VALUES WORTH SHARING

Investorama

Trends and developments
in the financial markets

Edition 2/2021

Risk factors

Prior to investing, investors should carefully consider the risks associated as detailed in the offering document. The value of an investment can fall and the originally invested amount may never be recovered. Investors should consider the following risks, without limitation:

- Market risk: The risk of losses in positions arising from movements in market prices.
- Currency risk: The risk of losses arising from currency fluctuations, in case the currency of an investment is different from the investor's reference currency.
- Liquidity risks: Adverse effects created by the situation where the fund must sell assets where insufficient market demand exists and lower price levels must be accepted to execute a transaction.
- Operational risks: The fund may suffer losses as a result of insufficient internal processes or systems, misbehavior of employees or external circumstances.
- Political and legal risks: Investments are exposed to changes in the rules and standards applied by the country under the respective jurisdiction. This includes restrictions on currency convertibility, the imposition of taxes or transaction controls, limitations on property rights or other legal risks. Investments in less developed financial markets may expose the fund to increased operational-, legal- and political risk.
- Derivative risk: The risk of losses arising from the usage of derivatives, which can be highly sensitive to price movements of the underlying asset and can result in increased leverage.
- Credit risks: Risk characterized by the failure of counterparties to meet contractual financial obligations.
- Master-Feeder risks: The performance of the Fund may deviate from the performance of the Master-Fund.

Contents

Reliable unpredictability or unpredictable reliability?

How fundamentally different the thought process for writing an editorial was just twelve months ago compared to today! We were excited to start a new decade: leaving behind as many legacy issues as possible to set off hopefully with new, promising topics and concepts into the "Roaring Twenties"...

And then the COVID-19 pandemic hit us unprepared and with the force of a punch right in the face. Not us as a company, but us as a society. It has since become clear that the outlook will remain unpredictable for some time to come. This is not primarily coronavirus-related but the result of a disproportionate lockdown anesthetization of all socio-economic life in many places. As with any "medication," the long-term side effects and resulting damage from this worsen as the dosage increases.

Similarly to machinery and cars, reliability and predictability are considered virtues in human typology, while unreliability and unpredictability are perceived as flaws – in both the private sphere and companies: for example, with suppliers, clients, or even debtors. People like to know where they stand – the former VW slogan in Germany "Da weiss man, was man hat" ("you know what you've got") still sounds mainly positive today, and perhaps a little boring only in exceptional cases...

> "As with any 'medication,' the long-term side effects and resulting damage from COVID-19 measures worsen as the dosage increases."

For more than a year now, the experience of how microscopic pathogens could throw the most powerful political decision-makers off course, which was unimaginable until recently, has had and continues to have a correspondingly stressful, even shocking effect. Angered by alarms in the media and under pressure from supposed experts, many have followed the principle of trial and error, i.e.: ordering more and more

disproportionate measures in the dark, resulting in increasingly unpredictable collateral damage for some of those affected. And Big Government sends its regards: The – on balance – vigorously increased tendency toward greater state intervention including typical hallmarks of a planned economy, will probably be difficult to reverse even after the hoped-for abatement of the pandemic.

> "Big Government sends its regards: The trend towards greater state intervention will probably be difficult to reverse even after the hoped-for abatement of the pandemic."

Conversely, from an economic and financial market perspective, the mainstream principles of monetary policy have shifted in a diametrically opposed direction. In the past, monetary policymakers were and had or wanted to be perceived as unpredictable. No central bank governor would ever have committed in advance to sticking to a particular interest rate regime for any length of time, with the – old-school – understandable reasoning of always setting the future monetary course based on the interim performance of the economy. In modern times (which did not begin yesterday), the opposite is true: Today's economic players are reliably guaranteed to stick to an ultra-expansive course – with no ifs, ands, or buts, and thus no expiry date. What appears all the more unpredictable despite the predictable "forward guidance" is the new premise that the phenomenon of inflation can never emerge again...

In times when many – for some, too many – changes lie ahead, people appreciate certain constants all the more. LGT Capital Partners has been managing the Princely Strategy, our flagship portfolio of traditional and alternative assets, for 22 years with an almost unchanged investment team over the long term, globally diversified, and with disciplined risk management. In our strategic asset allocation, we use the scenario approach to systematically address very different future paths – both positive and negative – and their influence on financial markets, with the aim of creating a largely robust portfolio. And we have been explicitly incorporating behavioral finance findings into our tactical investment processes since the launch of our product.

We cannot and do not want to unleash a torrent of enthusiasm with this. Our tried and tested approach over more than 20 years, and therefore also over several economic and stock market cycles, aims instead to ensure continued sustainable growth, and in doing so vouch reliability which, although it cannot promise exact predictability ex ante, never exhibits traits of unpredictability.

Dr Alex Durrer
Chief Economist

"Vaccine bulls defeat pandemic bears"

Dr Alex Durrer

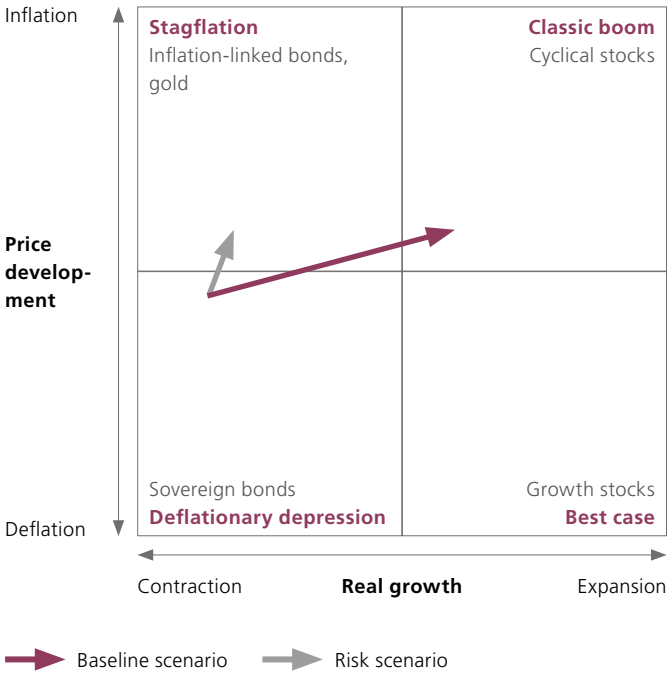
The tiresome topic of the coronavirus pandemic will continue to dominate both global financial markets and the whole of social life around the world for quite some time in 2021. However, infection rate trends remain unpredictable, and the causal relationships between epidemiological variables and political decisions are complex. At present, hopes regarding vaccination campaigns, which are gradually gaining momentum, and concerns about new virus mutations, further pandemic waves, and their consequential damage are more or less balanced.

