed performance reporting, and make concrete recommendations for you to invest your wealth optimally.

With LLB Invest, our focus is on your assets at all times, from a range of perspectives.

Security and monitoring
You decide how intensively you want us to monitor your portfolio in line with your own individual investment strategy. Depending on the advisory model you have selected, we will inform you if we notice any deviations from your investment strategy.

Advisory services and management
All of the advisory models include personal advice and individual support for your investment decisions. It is up to you to decide the frequency, the communication channel and the scope of the advice. You will also be able to call on our investment specialists' know-how.

Optimisation and performance
You decide whether you want us to send you new investment recommendations if your portfolio moves outside of the agreed parameters or if we see new market opportunities. An annual performance report is included as standard in all models.

Our advisory models

	LLB Basic	LLB Consult	LLB Expert	LLB Comfort
Objectives	Personal – partnership-based support	Security-conscious – first-class advice	Dedicated – always abreast of the market developments	Stress-free – outstanding asset management, optimised continuously
Characteristics				
Advantages	✓ Personal advice ✓ Standardised investment recommendations	✓ Excellent risk management ✓ Personal advisor ✓ Individual investment recommendations	✓ Excellent risk management ✓ Highest flexibility in terms of portfolio selection ✓ Personal advisor ✓ Access to investment specialists ✓ Pro-active information on market opportunities ✓ Tailored, expanded investment recommendations	✓ Excellent risk management ✓ Highest flexibility in terms of portfolio selection ✓ Personal advisor ✓ Access to investment specialists ✓ Comprehensive service ✓ Active exploitation of market opportunities ✓ Detailed performance reporting

LLB Comfort – our discreationary portfolio management

Securing and profitably managing your assets is our most important concern. As an effective and capable partner, we are happy to support you in all aspects of asset management.

Macroeconomic, regulatory, and sociodemographic factors increase the complexity of management tasks. At the same time, investors are rightly demanding increasing flexibility from their asset managers and consideration of their individual needs. The range of services offered by LLB Comfort – the asset management mandates of the LLB – is based on these requirements.

By working together with us in this way, you enjoy the following benefits:

- You can be certain that your assets will always be looked after in the best possible way and that your wishes will be taken into account.
- Through permanent monitoring of your portfolio, we strive to improve performance continuously. This means that our specialists systematically search the market for risk premiums and investment opportunities and use them to your advantage.
- You gain more time for other aspects of asset management because you delegate routine tasks to the specialists of LLB Asset Management.
- Your personal client advisor is still your direct contact for all financial matters. Your client advisor will also be happy to assist you with other tasks in the management of your assets.
- We provide you with regular, transparent, and comprehensive information about the development of your assets – with reporting that presents the investment performance transparently and is verified in accordance with international standards (GIPS).
- We explain our investment decisions in an understandable way – especially because we are convinced that demanding and well-informed clients are the best partners for the long term.

By far the most important factor for investment success is the choice of a suitable strategy. Our client advisors have the knowledge and the means to work with you to find the investment strategy that is tailored to your personal situation.

As individual as our clients are, so different are their needs. We analyse your current asset situation and your investment objectives. We take into account temporal factors such as your earnings expectations, your risk tolerance, and your investment horizon. We pay particular attention to your life situation and your liquidity requirements. In a next step, we work with you to define the investment strategy that suits you best. Based on your investment profile, we make broadly diversified investments and actively manage your assets.

Our experience shows that investors' needs are usually focused on a few typical risk-return profiles. We present these strategies on the next page. We offer these profiles in a risk-controlled and optimised manner in the reference currencies CHF, EUR, and USD. We are happy to include any of your expectations that may go beyond this. Together, we design an investment strategy that is tailormade for you.

Optimisation and performance

We use a systematic, value-oriented process when selecting securities and funds. Under this process, we invest in securities with favourable valuations and take advantage of their long-term potential to generate above-average returns. We strive for broad diversification both among asset classes and among individual securities within asset classes, given that diversifiable risks are not compensated by the markets. Our globally diversified asset allocation results in high foreign currency exposures. We hedge most of these exposures and invest the freed-up risk budget in return-generating asset classes.

