ForClients Partner

Watching beyond the edge, 2. Quarter 2022

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Editorial

Dear Reader

As an independent asset manager, we also want to be free in our thinking. We do not have to be politically correct, we say our honest opinion. Even the well-known Chinese philosopher and poet Confucius said: "Who wants to reach the source, must swim against the current." This wisdom is guiding us to be critical and attentive for our clients.

In our publication "watching beyond the edge" we want to show you information that goes out of the box.

Your forClients Partner team

An Inconvenient Truth

An uncomfortable truth. We consume too much and we don't solve our problems. Politicians can say or do as much as they want, if people don't change their habits, nothing will happen.

Perhaps that is why it is necessary for us to be forced into our "happiness." The corona virus justified restrictions on fundamental rights and the expansion of digital surveillance. Too much consumption and too much freedom can now also be efficiently controlled in Western countries, as China has been doing for a long time.

Shortage of goods and the state's authority to restrict as the first means of reducing consumption? A announced war, which is taking place in one of the most important agricultural countries in the world, as a further accelerator for even higher inflation? High inflation always leads to more government and I don't bite the hand that feeds me. Then the warlike aggressor is still one of the largest oil and gas producers, whose "sales ban" of fossil fuels can be used to accelerate the "green wave"? War and insecurity have always been the best friends for even more centralized paternalism and interference by technocrats in people's self-determination. But isn't all this necessary?

Shortage of goods - disrupted supply chains - high inflation - even more debt - banning fossil and nuclear energy without having sufficient alternatives in time leads to what? declining wealth and social tensions (including war). How can we solve our problems? Through innovation, dialogue and a sense of reality. Unfortunately, we are a long way from that.

An Inconvenient Truth

Unfortunately, it seems that the world is currently falling from one self-inflicted tragedy to the next. What happens in politics and society naturally has an impact on the stock exchanges and the economy. Before 2019 (ante Corona) we had many problems but the possibility of solutions without huge collateral damage. Post Corona we have even more problems with collateral damage that is unfortunately increasing. The much-vaunted "solidarity" has become a superficial excuse for incompetence and ignorance. Today there is no longer any discussion, only polarization. Opinions that do not stand up to the political, official and media "fact check" are described as antisocial, lacking in solidarity and lateral thinking. Maybe because asking questions and thinking for yourself could lead to unwanted answers? Then we are morally and intellectually back in the Middle Ages.

Draconian and exaggerated restrictions in the industrialized countries during Corona have led to global poverty increasing by several hundred million people due to disruptions in supply and production chains. Debt jumped 28% to 256% of global GDP (the biggest increase since World War II) in the same window. Not bad, a debt increase of 28% within a very short time.

More debt = more money for politicians and authorities. Anyone who thinks that this will cause politicians to shudder is mistaken. Politicians live off our taxes and the power to incur new debts. One of the few exceptions here is Switzerland, which thanks to the "debt brake" is still giving future generations some monetary breathing room. Going into debt at discretion is a catastrophic path, both socially and economically.