The economic outlook is mixed: Almost all industrialized and emerging and developing countries are still in recession. But that is not all: The politically ordained anesthetization of society and the economy has spared (almost) no sector, but led to the simultaneous shutdown of the manufacturing and service sectors. After signs of a broad-based recovery rapidly emerged on the back of all the fiscal and monetary policy stimuli, it is threatened to be thwarted again somewhat by new waves of the pandemic due to virus mutations and the lockdown measures imposed against them, respectively. As a result, the risk of a W-shaped double-dip recession has risen (reducing the probability of a V-shaped trend back to the previous growth path), but this has not prevented stock markets from drawing a perfect V. And given the continuing extremely low interest rates across the entire maturity spectrum, at which even income accruing in the distant future is discounted, this does not seem irrational!

The fact that inflation was no longer an issue up to a few months ago fits with the economic evidence because, with reduced economic activity and rising unemployment, there was no demand and no pressure to negotiate wages. In the course of the expected recovery, the combination of supply-side constraints (due to deglobalization) and a resurgence in demand will soon lead to increasing price pressure, though.

In our main scenario, the sharpest but also shortest recession ever is followed by a similarly strong recovery. Nevertheless, there is no end in sight to the biggest fiscal and monetary stimulus in history. In view of this situation, we recommend a relatively ambitious tactical positioning with a slightly above-average equity component, combined with a substantial gold position. ◆

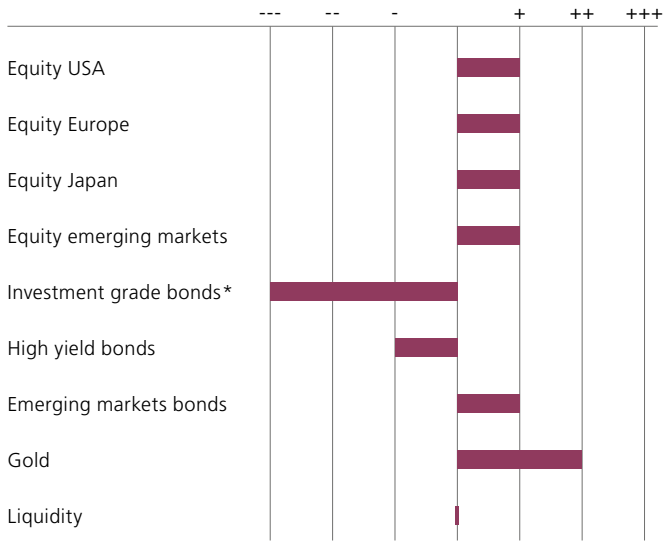
Global macroeconomic landscape*



* The macroeconomic landscape has a time horizon of 3-6 months

Source: LGT

Overview investment policy as per April 12, 2021



* Includes global government, inflation-linked, and corporate bonds

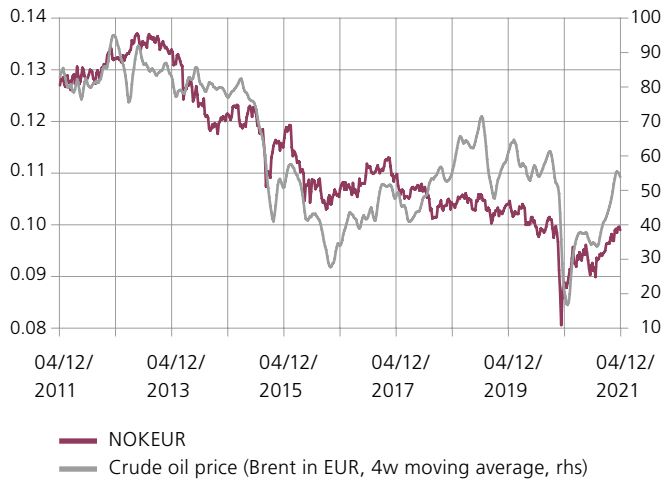
Currency Top Trumps

Michel Roth

In Top Trumps, various values on one card are compared with those on others. The player with the highest values wins the cards of the other players. In this article, we apply this game logic to the Norwegian krone and the euro. The categories are: current account, growth, monetary policy, fiscal spending, and valuation.