Under our agreement with the client, we deviate from the contractually determined weights of the asset classes to a defined extent. In doing so, we make the best possible use of special market conditions. In our investment committee, we think in terms of earnings expectations over 12 months. We periodically and systematically examine quantitative and qualitative factors. Using our proprietary optimisation software, we construct efficient portfolios that make use of a predefined risk budget to maximise expected returns. We provide an overview of our wide range of products on the following pages.

Investment strategies and tactical asset allocation

Strategies at a glance

As part of our LLB Comfort asset management, we offer our clients a broad range of investment strategies that fulfil all the requirements in relation to investment horizon and the use of different asset classes. All our strategy models have an outstanding risk/return ratio.

LLB strategy models
The LLB strategy models make investments with different weightings in classical asset classes such as money market investments, equities, and bonds. In addition to government and corporate bonds, we also consider convertible bonds, inflation-linked bonds, and high-yield bonds. We pay the utmost attention to the high quality of the securities. We offer six different risk/return models, each in three reference currencies (CHF, EUR, and USD). We call these models Fixed Income, Conservative, Yield, Balanced, Growth, and Stocks. Both the risk and return expectations and the necessary investment horizon for the investor increase in that order.

Investment themes
Supplementing the classic World strategy, we offer a wide range of thematic implementations, each with a different focus – such as Sustainable, Switzerland, Passive, and Alternative. Further details can be found on the following pages or in our LLB Comfort publications.

Liquidity	Overweighting
Bonds	
Investment-grade bonds	Underweighting
Inflation-linked bonds	Overweighting
High-yield bonds	Neutral weighting
Emerging-market bonds	Overweighting
Convertible bonds	Underweighting
Equities	
Developed markets	Underweighting
Emerging markets	Slight underweighting
Real estate equities	Slight overweighting
Alternative investments	
Commodities	Neutral weighting
Hedge funds	Overweighting
CAT-bonds	Overweighting

Tactical asset allocation

New Fed strategy putting downward pressure on US Dollar
Following a review, the Fed adjusted its monetary policy strategy at the end of August. It will now try to achieve an average inflation rate of 2 % over time. The new orientation allows US monetary policy to tolerate inflation above the 2 % mark, and it will accordingly remain expansionary in the coming years. This will dampen the US Dollar. We are maintaining our neutral currency weighting.

No change in bonds
The increasing default rate and the high level of uncertainty would actually suggest a reduction in the allocation of risky bonds. However, risky bonds have already priced in precisely this environment. Their risk premium has not declined to the same extent as investment grade corporate bonds. They are also being supported by investors' search for yield and the lack of alternatives. This is why we are keeping our neutral weight in high-yield bonds and our overweight in emerging market bonds unchanged.

Equity markets in the run-up to the US elections
The MSCI is only slightly below its all-time high. We are rapidly approaching the US elections, so uncertainty is likely to increase further. If the Democrats win the election, the 2017 tax cut in particular is likely to be up for debate fairly quickly. This would have a direct negative impact on corporate earnings. In our opinion, the equity market is not sufficiently pricing in that scenario. We recommend a moderate underweight in equities for the time being.