An Inconvenient Truth

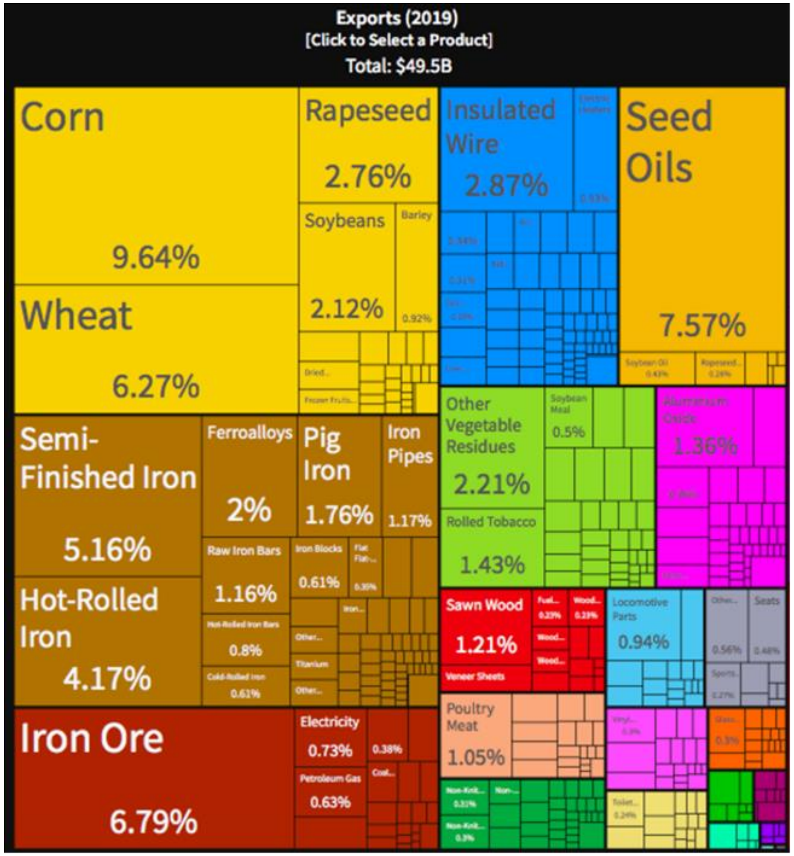
A higher money supply and/or a shortage of goods lead to inflation. Inflation, in turn, reduces purchasing power and devalues savings. In turn, excessive debt prevents interest rates from rising, otherwise the house of debt cards collapses. At the same time, the prosperity gap is widening. So anyone who calls for more and more government forgets that more government always comes with more debt and a loss of self-determination.

Global warming, environmental pollution, wealth gap, etc. are not new problems. What has politics done here in recent years? Well, certainly not enough. Corona has disenchanted globalization with negligent dependencies. The tragic Ukraine-Russia war exposed the ignorance and arrogance of politics on all sides. US President Biden is right, Putin and his cronies are war criminals. Nevertheless, the USA is hiding that it has not been better, at least in the past. Then, consequently, former US Presidents Lyndon B. Johnson and Richard Nixon, who waged the war against Vietnam, were also war criminals? And how about the threat from John F. Kennedy when the Soviets wanted to deploy missiles in Cuba? And where is the Guantanamo Bay Naval Base? The philosopher Richard David Precht summed up the shared responsibility of the West after the annexation of Crimea. Unfortunately, the crime of the Ukraine war has many facets. By the way, denying Russian children the Nesquik drink and punishing them doesn't help either. The past would be a teacher for this.

The consequences of the current geopolitical situation are higher fluctuations on the stock markets and a further loss of purchasing power for savings, which paradoxically will increase the pressure to invest despite great uncertainty. However, performance will vary greatly from region to region and within the sectors. (DG)