Current account: Both economies are running surpluses, but the recovery in crude oil prices additionally benefits Norway as an exporter and has precisely the opposite effect on the eurozone as a net importer. Growth: The GDP sector composition (less tourism!) should further support the already faster recovery momentum in Norway. Monetary policy: The already significantly higher Norwegian inflation and the risk of financial imbalances (due to rising house prices, among other factors) were reason enough for the hawkish Norges Bank to consider interest rate hikes in the second half of the year at its March meeting. For the eurozone, on the other hand, the European Central Bank's ongoing strategy review promises more rather than less liquidity. The already positive carry is therefore likely to increase. Fiscal policy: Norway is expected to run a budget surplus of 2% this year, while the eurozone is expected to run a deficit of 5%. The valuation (adjusted for productivity in particular) also favors the NOK, which remains undervalued against the euro. Admittedly, it might be difficult to find a EUR opponent at all in Top Trumps with such strong NOK cards. This is hardly the case in the financial markets, which have recently been rife with speculation. ◆

NOKEUR and crude oil price



Source: Refinitiv, LGT

Overview of currencies as per April 12, 2021

Currencies	Exchange rate	Year-to-date	Medium-term trend	Comment
EUR-USD	1.19	-2.7%	↗	The weaker growth outlook in comparison to the US are burdening the EUR
GBP-USD	1.37	0.6%	↗	The successful vaccination campaign provides tailwind for the GBP
USD-JPY	109.40	6.0%	→	Risk-on sentiment prevailing in markets weighs on JPY to Kuroda's delight
USD-CHF	0.92	4.3%	→	Ongoing reflation pushes safe havens and thus the CHF into the background
AUD-USD	0.76	-1.2%	↗	The AUD continues to distance itself from "down under"
USD-CAD	1.26	-1.4%	↘	The loonie emerges as the stronger dollar versus the greenback
USD-SGD	1.34	1.5%	↘	The level at 1.32 seems to have established itself as a solid support
USD-KRW	1124.95	3.6%	↘	The USD shows strength, but the downward trend of the KRW remains intact
USD-CNY	6.55	0.2%	↘	An imminent recapture of the psychological mark at 7 is not on the horizon for now
USD-MXN	20.08	0.8%	→	Stronger USD makes the MXN violate the 20 mark, but not break through it markedly
USD-RUB	77.40	4.6%	→	The cyclical rotation is a positive for crude prices which benefits the RUB
EUR-CHF	1.10	1.5%	→	Expansionary fiscal policy and the ultra-loose ECB prevent a significant EUR appreciation
EUR-SEK	10.21	1.6%	↘	The recovery of the global manufacturing sector is progressing and with it the SEK
EUR-NOK	10.11	-3.5%	↘	Norges Bank's prospective tightening course speaks in favor of NOK

Government bonds:
Central banks: everything under control – just a bluff?

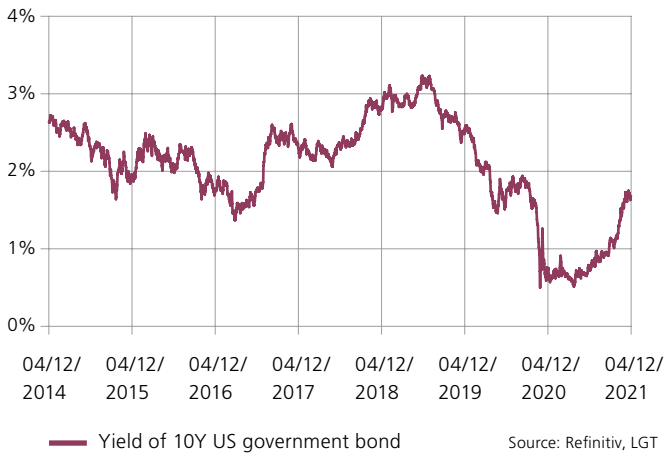
Ewald Duer

We are still in the middle of the pandemic. Although the real economy cannot necessarily be described as "fully recovered" yet, expectations of a strong recovery are already stoking fears of inflation among investors. In light of the central banks' extremely expansive monetary policy, drastic fiscal stimulus programs are now being added to the mix. As it stands, budget deficits no longer matter – unlike a few years ago. Joe Biden is talking about further trillion-dollar stimulus programs. The historic USD 1.9 tn "American Rescue Plan" passed through Congress only recently, the relief checks to households were mailed a short time ago – so already there is a lot of money in consumers' accounts waiting to be spent.

The risk of overstimulation is high. Federal Reserve Chairman Jerome Powell indicated that while inflation will pick up in the coming months, the increase is likely to be temporary. According to his statement, there are no plans to change the interest rate policy for some time yet – even if inflation targets are exceeded in the short and medium term. However, these "sedatives" do not seem to be working in the market. The rise in bond yields suggests that investors expect stronger growth and higher inflation on the horizon. The central banks claim that they have sufficient tools to fight inflation. However, that is likely to be a bluff – because they do not. Any withdrawal of liquidity or increase in interest rates would cause massive turmoil in financial markets. The recent behavior of the ECB shows how tense the situation really is – even a minimal rise in bond yields is immediately counteracted, with even higher bond purchases made. At the same time, the ECB (and other central banks) has endeavored for years to increase the inflation rate in the direction of 2%. But as soon as yields begin to rise, alarm bells start ringing.

Inflation will increase this year (at least temporarily due to the base effect). For the time being, the danger of an inflationary trend is certainly much greater in the US than in Europe. This can also be seen in market-based inflation expectations, which show a clear lead in the US over Europe. The Federal Reserve's new "flexible average inflation target" (FAIT), for which neither the number of average years nor the tolerance for overshooting the 2% mark are known, also tends to create uncertainty. While there is currently no prospect of high inflation, the psychology could change. Whether the central banks then have the necessary tools or whether it is a bluff will become clear when the cards are revealed. ◆

Yield of US government bonds



Overview policy rates and yields on 10y government bonds as per April 12, 2021

Economy	Policy rate	Trend	Comment	10y yield	Trend	Comment
USA	0.125%	→	No rate increase in foreseeable future	1.68%	↗	Reflation causes yields to rise
Eurozone (DE)	0.00%	→	No rate increase in foreseeable future	-0.33%	→	Higher yields are countered with ECB purchases
Japan	-0.10%	→	No rate increase in foreseeable future	0.10%	→	Yield curve control bears fruit
UK	0.10%	→	No rate increase in foreseeable future	0.83%	↗	Higher yields thanks to vaccination success
Switzerland	-0.75%	→	No rate increase in foreseeable future	-0.25%	→	Swiss yields remain negative but in demand
Brazil	2.75%	→	No rate increase in foreseeable future	9.16%	↗	Corona situation remains a cause for concern
China	3.85%	→	No rate increase in foreseeable future	3.20%	↗	Supported by economic optimism

