LMM COMPASS

Dear readers,

The investment results that have been achieved so far in this year are significantly positive for all investment strategies. The daily news has shown an entirely different picture and many experts are predicting a global slowdown in economic growth. The central banks have already reacted and are trying to counteract this threat with further interest rate cuts. Global interest rate levels are just about or below 0 %. As a result, investments without fixed income components are becoming more interesting again. The gold-expert Ronald-Peter Stöferle explains some points in the interview.

Omar El Ashker
Director Business Development

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THEMES

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- Gold – a glamorous comeback of an asset class?

INVESTMENT STRATEGIES

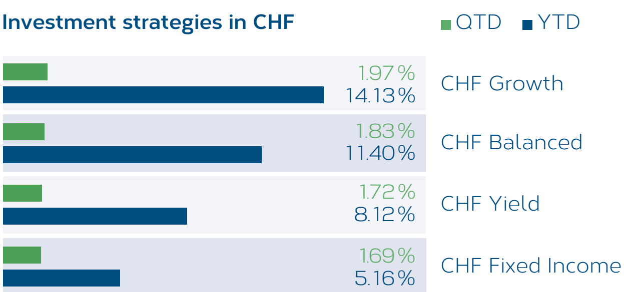
In the third quarter, stock markets were able to achieve further price gains. However, this is not the case for Emerging Markets stocks which are suffering from the swelling trade conflict. For bonds, yields fell again in the third quarter. As a result, bond prices continued to rise. On the alternative investments side, the rise of the gold price is worth mentioning. The outlook by the central banks for possible or further interest rate cuts led to further price increases.

		Value	% QTD	% YTD	Currency	Index
Currencies	EUR/CHF	1.09	-2.09	-3.53		
	EUR/USD	1.09	-4.27	-4.63		
	USD/CHF	1.00	+2.27	+1.15		
	USD/JPY	108.08	+0.31	-1.50		
Bonds	Switzerland	143.15	+1.60	+4.87	CHF	SBI Total AAA-BBB
	Europe	270.73	+2.86	+8.42	EUR	Bloomberg Barclays Cap. Euro-Aggr.
	USA	2221	+2.27	+8.52	USD	Bloomberg Barclays Cap U.S. Aggr.
	Emerging Markets	427.61	+0.70	+9.61	USD	Bloomberg Barclays EM Hard Currency Agg Unh. USD
	Inflation linked	356.05	+1.73	+8.04	USD	Bloomberg Barclays Gl. Inflation-Linked TR Unh. USD
	High Yield	1366.72	-0.67	+8.76	USD	Bloomberg Barclays Gl. High Yield TR Unh. USD
	World	509.20	+0.71	+6.32	USD	Bloomberg Barclays Cap GA
Equities	Switzerland	3083.85	+2.53	+24.35	CHF	MSCI Switzerland Net
	Europe	230.81	+2.58	+19.24	EUR	MSCI Europe Net
	North America	7997.33	+1.41	+20.10	USD	MSCI USA Net
	Pacific	6376.83	+0.23	+11.43	USD	MSCI Pacific Net
	Emerging Markets	471.72	-4.25	+5.90	USD	MSCI EM Net
	World	259.12	-0.03	+16.20	USD	MSCI AC World Net
Alternatives	Real Estate	4641.96	+4.87	+20.69	USD	FTSE EPRA / NAREIT Glb USD
	Commodities	77.78	-2.35	+1.39	USD	Bloomberg Commodity Index
	Gold	1472.39	+4.47	+14.81	USD	Gold (1 ounce)
	Private Equity	2945.60	+3.16	+30.51	USD	LPX 50 Index
	Hedge Fonds	1260.10	+1.61	+5.90	USD	HFRX Global HF Index USD

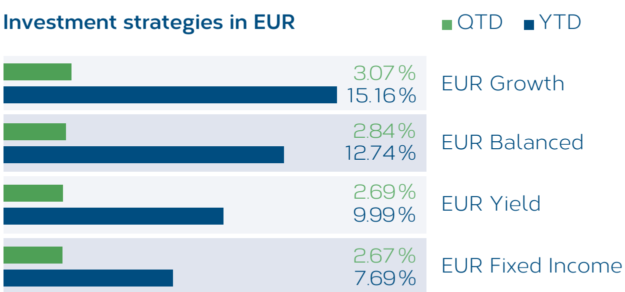
Source Bloomberg; reference date 30.09.2019

In the third quarter, all investment strategies continued to grow. This is astonishing, but again shows the positive effects of declining bond yields (gains on bonds) and the continued rise in stock markets. Thus, it is not surprising that even income strategies are showing a positive performance in the current year. Depending on the equity allocation, the return are around or well over 10 % as per reporting date. All investment strategies outlined have showed a positive performance during the current year.