Ukraine is a major producer of raw materials and agricultural goods

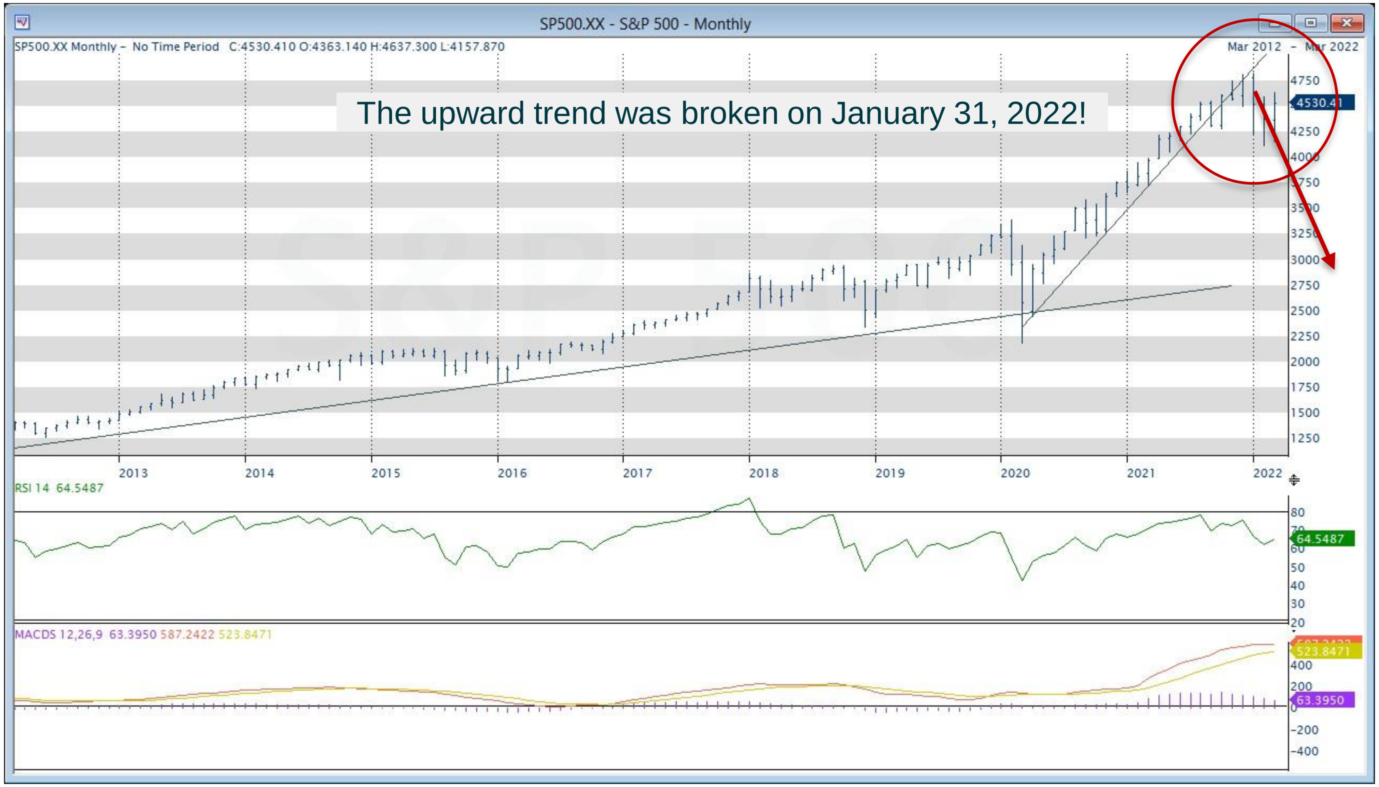
Did you know that Ukraine is the 5th largest exporter of wheat and the 4th largest exporter of corn? Ukraine's share here is between 9% and 12% of global exports. In addition, Ukraine is the 5th largest exporter of iron ore. Disruptions in the production and supply chain for wheat, corn and iron ore will have a noticeable impact on inflation and industry.



Source: Michael A. Gayed, The Lead Lag Report

One step up and two steps down?

On March 7, 2022, we wrote that we are very likely (at least from a technical perspective) in a bear market. *"We fear that we are in a market phase of one step up and two steps down. Nevertheless, even in a bear market there are pronounced bull phases. Due to the sell-off of the last few days, the one step up should come soon."* That one step up is now coming to an end. Will the next two follow down soon?



Source: MarketMap, forClients Partner AG

When volatility increases, it is even more indicative for further trouble

Record high valuations, especially for growth-oriented tech companies, are a toxic cocktail in an environment of rising interest rates and rising inflation. Investors should therefore keep their hands off "experimental" growth companies for the time being.