Inflation-linked bonds: The pandemic is a boost for inflation

Dieter Gassner

In recent years, investors have focused on disinflation and in the short term even on fears of deflation. This issue has now been sidelined by the pandemic and the massive rescue measures that have been introduced by central banks and governments. The topic of inflation is currently attracting a great deal of media attention and is the subject of controversial debate in the financial world. While some well-known economists are already calling for a new regime of rising interest rates and inflation, others, alongside those in charge of the major central banks, are keeping a low profile and see little risk or no need for action for the time being. This still reassuring assessment can also be seen on bond markets, although interest rates have risen sharply since the end of January. In the US, the recent upward trend was mainly driven by the real rate component, reflecting upward adjustments in economic expectations. The inversion of the US breakeven curve, derived from inflation-linked bonds, to an extent never seen before is also notable. It means that the inflation expectations priced in over the mid-term horizon (2 and 5 years 2.6%) are significantly higher than those over a longer time frame (10 years 2.3% and 30 years 2.2%). This can be interpreted as an expectation on the part of bond investors that a boost to inflation from fiscal stimuli is likely to be relatively short-lived. In these parts, inflation expectations have also risen in line with the economic recovery, but remain at a modest level and also have a slightly positive maturity structure (Germany 5 years 1.3%, 10 years 1.4%). At the same time, real yields in the eurozone are in a decreasing trend and even trading at all-time lows in clearly negative territory.

We expect the pandemic to be a boost for inflation and price data to shoot up well above the levels targeted by central banks, especially in the coming months. However, it is still too early for us to declare the start of a sustained inflation cycle. But the specter of deflation of recent years has at least been banished for the time being, and the risk has clearly shifted to overshooting inflation. We are therefore deliberately adding inflation-linked bonds to our portfolios – the current ratio in the fixed income segment is around 20%. ◆

Emerging markets hard currency bonds: Argentina's debt drama

Ikram Boulfernane

The emerging market (EM) hard currency bonds asset class is struggling with certain obstacles, including a currently stronger US dollar, while at the same time benefiting from various tailwinds. Dominant reflation is strengthening investors' appetite for risk, which benefits EM assets. The ongoing recovery in global demand and trading activity is an essential support factor for this investment segment. But not all emerging markets are the same, so cherry-picking is in order.

One cherry that should be looked at more closely is Argentina. Because there are some certainties in life: spring is followed by summer, Friday is followed by Saturday, and a loan granted to Argentina is followed by discussions on a potential default. The first act in the latest debt drama between Buenos Aires and the International Monetary Fund (IMF) has played out. Vice President Cristina Fernandez de Kirchner indicated that Argentina is unable to repay the USD 45 bn debt to the IMF. The price of US dollar-denominated Argentine bonds is approaching new lows. The loss of confidence on the part of international investors is also reflected in the horrendously high hedging costs for Argentina's debt securities, which are perennially junk-rated.

The recent improvement in the macro situation failed to provide any relief. Negotiations with the IMF are dragging on and could be accelerated with fiscal austerity. But with elections approaching in October, this would be tantamount to political suicide. Distortionary policies remain in place for the time being – and with them, the displeasure of international investors. The debt drama thus continues to play out. The final act, for now, is likely to open after the elections and will involve reaching an agreement with the IMF and avoiding a total default. Then comes the next certainty: This final act will soon be followed by the next instalment in the Argentine debt drama. ◆

Equities US: Primary versus secondary

Manfred Hofer

Record levels continued in the first quarter. The benchmark S&P 500 index gained around 6% over this period – despite rising bond yields. Equity markets reacted to this with a rotation in sectors and investment styles. In contrast, a general reduction in risk appetite was not evident. The turning point at which long-term interest rates are expected to have a more serious impact is much higher, in our view. So in principle, there is nothing standing in the way of a continuation of the reflation trade.

Vaccination success is raising hopes that the US economy will open up in the not-too-distant future. This, combined with the new president's massive expenditure plans, is fueling growth expectations. In addition to his massive stimulus package, Biden is planning new aid measures aimed at improving the country's infrastructure, some of which is in a state of disrepair. However, it is still unclear whether and when the US government will be able to pass this package. While the massive support for the economy is raising concerns of inflation, Federal Reserve Chairman Jerome Powell is relaxed in this regard. Despite the extensive fiscal aid, he sees no immediate danger of rising inflation.

Overall, the strong outlook for economic growth and continued support from the Federal Reserve bodes well for risk assets.

The latest behavioral finance analysis results continue to give the equity market the "green light" from a strategic perspective. The primary uptrend is intact, it is confirmed by our technical indicators and furthermore there is no negative divergence on the part of the market breadth. The latter would signal danger as a leading indicator. The risk indicator also supports this – there is no indication of a trend reversal toward a sustained bear market. A different picture emerges from the analysis of the secondary trend. This moves within the range of the primary trend and is therefore responsible for shorter-term market movements. Some parameters here – both from the market structure analysis and from our indicator toolkit – point to a degree of overconfidence on the part of market participants. It is advisable to wait for these indicators to cool down, ideally combined with a price consolidation, before expanding equity exposure. In terms of time, it may well take several weeks before the desired effect is achieved. ◆

Equities US

Source: Refinitiv, LGT

Overview of equity markets as per April 12, 2021

Stock market (MSCI indices)	year-to-date	since 04/12/2020	since 04/12/2016*	Trend	Comment
United States (USD)	9.6%	52.6%	17.0%	↗	Upwards trend
Eurozone (EUR)	10.3%	39.8%	8.9%	↗	Upwards trend
Japan (JPY)	8.9%	40.1%	10.9%	↗	Upwards trend
United Kingdom (GBP)	8.0%	20.4%	5.5%	↗	Upwards trend
Germany (EUR)	10.3%	42.1%	8.1%	↗	Upwards trend
Switzerland (CHF)	6.0%	20.0%	10.0%	↗	Upwards trend
China (CNY)	0.1%	39.6%	16.2%	↗	Upwards trend
Emerging markets (USD)	2.8%	51.9%	12.3%	↗	Upwards trend

* annualized

Source: Refinitiv, LGT

Equities Europe: Clear price rally?