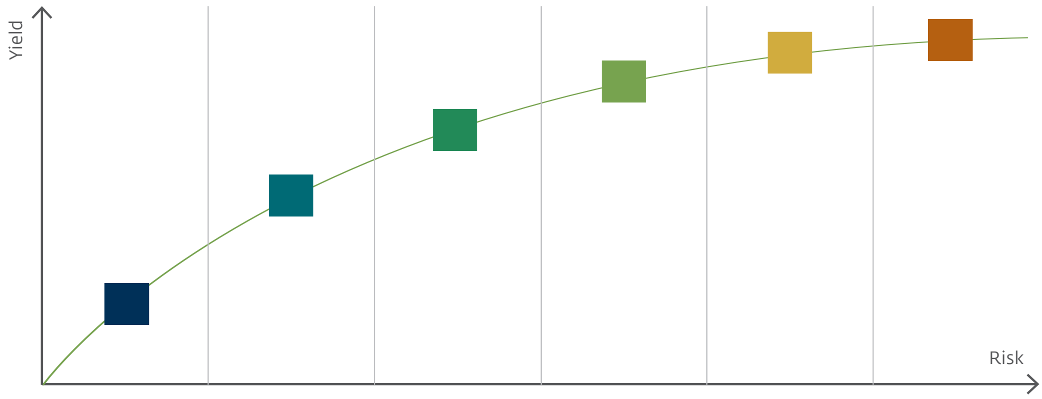
Real estate and alternative investments (incl. cat bonds)
Despite their interesting valuation, global real estate equities have been unable to catch up with the overall market. The valuation difference is therefore widening, which is why we are maintaining our overweight. We are maintaining our tactical allocation in cat bonds, given that there is still potential for narrower spreads and risk premiums remain attractive. The influence of the equity markets on hedge funds continues. Due to the high valuation of individual equity markets, we remain selective and neutral in our hedge fund positioning. In commodities, we are maintaining our neutral position given the current uncertain environment. While the supply side has been reduced, the demand side remains under pressure due to the renewed spread of the coronavirus.

Return and risk of LLB investment strategies

We offer our clients investment strategies tailored to their needs, goals, and possibilities, with varying levels of equity exposure in the reference currencies CHF, EUR, and USD. Investment horizon, risk tolerance, and asset structure play a decisive role in asset management.

Strategies at a glance

	Fixed Income	Conservative	Yield	Balanced	Growth	Equities



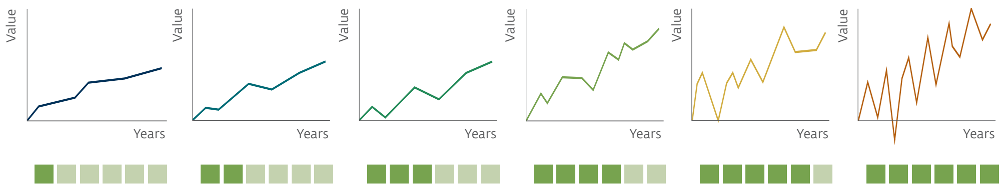
Investment goals

Capital preservation

Capital growth

Investor profile

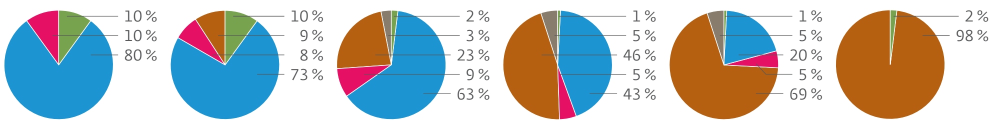
Willingness to bear asset fluctuations



Recommended invest. horizon	> 2 years	> 2 years	> 4 years	> 6 years	> 8 years	> 10 years