Source: Jesse Felder, The Felder Report

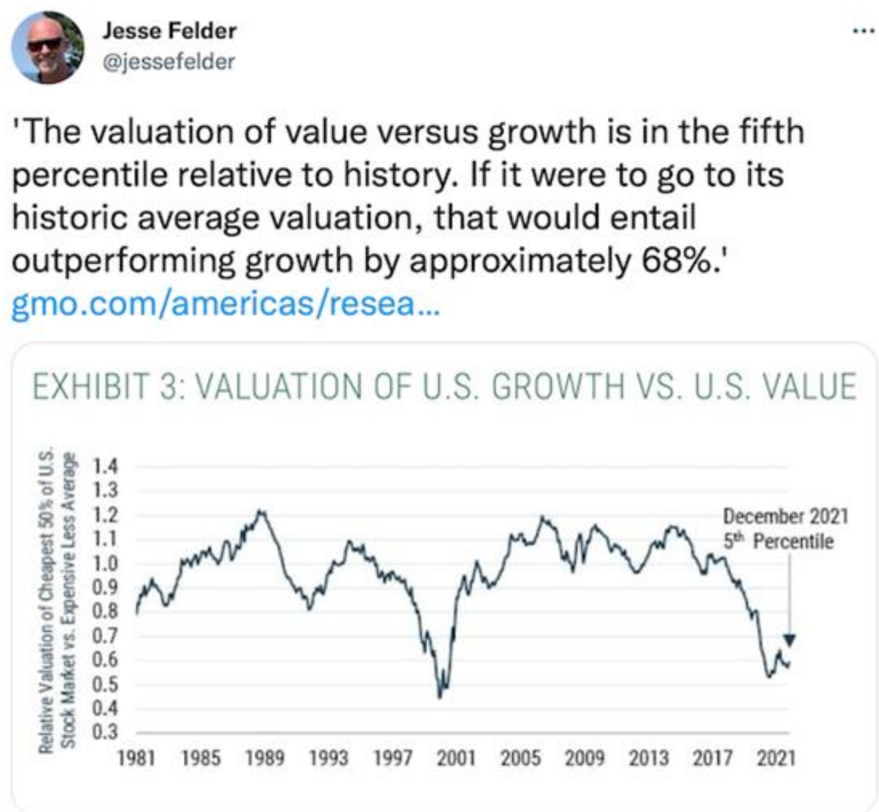
Optimism looks different

The wage-price spiral has started. Higher costs that cannot be fully passed on to consumers lead to lower profits. This, combined with rising interest rates, makes the stock markets even more expensive.

Source: Julien Bittel, via Twitter

Value now better than growth?

Value stocks, i.e. companies with low valuations and high quality, should now do better in relative terms than growth stocks with high valuations. In the event of stagflation (highest current probability), firms with market power will be able to raise prices. From this point of view, it makes sense to now overweight high-quality, market-dominant and attractively valued companies.



Source: Jesse Felder, The Felder Report

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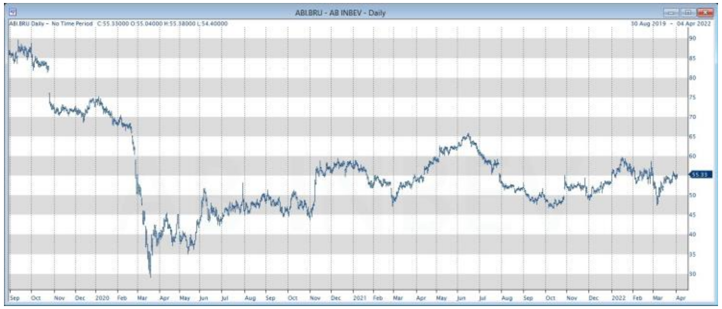
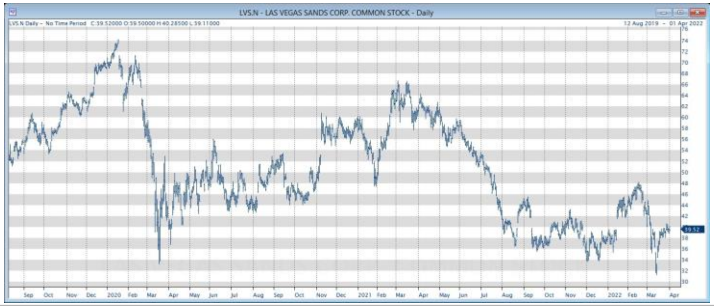
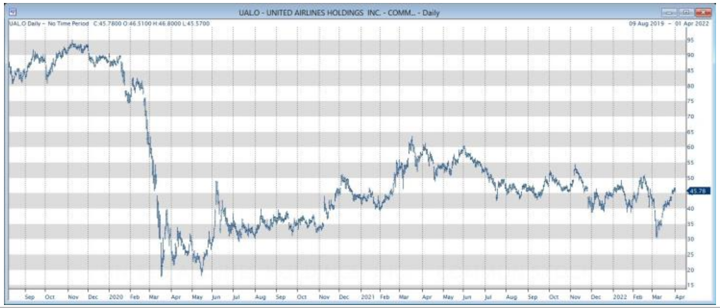
When to buy «go out of home stocks» has probably come now