Ralf Piersig

The stock markets seem to be moving in only one direction at the moment: inexorably upward – which is admittedly better than expected from our side most recently. Even setbacks in the procurement and administration of vaccines, a third lockdown in large parts of Europe, and the increasing surge in national debt could not dampen confidence. The rapid economic recovery outside of Europe, driven by the US and China, in combination with a recently weak euro should also boost the export-oriented economy here.

The monetary policy of the central banks is likely to (once again) become increasingly important in the coming months: If they keep interest rates low despite rising inflationary pressure, "cheap" money should continue to benefit equity markets. We are more cautious on this point: A normalization of the economy should also bring with it the first steps toward a normalization of monetary policy, which in our view is not currently priced in. We therefore expect increased price volatility and continue to tactically recommend a more cautious positioning. ◆

Equities Europe

Source: Refinitiv, LGT

Equities Japan: Japanese economy on the road to recovery

Mikio Kumada

The first quarter confirmed that Japan's economy remained on the road to recovery after the coronavirus shock of the first half of 2020. In the final quarter, real GDP once again grew at an above-average rate, rising 11.7% versus the previous quarter on an annualized basis, following an increase of 12.7% in the previous quarter. In addition to private consumption and exports, which again generated growth, private investment activity also increased again in the last three months of the year. All growth pillars are therefore now providing support again.

The fact that investors in general had not expected such a turnaround is shown by the results of the first quarterly reporting season, which ended in mid-February. Nikkei 225 companies reported aggregate earnings growth of around 38%, exceeding the consensus estimate by a little over 55%. This enabled Japan to benefit fully from the recent global trend in favor of cyclical and relatively low-valued equities, which were neglected in the first phase of last year's rally. The broad Topix index has gained just over 8.3% since the start of the year. ◆

Equities Japan

Source: Refinitiv, LGT

Emerging markets equities: Negative impact of Chinese growth stocks

Johannes Oehri

Following their rise to dizzying heights on the back of growth fantasies and the speculative use of globally excessive money supply, prices of Chinese technology stocks had no choice recently but to fall. Since mid-February, they have lost around a third of their capitalization and, due to their high weighting, had also a negative impact on the global emerging markets index.

One reason for the sudden change in direction are rising long-term US interest rates, which have lowered the present value of profits to be made in the distant future and strengthened the US dollar. In addition, China's government is tightening the reins on both fiscal policy and regulation. Local authorities are currently targeting technology and Internet platforms in China that they feel have grown too fast and become too powerful. They are to be tamed through antitrust regulation and a pinch of government arbitrariness in enforcing the law, thereby creating space for competition and new innovations. To the dismay of existing investors. China has thus already tackled what still hangs like a sword of Damocles over the tech giants in the West. ◆

Equity price indices in USD, indexed as of 01/01/2020

Source: Refinitiv, LGT

Private Equity: Perspective on ESG – Q&A with Tycho Sneyers

Trushna Anand Jhaveri

Tycho Sneyers, the chair of LGT Capital Partners' (LGT CP) ESG Committee, recently began his second term as a board member at the UN Principles for Responsible Investment (PRI). He shares his views here on two key topics.

What unique challenges and/or opportunities do you see for private markets regarding ESG integration?

Private equity is especially well suited to addressing ESG issues. The typical buy-for-control investment model in private equity means that fund managers have the greatest scope for driving positive outcomes and mitigating negative impacts. While many other types of investors are largely limited to "buy/no-buy" decisions at the outset, private equity managers can directly build ESG factors into their value creation plans.

However, private equity managers face certain challenges, especially in terms of obtaining consistent sources of high-quality ESG data. They have to measure and collect data largely on their own. This poses problems for comparability across managers for investors wishing to analyze large, diverse portfolios.

What do you think will be the key developments in the ESG agenda in 2021?

Climate action! The vast majority of investors are currently working to minimize CO_2 emissions from their investments, as well as trying to assess how climate change is affecting the riskiness and the return expectations of their holdings. This is also a big topic for us at LGT CP, and over the past years, we have spent significant time on "Paris aligning" our largest investment portfolio, the Princely Strategy.

Another important trend is the evolution of ESG from its historic focus on process to an increasing concern with real world outcomes. This has become easier since 2015, when all nations agreed on combatting global warming with the Paris agreement and the unanimous approval of the 17 Sustainable Development Goals (SDGs). The SDGs enable investors to take a more outcome-oriented approach to sustainable investing because the goals enable them to measure impact towards achieving targets that have been globally agreed and quantitatively defined. ◆

Real estate: Does real estate protect against inflation?

Boris Pavlu

Carefree financial markets are known to be a rare and often risky situation. But the all-clear can be given in this respect. With pandemic-related fears now noticeably subsided, the investment community is already concerned about the next specter: the possible return of inflation.

Real estate has a reputation for being a good hedge against inflation, but is this really the case? One albeit somewhat diffuse cause lies in the said "flight to tangible assets" – a reflex reaction to rising currency devaluation. Indexed rents provide a more explicit link to inflation here. For example, national laws often provide for residential rents to be linked to the consumer price index, and in the case of commercial space, almost every rental agreement has an inflation offset clause. In addition, inflation is good for people holding debt, and most real estate investments are financed through leverage.