Investment strategies in CHF



Investment strategies in EUR



Calculation LMM; Period 31.12.2018–30.09.2019

Note: the figures are before costs (exclusive of custody- and management fees)

GOLD – A GLAMOROUS COMEBACK OF AN ASSET CLASS?

At the beginning of 2019, gold has broken out of a multi-year phase of bottom formation. Meanwhile, the gold price (EUR) has reached a new 6-year high. In practice, we find that investors and banks have very different approaches to gold as an asset class. We took this as an opportunity to discuss the topic with a "gold expert".

RONALD-PETER STÖFERLE

Partner and Managing Director of Incrementum AG

Author of the annual "In Gold we trust" report

Mr. Stöferle, what reasons do you see for the rise in the gold price in recent months?
We must first make the following clarification, because the gold bull market has been going on for quite some time, but only recently on a USD basis. Compared to the previous year, gold has increased significantly in all major currencies. In CAD, AUD, EUR, CHF, GBP, gold is currently trading at or near its all-time highs, resp. the purchasing power of the respective currencies in gold is at a historical low.

In USD, however, the gold price is still below the all-time high despite the significant price increases in recent months. This shows two things:

1. There is a general bullish trend in gold, it is up against all paper currencies.
2. The USD has upgraded against the other major currencies in recent years.

The reasons for this positive development in recent months are, in my opinion, primarily the resumption of expansionary monetary policy (interest rate cuts, MMT, QE) in the wake of rising recession threats. However, until recently, the US has resisted this trend with a total of nine rate hikes and a reduction in the balance sheet of the Federal Reserve (quantitative tightening). With the rate cut in July and followed by the second rate cut on the occasion of the FOMC meeting in September, the US has again changed its monetary policy stance. A depreciating USD should further boost the gold market. At the same time, the yield levels on the global bond markets have once again imploded. The steady increase of bonds with negative yields makes gold, which does not pay interest, look comparatively attractive. In other words, the opportunity costs of the gold investment continue to decline. In addition, political (geo) insecurity has increased in recent months, whether in the Middle East, China, or even the wrangling around the Brexit. US President Donald Trump's repeated attacks on Federal Reserve Chairman Jerome Powell are seen as an attack on the independence of the central bank and thus on the stability of the US dollar. As a result, stock markets suffered losses of 20 percent and more in the fourth quarter of 2018.

Will this development continue? What is your short and medium term assessment?
The question can be answered from two different perspectives. Technically, the resistance range was breached on the upside from \$1360 to \$1380. That was at least once again a clear sign of life of gold and has caused a lot of attention. From a fundamental point of view, however, a new bull market is especially then to be expected, when the fear of recession proves true and new fiscal and monetary stimuli are set. That's exactly what we expect.

Is gold more than a "crisis currency"? How should an investor handle this asset class?
Of course, the fear aspect is a key driver for the demand side. Currently, we see a significant increase in interest from financial investors, which is reflected in the increased volumes of gold ETFs as well as in mining stocks. However, one must not forget that

emerging countries are also playing an increasingly important role in the gold market, accounting for almost 70 % of physical demand. And with the rising prosperity there, the importance continues to increase. In the coming year, the emerging economies will together account for around half of the global gross domestic product. In 2000, the share was only 19 %. Especially in India and China there is a strong demand for gold – from the private and public sectors, i.e. from the central banks there. The interesting thing is that the demand is very constant and less cyclical. Figuratively speaking, the gold flows from west to east.

Physical gold, gold ETFs, gold mining stocks, etc. There are many ways to invest in gold. What should the investor pay attention to?

Gold can have two properties. We therefore use the terms performance gold and security gold. Performance gold offers the opportunity to participate in certain price movements. The range of investment opportunities is large. For example, you can buy futures, mining stocks, exchange-traded funds (ETFs) or gold certificates. Although one does not come into the physical possession of gold, one can still actively trade because of the low trade and storage costs and, for example, speculate on inflationary tendencies. Since gold correlates little or even negatively with most other asset classes, the adding of gold, such as gold certificates, can significantly improve portfolio characteristics. Mining stocks mostly move in line with the price of gold, but are more volatile on the way up as well as on the way down and therefore it is for real professional investors. But also with gold certificates caution is necessary. Although these are used to acquire a claim to physically deposited gold, considerably more certificates are issued than gold actually lies in the vaults. This means that one can say, that the same game is played here as with a Fractional-Reserve Bank. Those who are buying gold for the reason of hedging against a major crisis in our monetary system should buy security gold, i.e. physical gold, and keep it safe outside the banking system (and possibly even outside the country).

For the complete interview visit www.lmm-ic.com/en.

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