After two years of "fasting," people are now hungry for travel, partying, and entertainment. It will soon be "go out of home instead of stay at home". This is why we like stocks like **United Airlines**, **Dufry**, **Las Vegas Sands**, **Caesars Entertainment**, **Walt Disney**, **Hertz Global Holdings** or **Anheuser-Busch InBev**.







Source: Market Map, forClients Partner

Are yields poised for a breakout to the upside?

Who remembers rising yields or really high interest rates? Nobody, that was clear. What kind of "catastrophe" must come to keep yields at a low level? Price shocks due to warlike or official measures have a delayed deflationary effect. Perhaps the next recession is already knocking on the door? Which then leads to falling interest rates again.

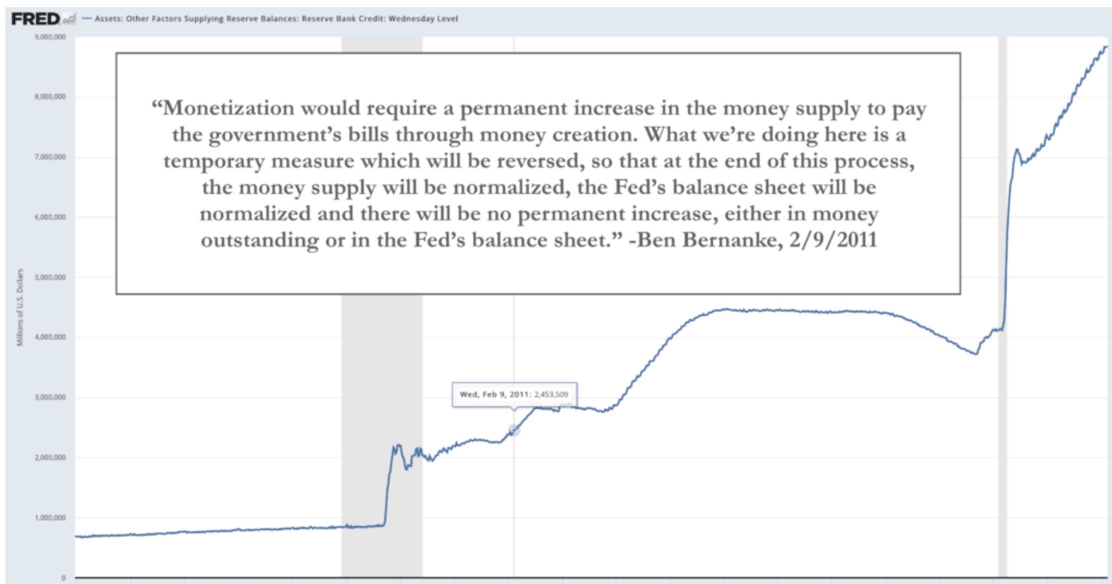
Jesse Felder
@jessefelder

'10-year Treasury yields have been trending downwards ever since Paul Volcker raised rates enough to cause a recession in the early 1980s. Every time it touches or at least nears the downward trend line, a financial accident occurs.'
bloomberg.com/opinion/articl... by @johnauthers

Source: Jesse Felder, The Felder Report

How was this Mr. Bernanke again?
Is everything temporary? Thank you for the inflation and instability

Eleven years ago, shortly after the start of QE 2, Ben Bernanke gave us his definition of debt "monetization" by telling Congress: "Monetization would require a permanent increase in the money supply to meet government bills through money printing to pay. What we are doing here is a temporary measure that is reversed so that by the end of this process the money supply is normalized and there is no permanent increase. Not even with the outstanding funds or on the Fed's balance sheet." At the time, the Fed's balance sheet was approaching $2.5 trillion. Today that is nearly $9 trillion, more than triple what it was a decade ago.