Counterarguments include growing maintenance and repair costs, which will also rise with inflation. However, what is more important is that the discount rate applied for valuation must be increased, and this therefore puts downward pressure on real estate values in purely mathematical terms. In view of the zero interest rate environment and the high duration of real estate, particular attention should be paid to this fact this time.

Which of the factors ultimately dominates depends heavily on the economic environment. If inflation occurs as a side-effect of an advanced boom, then this period is often accompanied by high occupancy rates for commercial space and above-average total returns from real estate investments. The situation is quite different in stagflationary phases as rents cannot be adjusted upward at will given stubborn vacancies, and the property loses value in real terms. This is what happened in the wake of the oil price shock of the 1970s. The nature of the economic cycle beyond the pandemic remains to be seen. The most pressing issues for real estate investments currently relate more to the supposed structural change (in terms of working from home, e-commerce, etc.). This reorientation must first be successfully mastered so that real estate can continue to develop its value retention. ◆

Hedge funds: Alpha – the (patient) discovery of investment gems

Stefano Lecchini

At year- or quarter-end, the question always arises as to how much "alpha" hedge fund managers have been able to generate. For once, though, we are asking: what specific value is alpha? The example of a long/short equity manager will help us to characterize alpha in more detail.

Within such an active strategy, a manager selects certain stocks for the long (stocks with potential for price increases) and short (stocks with potential for price decreases) sides of its equity portfolio. He also determines the level of net and gross exposure, the concentration of the portfolio, etc. The selection of stocks is based on an in-depth analysis of the factors that determine the future success or failure of a company. This type of analysis involves all the experience, analytical skills, network, etc. of a manager. In his search for attractive stocks, the manager follows his special, individual, often lonely path until he finds his "investment gems." However, this search will remain worthless if the rest of the market does not discover these gems from time to time: After all, only when the majority of investors is convinced – preferably impressed – or disappointed by the stock meticulously selected by the manager will it perform strongly or poorly accordingly, boosting the manager's portfolio return. Herein lies the paradox of alpha generation: Despite all the effort and savoir faire, the excellent and idiosyncratic skills, the manager still needs the overall market to also discover these gems.

And what about alpha to date in 2021? The picture is mixed, but a patient investor could, for example, benefit from the market's discovery of some gems in the event-driven or long/short equity segment which had been waiting for this moment in managers' portfolios for months. ◆

LGT's core competencies in asset management

LGT's investment center is a specialist for multi asset solutions as well as alternative investments. Our core competencies include:

Asset Allocation

Carefully planned asset allocation is the foundation for successful asset management and performance. LGT's long-standing experience and disciplined investment approach enable us to offer our clients traditional and alternative investments as an integrated, comprehensive package and to go to our clients as an authority in this regard. Our transparent investment process covers portfolio construction and implementation in line with our clients' needs as well as continual monitoring of specific risks. The aim of our asset allocation investment solutions is to optimize the long-term risk-return profile. It is important to ensure that our investment solutions participate in market upturns, while offering stability and capital preservation in difficult market periods. The cornerstones of our Asset Allocation expertise are:

- A comprehensive global universe of listed and non-listed investments
- Broad diversification in and between asset classes, segments, styles, specialists and currencies
- A systematic, disciplined process based on a balanced blend of qualitative and quantitative elements

The long-term strategic asset allocation requires a look at the future. But because predicting future developments is possible only to a very limited extent, we use scenario analysis. The knowledge of past developments in economics, politics and the financial markets gives us a basis for our scenarios. Academics and practitioners add their own expert knowledge in certain thematic areas. We then use this array of information to develop various future scenarios. These are either baseline scenarios (high probability of occurring) or alternative scenarios (low probability of occurring). We set the optimum portfolio weighting for each scenario. We then work out investment solutions that we think can bring robust returns for our clients across several scenarios.

Through our tactical asset allocation we take advantage of medium-term inefficiencies and fluctuations. In a quarterly process we reconsider our active positioning also taking into account our findings from economic and market information along with behavioral finance.

Sustainability

Our long-term direction and ESG investment principles are a core element of our corporate culture. We are convinced that we can only invest successfully for our clients by following a long-term approach that contains a strong awareness of environmental, social and governance (ESG) principles. This also applies to investment solutions that we offer our investors as well as to our overall business activities. On the following pages, we will demonstrate how LGT Capital Partners integrates these principles into its business activities.

ESG in our investment and monitoring process

Compliance with ESG criteria is a fixed component of our investment process. It is structured so that it meets the United Nations-supported Principles for Responsible Investment (UN PRI). Our investment teams are responsible for due diligence for potential investments. Every investment opportunity we pursue is examined based on these criteria. These assessments are important information for portfolio managers and the Investment Committee when it comes to making an investment decision. We monitor a broad spectrum of risks, against the background of ESG criteria as well. We work closely with our external managers and offer them advice on how ESG criteria can be integrated even more extensively. For some clients, we check the portfolios according to specific ESG guidelines.

We have developed processes to integrate ESG principles in line with the requirements of the various investment categories and structures. In the context of our private equity, hedge fund and multi-manager long-only portfolios, for example, we focus on the assessment of ESG practice of our external and internal managers, and work with them to raise standards in this area. In our equity and bond portfolios, we rely on

individual stock selection. This way, we can benefit from the fact that substantially more information is available for an ESG assessment. We have therefore developed an internal tool, the ESG cockpit, which enables us to analyze and evaluate the ESG risks and opportunities of every position in these portfolios.

Compliance with international agreements on controversial weapons

Apart from carrying out our own ESG analyses, we are cooperating with Global Engagement Services (GES) and applying their guidelines to avoid investing in companies involved in the manufacture of controversial weapons such as land mines, cluster bombs and ammunition as well as ABC weapons. This way, we can develop portfolios that meet the requirements of international agreements on controversial weapons.