Structure

- Liquidity
- Bonds
- Convertible bonds
- Equities
- Alternative investments



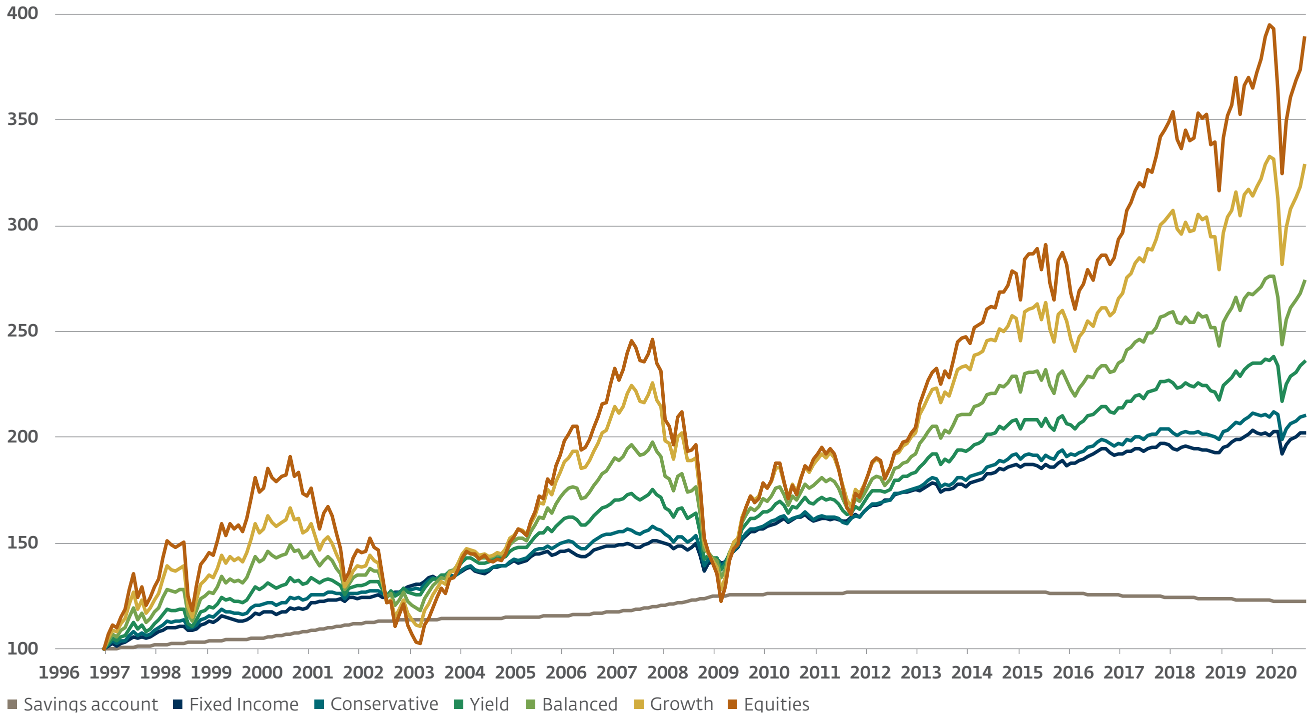
Performance of global LLB investment strategies in the reference currency CHF

Return and risk of global LLB investment strategies

	Fixed Income	Conservative	Yield	Balanced	Growth	Equities
Expected return per year (3 – 5 years)	1.50–2.00 %	2.00–2.50 %	3.00–3.50 %	4.25–4.75 %	5.75–6.25 %	7.00–7.50 %
Extreme values over 12 months (1996 – 2019)*	▲ +13.8 % ▼ −9.5 %	▲ +14.9 % ▼ −11.8 %	▲ +20.8 % ▼ −18.6 %	▲ +28.8 % ▼ −25.9 %	▲ +39.5 % ▼ −34.9 %	▲ +46.5 % ▼ −40.3 %
Probability of 12-month periods with negative performance (1996 – 2019)*	once in 10.5 years	once in 8.0 years	once in 4.5 years	once in 4.0 years	once in 3.5 years	once in 3.5 years

* This period covers three global extreme situations on the equity markets (Asian crisis in 1998, dot-com bubble in 2000, real estate and financial crisis in 2008).

CHF investments would have performed as follows from 31 December 1996 to 31 August 2020



The performance of the investment strategies is presented on the basis of the strategic asset allocation. Market indices with weightings as of August 2020 are used as the data basis for each asset class. The period from 1996 to 2020 covers four global extreme situations on the equity markets (Asian crisis in 1998, dot-com bubble in 2000, real estate and financial crisis in 2008, coronavirus crisis in 2020).

Performance at a glance

	Fixed Income	Conservative	Yield	Balanced	Growth	Equities
Historical return per year (1996 – 2019)	3.1 %	3.3 %	3.8 %	4.5 %	5.4 %	6.1 %
Maximum breakeven period after an extreme situation	22 months	26 months	56 months	64 months	72 months	74 months