Source: Jesse Felder, The Felder Report

Are interest rates upside down or is the Fed out of their minds?

I think there are times in the markets when it makes sense to conduct a certain type of thought experiment. I've heard that Stan Druckenmiller, one of the most well-known hedge fund managers in the world, uses just such a technique with his investment team:

“I want you to try and ignore where the US Fed rates are and just take that economic data and let's play a game. We all came down from Mars. Where do you think policy rates would be if you just looked at this data and didn't know where it was?

This was in the fourth quarter of 2003, when nominal GDP grew 6% year-on-year, retail sales rose 5%, inflation (headline CPI) was just over 2% and unemployment was around 6%. Stan remembers how his team responded.

Where do you think US interest rates were then?

Source: Jesse Felder, The Felder Report

Are interest rates upside down or is the Fed out of their minds?

My guess was in the 4% to 5% range (DG) and yours?

Stan recalls his team's responses: "I would say out of the seven people the lowest estimate was 3% and the highest 6% - compared to an actual 1% at the time. So we had a great conversation about the Federal Reserve making a mistake with way too easy monetary policy. We didn't know how it would manifest, but we were alert that this would end very badly.

So let's do the same thing today: nominal GDP grew 12% yoy in the fourth quarter of 2021, retail sales rose 16.5% yoy in December, moreover inflation rose 7% yoy and the unemployment rate fell notably this month 3.9%.

If you didn't already know where the key interest rate was, where would you assume it to be? Certainly no one in their right mind would think that it would be zero AND that the Fed would simultaneously print money at an annual rate of about 6% of GDP (as it did recently). It's so far beyond the realm of reason that it's ridiculous.

What is the conclusion from this? The US central bank and its "specialists" have absolutely no idea and are partly responsible for the most colossal bubble the world has ever seen. And by the way, this policy is one of the reasons for an ever-increasing prosperity gap.......

Source: Jesse Felder, The Felder Report

The ECB – it couldn't be more stupid (I/II)

Anyone who thinks that things can't get any more stupid than the US central bank doesn't know the European Central Bank (ECB) yet. A politically controlled institution with deep ties to conspiratorial high finance and political puppets. Mario Draghi, former head of the ECB, was a top manager at Goldman Sachs before his appointment. Goldman Sachs was an adviser to Greece on EU accession. As we know, Greece tricked itself into joining the EU with fake financial figures and the advisor Goldman Sachs knew nothing about it (....). As head of the ECB, Mario Draghi then had to save Greece and all of Europe. Furthermore, the southern countries in particular are highly indebted and a collapse could soon be imminent again. So it makes sense that Mario Draghi, a former Goldman Sachs banker of integrity and a model independent ECB director, should now assume an even more honorable position, that of Italy's prime minister.

Because honesty and competence are very important in today's world and are defined by state fact checkers and ethics councils, the search for an even better successor for Mr. Draghi was of course challenging. But finally they found what they were looking for in Ms. Christine Lagarde, former French Minister of Economics and Finance and head of the International Monetary Fund (IMF). The fact that Ms. Lagarde was found guilty of negligence in her former position as a minister is irrelevant.

This in the spirit of George Orwell: «All animals are equal but some are more equal than others”

The ECB – it couldn't be more stupid (II/II)

But let's leave these side issues of morality and look at the powers of the ECB. Here is a comment from Sven Henrich, who puts it in a nutshell.

Sven Henrich @NorthmanTr... · 17h
At this rate Europe will again be in a recession before the @ECB ever raises rates.

26 53 569

Sven Henrich @NorthmanTr... · 17h
Reminder: The last @ECB rate hike was 11 years ago. They couldn't even manage a single one during the last cycle before the Covid recession.
Now consumers have record inflation & and still the ECB is not doing anything but run negative rates & continue to expand the balance sheet

Sven Henrich @NorthmanTr... · 3T
Central banks make April fools out of everyone.