Our definition of ESG

When analyzing managers and companies, we check the following environmental, social and governance factors:

- Environment: greenhouse gas emissions, energy efficiency, water consumption, waste disposal, use of resources and other factors
- Social: refers to subjects such as controversial weapons, human rights issues, labor standards, employee fluctuation, health and safety, training and professional development as well as other factors
- Governance: quality of the board of directors, clear separation between the role of the CEO and president of the board of directors, accounting practices, reporting/transparency, management incentives, shareholders' rights, bribery and corruption as well as other factors

In choosing countries of potential issuers of government bonds, we concentrate on the degree of freedom, democracy, political and civil rights that prevail in the respective country as well as on the level of corruption and the rule of law. This is enhanced by further analyses that illustrate how a country deals with natural resources and the status of social development.

Integration of alternative investments

To achieve robust portfolios, there needs to be as much integration as possible of many uncorrelated return sources. It has been shown that alternative investment classes can make a valuable contribution in particular. LGT Capital Partners has been investing in private market investments and liquid alternative investment classes for 20 years. We have a global network and therefore access to experienced managers in this area, as well as direct investment competence. Investments in private markets can improve the risk-reward ratio of an investment portfolio. They offer investors the opportunity to achieve higher returns while at the same time diversifying their portfolio. With an investment horizon of more than ten years, private equity requires a long-term commitment and readiness to accept reduced liquidity and unexpected capital flows. The returns are also highly dependent on the investor's ability to gain access to the managers with the best performance, as returns from funds in the upper and lower quartile vary enormously from one another. Liquid alternative investments such as alternative risk premia, hedge funds or insurance-based investments play a large part in broader diversification of a portfolio. The integration of these strategies into a portfolio requires in-depth analysis that takes account of investors' aims and requirements. This calls for the relevant analysis tools, as well as for long-term experience.

Overview LGT Funds

LGT Funds	ISIN	Launch date	Price as per 03/31/2021		Performance 2021	Performance -3 years p.a.	Performance -5 years p.a.
Multi asset class							
LGT Alpha Indexing Fund (CHF) B	LI0101102999	30.04.2009	CHF	1700.85	1.02%	3.08%	3.55%
LGT GIM Balanced (CHF) B	LI0108469029	31.01.2010	CHF	13367.15	2.97%	3.93%	3.88%
LGT GIM Balanced (EUR) B	LI0108469169	31.01.2010	EUR	14965.59	2.51%	4.75%	4.16%
LGT GIM Balanced (USD) B	LI0108468880	31.01.2010	USD	15715.31	1.78%	6.27%	6.05%
LGT GIM Growth (CHF) B	LI0108469268	31.01.2010	CHF	14826.94	4.48%	4.80%	5.27%
LGT GIM Growth (EUR) B	LI0108469318	31.01.2010	EUR	16860.51	3.95%	5.67%	5.55%
LGT GIM Growth (USD) B	LI0108469250	31.01.2010	USD	17441.02	3.10%	7.13%	7.40%
LGT Sustainable Strategy 3 Years (CHF) B	LI0350494782	10.11.1999	CHF	1074.99	-0.01%	1.91%	2.35%
LGT Sustainable Strategy 3 Years (EUR) B	LI0008232162	10.11.1999	EUR	1844.57	-0.43%	2.75%	2.74%
LGT Sustainable Strategy 3 Years (USD) B	LI0350494840	30.04.2010	USD	1178.40	-1.09%	4.10%	4.56%
LGT Sustainable Strategy 4 Years (CHF) B	LI0350494907	10.11.1999	CHF	1124.24	1.54%	3.26%	3.81%
LGT Sustainable Strategy 4 Years (EUR) B	LI0008232220	10.11.1999	EUR	1903.96	1.06%	4.18%	4.26%
LGT Sustainable Strategy 4 Years (USD) B	LI0350494998	30.04.2010	USD	1231.17	0.29%	5.50%	6.02%
LGT Sustainable Strategy 5 Years (CHF) B	LI0350495169	01.10.2004	CHF	1157.89	2.81%	4.01%	4.84%
LGT Sustainable Strategy 5 Years (EUR) B	LI0019352926	01.10.2004	EUR	2002.84	2.31%	4.99%	5.21%
LGT Sustainable Strategy 5 Years (USD) B	LI0350495227	30.04.2010	USD	1266.12	1.44%	6.16%	6.95%
Money market							
LGT Money Market Fund (CHF) B	LI0015327682	19.01.1998	CHF	1071.05	-0.23%	-0.83%	-0.81%
LGT Money Market Fund (EUR) B	LI0015327740	19.01.1998	EUR	691.08	-0.16%	-0.47%	-0.41%
LGT Money Market Fund (USD) B	LI0015327757	19.01.1998	USD	1546.34	-0.02%	1.36%	1.14%
Bonds							
LGT Bond Fund EMMA LC (CHF) B	LI0133634688	30.09.2011	CHF	1108.21	-0.57%	-3.45%	1.50%
LGT Bond Fund EMMA LC (EUR) B	LI0133634662	30.09.2011	EUR	1221.17	-2.81%	-1.42%	1.23%
LGT Bond Fund EMMA LC (USD) B	LI0133634670	30.09.2011	USD	1068.75	-6.62%	-2.90%	1.86%
LGT Sustainable Bond Fund EM Defensive (CHF) B	LI0183910038	30.06.2012	CHF	973.13	-1.68%	-0.64%	0.59%
LGT Sustainable Bond Fund EM Defensive (EUR) B	LI0183910012	09.07.2012	EUR	1011.89	-1.56%	-0.17%	1.09%
LGT Sustainable Bond Fund EM Defensive (USD) B	LI0183909998	15.12.2011	USD	1141.32	-1.33%	2.14%	3.24%
LGT Sustainable Bond Fund Global Inflation Linked (CHF) B	LI0148578045	17.04.2012	CHF	928.90	-0.75%	-0.20%	-0.66%
LGT Sustainable Bond Fund Global Inflation Linked (EUR) B	LI0017755534	10.05.2004	EUR	1164.29	-0.65%	0.30%	-0.12%
LGT Sustainable Bond Fund Global Inflation Linked (USD) B	LI0148578037	30.09.2010	USD	1085.86	-0.50%	2.48%	1.88%
LGT Select Bond Emerging Markets (USD) B	LI0026536628	31.12.2000	USD	3745.73	-5.97%	0.39%	3.50%
LGT Select Bond High Yield (USD) B	LI0026564604	31.08.2000	USD	2923.02	0.58%	6.15%	6.73%
LGT Select Convertibles (CHF) B	LI0132437745	31.08.2011	CHF	1645.34	2.14%	7.74%	6.18%
LGT Select Convertibles (EUR) B	LI0132437737	31.08.2011	EUR	1708.76	2.26%	8.10%	6.46%
LGT Select Convertibles (USD) B	LI0102278962	31.07.2006	USD	2209.42	2.53%	10.80%	9.03%
LGT Sustainable Fixed Income Global Opportunities (EUR) B	LI0008232030	10.11.1999	EUR	1684.71	0.39%	0.43%	0.23%
LGT Sustainable Bond Fund Global (EUR) B	LI0106892909	30.11.2009	EUR	1574.23	-0.64%	3.45%	1.36%
LGT Sustainable Bond Fund Global Hedged (CHF) B	LI0148577955	22.10.1996	CHF	1050.85	-3.00%	0.58%	-0.55%
LGT Sustainable Bond Fund Global Hedged (EUR) B	LI0148577948	22.10.1996	EUR	1098.62	-2.95%	0.99%	-0.11%
LGT Sustainable Bond Fund Global Hedged (USD) B	LI0015327872	22.10.1996	USD	3024.37	-2.70%	3.39%	2.10%
LGT Quality Funds – Sustainable Short Duration Corp. Bond Fund Hedged (CHF) B	LI0183909808	30.06.2012	CHF	983.43	-0.93%	-0.11%	-0.76%
LGT Quality Funds – Sustainable Short Duration Corp. Bond Fund Hedged (EUR) B	LI0183909782	30.06.2012	EUR	1029.43	-0.83%	0.39%	-0.23%
LGT Quality Funds – Sustainable Short Duration Corp. Bond Fund Hedged (USD) B	LI0183909790	30.06.2012	USD	1145.75	-0.61%	2.63%	1.77%