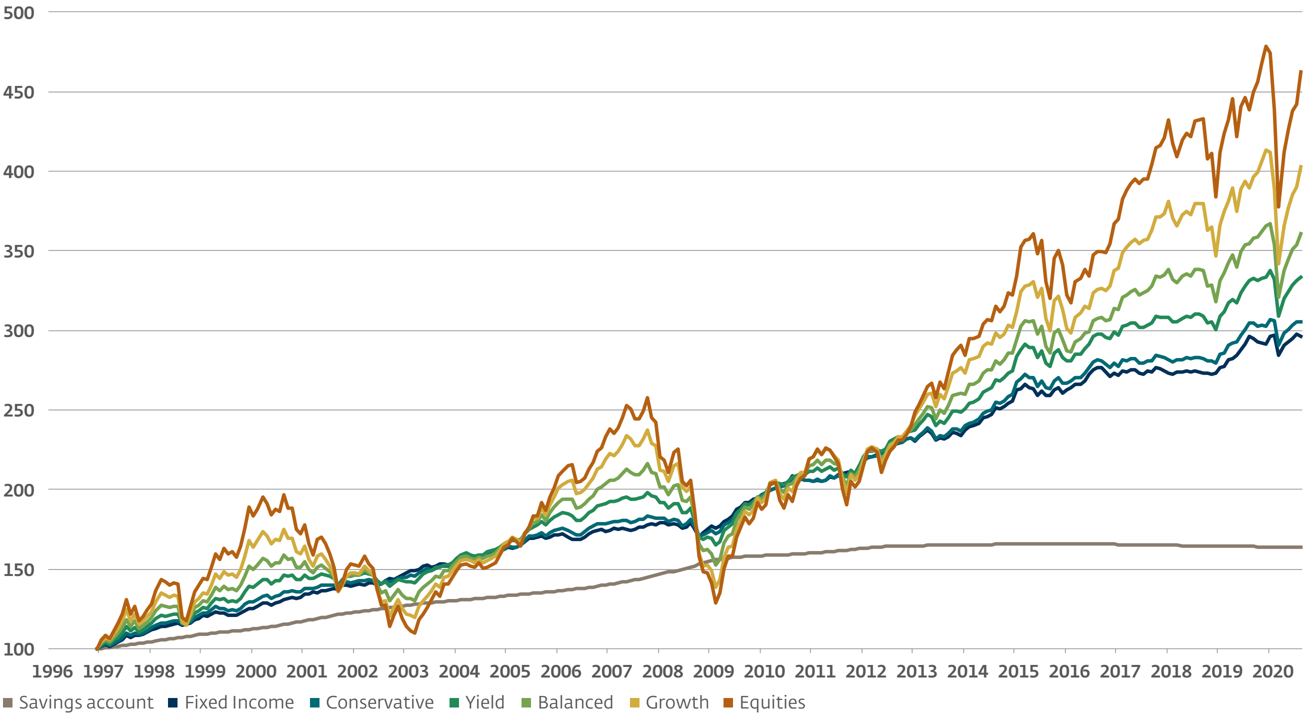
Performance of global LLB investment strategies in the reference currency EUR

Return and risk of global LLB investment strategies

	Fixed Income	Conservative	Yield	Balanced	Growth	Equities
Expected return per year (3 – 5 years)	1.75–2.25 %	2.00–2.50 %	3.00–3.50 %	4.50–5.00 %	6.00–6.50 %	7.00–7.50 %
Extreme values over 12 months (1996 – 2019)*	▲ +12.8 % ▼ –4.1 %	▲ +14.9 % ▼ –6.7 %	▲ +21.2 % ▼ –14.3 %	▲ +30.1 % ▼ –24.3 %	▲ +42.1 % ▼ –34.4 %	▲ +50.6 % ▼ –40.9 %
Probability of 12-month periods with negative performance (1996 – 2019)*	once in 13.5 years	once in 11.0 years	once in 6.0 years	once in 4.5 years	once in 3.5 years	once in 3.5 years

* This period covers three global extreme situations on the equity markets (Asian crisis in 1998, dot-com bubble in 2000, real estate and financial crisis in 2008).

EUR investments would have performed as follows from 31 December 1996 to 31 August 2020



The performance of the investment strategies is presented on the basis of the strategic asset allocation. Market indices with weightings as of August 2020 are used as the data basis for each asset class. The period from 1996 to 2020 covers four global extreme situations on the equity markets (Asian crisis in 1998, dot-com bubble in 2000, real estate and financial crisis in 2008, coronavirus crisis in 2020).