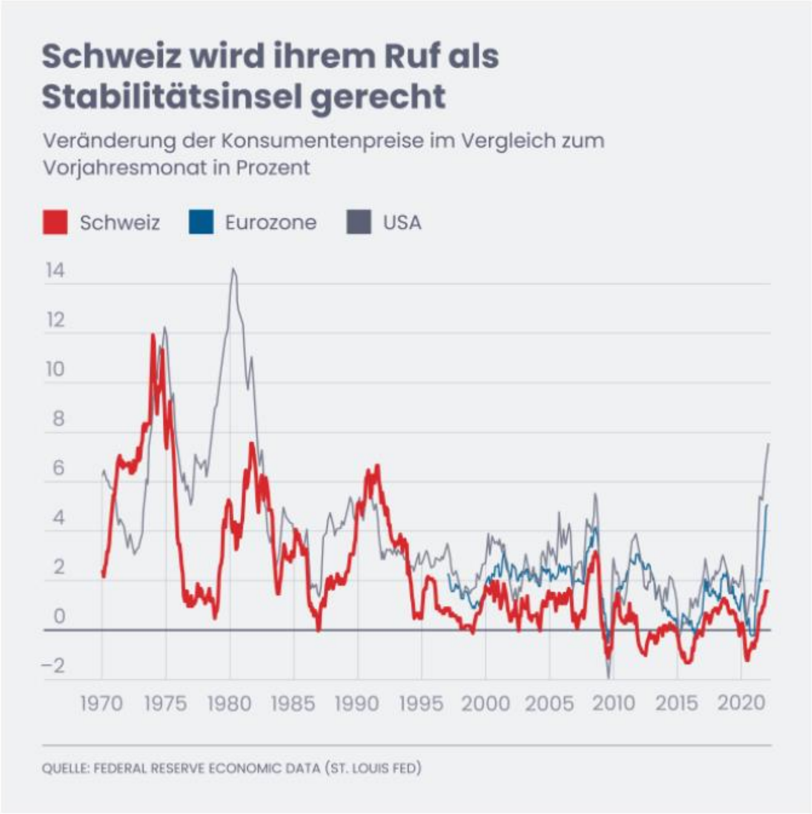
Jonathan Ferro @FerroTV · 3T
Eurozone inflation hits another record high

March: 7.5% from a year ago
Median estimate: 6.7%
Previous: 5.9%

Source: Sven Henrich, The Northman Trader

Inflation - memories from the past

Inflation is rising at its fastest rate in a long time. Will the 1970s and 1980s catch up with us soon? At that time, inflation could be tamed with strong interest rate hikes. Today this is difficult to imagine because of the gigantic mountains of debt. Inflation will soon become a "tax" that gradually relieves the state of debt at the expense of the citizens. Here, too, the state never pays anything. In the end it is always the taxpayer.



Source: Nils Herger, Nebelspalter

Not everything is expensive – commodity companies are attractively valued

While the S&P 500 index is expensive, many companies in the commodities, energy and gold sectors are attractively valued. These companies have also historically performed well in an environment of rising inflation. Those who support the "green wave" will not be able to avoid the metals they need.

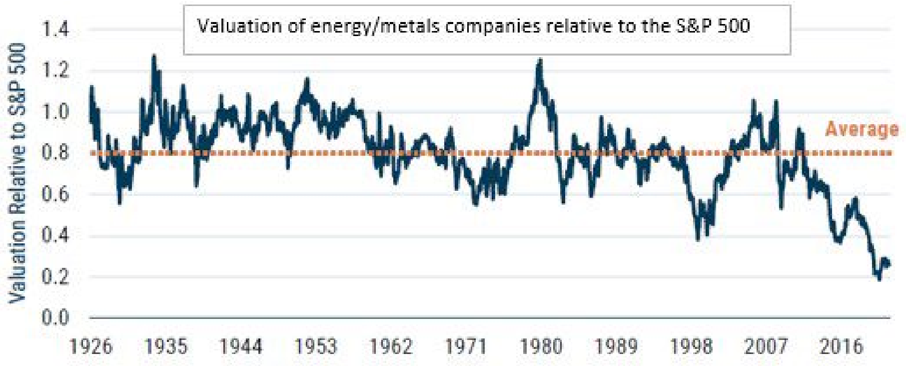
While the S&P 500 price to cash flow (P/CF) increased over the last year, the one for the natural resource space declined - meaning that the prices of the stocks of the S&P 500 increased more than their cash flows while the cash flows of the natural resource companies increased much more than their share price. Commodity equities, especially energy equities, were among the best performing asset classes last year - yet, the gap is still huge.

Source: ICG, Bloomberg

Source: Independent Capital Group, Basel

Also over the past decades, commodity companies are attractively valued compared to the S&P 500 index

The strategic case for resource equities is extremely compelling, offering investors the potential for excess returns, diversification, and inflation protection. Tactically, commodity producers are the cheapest they've been in the last 100 years on some measures, even as inflation has ticked up to 7% by the end of 2021. At current commodity prices, resource companies should generate extraordinary returns going forward. The energy transition is creating exciting opportunities for resource equities in the materials that drive clean energy solutions, such as copper, lithium, and nickel. Meanwhile, fossil fuels will be around for many years to come. The Valuation metric in the graph is a combination of P/E (Normalized Historical Earnings), Price-to-Book Value, and Dividend Yield.



Source: GMO, S&P, MSCI, Moody's

Source: Independent Capital Group, Basel

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Our Top 10 stocks

(as of 31. March 2022)

We select stocks objectively without misleading emotions according to a proven **fundamental model (bottom up),** which also takes into account **sector and style attractiveness (top down).** This is how we select the most attractive stocks across all sectors. This is a dynamic ranking list with regular changes:

Top 10 SMI:

1. Logitech
2. Nestlé
3. Novartis
4. Swiss Life
5. Alcon
6. Roche
7. ABB
8. UBS
9. Partners Group
10. Zurich Insurance

Top 10 Mid Caps Schweiz:

1. Kühne + Nagel
2. Straumann
3. Schindler
4. Fischer
5. Barry Callebaut
6. Sonova
7. Bachem
8. Lindt & Sprüngli
9. Galenica
10. VAT Group

Top 10 Euro Large Cap:

1. Deutsche Post
2. Ahold
3. DSM
4. Merck KGAA
5. Stellantis
6. Arcelor Mittal
7. Eurofins Scientific
8. Ferrari
9. Michelin
10. Siemens Healthineers

Top 10 US Large Caps

1. Pfizer
2. Gilead Sciences
3. Target
4. Alphabet
5. Qualcomm
6. Philip Morris
7. Biogen
8. Cisco Systems
9. Bristol-Myers Squibb
10. Simon Property Group

Our products based investment solutions

Strategy	Performance 31.3.2022	Performance 2021	Volatility	Sharpe Ratio	Description	ISIN
forClients Partner **Stable Return Strategy**	-7.4%	+10.5%	8.8%	0.21	Global equity strategy with permanent tail-risk-hedging	CH0566783459
forClients Partner Global Sustainable **Innovation Strategy**	-7.3%	+27.0%	17.7%	0.89	Global equity strategy with a focus on innovation leaders with high ESG ratings	CH0566788961
forClients Partner Global **Dynamic Allocation Strategy**	-5.3%	+13.4% (start on 9.2.2021)	14.4%	0.42	Sector and style strategy	CH0575787277
forClients Partner Sustainable **Environmental Leaders Strategy**	-17.1%	+5.8% (start on 1.7.2021)	17.2%	-0.90	Global equity strategy on the leaders in resource efficiency (energy, water, waste, raw materials and emissions)	CH1118225460

Strategy	Quote	Factsheet
forClients Partner **Stable Return Strategy**	ZKB Preislink	fCP Stable Return Strategy
forClients Partner Global Sustainable **Innovation Strategy**	ZKB Preislink	fCP Innovation Strategy
forClients Partner Global **Dynamic Allocation Strategy**	UBS Preislink	fCP Dynamic Allocation Strategy
forClients Partner Sustainable **Environmental Leaders Strategy**	UBS Preislink	fCP Environmental Leaders Strategy

Last but not least - our smile of the month

Contact

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