Performance at a glance

	Fixed Income	Conservative	Yield	Balanced	Growth	Equities
Historical return per year (1996 – 2019)	4.7 %	4.9 %	5.3 %	5.8 %	6.3 %	7.0 %
Maximum breakeven period after an extreme situation	14 months	22 months	29 months	52 months	62 months	65 months

One strategy – many possibilities

As diverse as the individual investment strategies of our clients are, as diverse are their implementations. To enable us to respond optimally to your needs and expectations, we offer a wide range of options for your investments. Collective investments are employed. Where it makes sense to do so, direct investments are also made in individual securities. Our proven investment policy always forms the basis for investment decisions.

LLB Comfort World

Globally diversified

You invest worldwide in the most attractive regions. Through international diversification, you participate in global trends and developments.

LLB Comfort Switzerland

Innovative home market

You primarily invest in the Swiss business location – which is characterised by a high level of innovation, competitiveness, and political stability. Investments are mainly made in CHF, and equity investments are exclusively in Swiss companies.

LLB Comfort Alternative

Risk-mitigating opportunities

You invest worldwide in the most attractive regions and increasingly in alternative asset classes. By adding more hedge funds and gold at the expense of bonds, a lower interest rate risk can be achieved without changing expected returns.

LLB Comfort Sustainable

Environmental, social, and responsible

You invest worldwide in line with ESG guidelines. The focus is on environmental friendliness, social responsibility, and responsible corporate governance.

LLB Comfort Passive

Index-tracking investments

You invest worldwide in the most attractive regions. Implementation takes place primarily through passive investment instruments that replicate market developments as closely as possible. Where necessary, active collective investments are used.

Investment form

One-time

We invest the entire investment amount for you immediately upon receiving the asset management mandate. You participate quickly in the developments on the financial markets.

Staggered

The equity component is one of the most important drivers of long-term investment success. Equity exposure is not exhausted from the outset. Rather, it is increased in stages from the starting exposure to the defined target exposure. In regular and manageable steps, you will be able to build up a carefully constructed equity component of your portfolio. Full exposure will be reached after a period of about two years.

Pricing models

All-in model

The optimal pricing model for anyone desiring cost clarity. You pay a flat-rate fee on the assets under management. There are no further brokerage or custody fees.

All-in model – performance-based

The pricing model where the bank participates in investment success. You pay a reduced flat-rate fee on the assets under management as well as a performance fee. This fee is payable only if your assets have performed positively after deduction of all costs. There are no further brokerage or custody fees.

LLB Comfort	World	Switzerland	Alternative	Sustainable	Passive
Focus	Globally diversified	Innovative home market	Risk-mitigating opportunities	Environmental, social, and responsible	Index-tracking investments
Reference currency	CHF / EUR / USD	CHF	CHF / EUR	CHF / EUR	CHF / EUR
Investment strategies	Fixed Income to Equities	Yield to Equities	Yield and Balanced	Fixed Income to Equities	Yield to Equities
Direct investments from 1'000'000	All-in model w / wo performance-dependence	All-in model w / wo performance-dependence	All-in model w / wo performance-dependence	All-in model w / wo performance-dependence	
Collective investments from 100'000	All-in model w / wo performance-dependence	All-in model w / wo performance-dependence	All-in model w / wo performance-dependence	All-in model w / wo performance-dependence	All-in model

Dynamic, robust, multiple award-winning. Benefit from our 150 years of investment expertise and our in-house asset management. Custom-built solutions for private and institutional investors. www.llb.li

Liechtensteinische Landesbank 1861

Tradition meets Innovation.

Transparency in investing

For several years now, the LLB Group has been free of retrocessions, not only in asset management, but also for «LLB Invest» – our paid investment advisory service. The LLB Group is thus deliberately passing on sales commissions for LLB funds and third-party funds to investors.

This offers several advantages for our clients: With this waiver of retrocessions or the full transfer of sales commissions to clients, we create cost transparency, and fund investments become significantly less expensive. At the same time – already since 1 July 2014 – we are setting standards in the investment business. We are one of the first and few providers to take this step in the Swiss and Liechtenstein financial centres.

We offer additional innovative features in the pricing of investment solutions:

- In our asset management mandates, we rely on a performance fee: Clients pay the variable portion of the fee only if their assets develop positively after deduction of all costs.
- In several of our strategy funds, we are also one of the first providers to use performance fees that are charged only if returns are positive.
- In some of our fixed-income funds, we apply fees indexed to interest rates, which take account of the currently very low interest rate environment.

With these features, we offer strong, innovative, and transparent service packages at fair conditions.

Legal information

No offer
The information contained in this publication constitutes neither an invitation nor an offer, nor a recommendation to buy or sell investment instruments or to enter into transactions of any kind. The information in this publication does not constitute an aid for the reader in making decisions. Please consult a qualified person before making investment decisions.

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Risk warning
Please note that the value of an investment may fall as well as rise. The future performance of an investment cannot be derived from its past price development. Investments in foreign currencies are subject in addition to exchange rate fluctuations. Investments involving high volatility can be subject to strong price fluctuations. These price fluctuations may equal or even exceed the value of the invested amount. The preservation of the invested capital cannot therefore be guaranteed. Further information about risks can be obtained from the Liechtensteinische Landesbank AG. In addition, this information can be obtained from the brochure Risks in securities trading issued by the Liechtenstein Bankers Association, or from the brochure «Special risks in securities trading» issued by the Swiss Bankers Association.

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Basic methodical approaches to financial analysis
LLB and its LLB Asset Management AG responsible for financial analysis have summarised the basic methodological principles of financial analyses on which the individual investment recommendations are founded in their white paper «Theory and Methodology of Securities Analysis by LLB Asset Management AG». This document (in German) can be accessed at the following link: www.llb.li/securities-analysis.

Additional information
Further information about our publications, in particular
- Summary of the important sources of information
- Valuation principles and methods
- Explanation of the meaning of the recommendations
- List of all recommendations as well
- Information on conflicts of interest

can be requested at www.llb.li/legal-notes . We are providing this information also free of charge in paper form.

Internal organisational and regulatory measures to prevent conflicts of interest
The Liechtensteinische Landesbank and any of its Group companies concerned have implemented internal organisational measures to prevent possible conflicts of interest from arising and, if these do occur, to disclose them.

Explanation
Possible conflicts of interest are indicated by the following numbers placed next to the names of issuers:
The Liechtensteinische Landesbank AG and/or its Group companies
1. have more than a 5 % stake in the issuer,
2. have substantial financial interests in relation to the issuer,
3. participated during the last twelve months in the management of a consortium which placed financial instruments of the issuer in the form of a public offering,
4. act as a market-maker in the financial instruments of the issuer,
5. have during the last twelve months concluded an agreement for services in connection with investment banking services with issuers who themselves or whose financial instruments are the subject of the financial analysis, or have received a performance or the promise of a performance from such an agreement,
6. have concluded an agreement for the production of financial analysis with issuers who themselves or whose financial instruments are the subject of the financial analysis.

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- Competent regulatory authority in Switzerland
  Swiss Financial Market Supervisory Authority FINMA
  Laupenstrasse 27, 3003 Berne, www.finma.ch
- Competent supervisory authority in Austria
  Austrian Financial Market Authority FMA
  Otto-Wagner-Platz 5, A-1090 Vienna, www.fma.gv.at

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The company definition in accordance with the Global Investment Performance Standards (GIPS), includes all the asset management mandates as well as all the investment funds of Liechtensteinische Landesbank AG which are managed by LLB Asset Management AG. The company claims compliance with the GIPS. A list of all composites and a description of them can be obtained from LLB Asset Management AG, Vaduz, telephone +423 236 95 00. The Global Investment Performance Standards are a trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this report/advertisement.

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Imprint

Editorial deadline
18 September 2020

Publication date
22 September 2020

Published
Monthly

Editorial team
Dr. Thomas Mächtel, Franz Maurer,
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Graphics and Layout
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Sources for charts
LLB Asset Management AG (ASM)
Datastream, Bloomberg

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This publication is a marketing communication in terms of the Markets in Financial Instruments Directive (MiFID II, 2014/65/EU).

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