LGT Funds	ISIN	Launch date	Price as per 03/31/2021		Performance 2021	Performance -3 years p.a.	Performance -5 years p.a.
Equities							
LGT Select Equity Emerging Markets (USD) B	LI0026536354	31.12.2000	USD	5682.81	4.62%	6.89%	12.40%
LGT Select Equity Enhanced Minimum Variance (USD) B	LI0337486141	25.11.2016	USD	1376.69	2.32%	5.50%	n.a.
LGT Sustainable Equity Fund Europe (EUR) B	LI0015327906	30.09.2000	EUR	1452.66	6.94%	7.34%	6.33%
LGT Sustainable Equity Fund Global (CHF) B	LI0148540441	17.12.2012	CHF	2716.16	12.48%	12.16%	12.20%
LGT Sustainable Equity Fund Global (EUR) B	LI0106892966	31.12.2009	EUR	3505.51	9.95%	14.52%	11.91%
LGT Sustainable Equity Fund Global (USD) B	LI0148540466	17.12.2012	USD	2649.16	5.64%	12.80%	12.60%
LGT Sustainable Quality Equity Fund Hedged (CHF) B	LI0183907844	30.06.2012	CHF	2194.60	2.29%	13.43%	10.45%
LGT Sustainable Quality Equity Fund Hedged (EUR) B	LI0183907836	09.07.2012	EUR	2180.13	2.40%	13.83%	10.89%
LGT Sustainable Quality Equity Fund Hedged (USD) B	LI0183907802	30.06.2012	USD	2712.63	2.65%	16.71%	13.44%
Insurance-linked investments							
LGT (Lux) I – Cat Bond Fund (CHF) B	LU0816333040	30.11.2010	CHF	109.35	-0.26%	-0.27%	-0.10%
LGT (Lux) I – Cat Bond Fund (EUR) B	LU0816332828	30.11.2010	EUR	114.00	-0.23%	0.05%	0.23%
LGT (Lux) I – Cat Bond Fund (USD) B	LU0816332745	30.11.2010	USD	128.64	-0.08%	2.32%	2.30%
Alternative investments							
LGT Crown Listed Private Equity (EUR) B	IE00B7T8CN06	25.02.2013	EUR	282.17	14.73%	16.24%	15.52%
LGT Crown Listed Private Equity (USD) D	IE00BJVWTR76	28.07.2014	USD	199.90	10.21%	14.49%	16.24%
LGT Alpha Generix UCITS Sub-Fund Class O (USD)	IE00B7VFVC16	01.10.2012	USD	1016.70	-1.45%	1.95%	0.26%
LGT Alpha Generix UCITS Sub-Fund Class P (EUR)	IE00B82ZPK32	01.10.2012	EUR	907.81	-1.72%	-0.38%	-1.87%
LGT Alpha Generix UCITS Sub-Fund Class Q (CHF)	IE00B46N8H32	01.10.2012	CHF	867.32	-1.77%	-0.76%	-2.34%
LGT Dynamic Protection UCITS Sub-Fund Class F (USD)	IE00BD365334	20.04.2017	USD	1019.44	-1.97%	0.82%	n.a.
LGT Dynamic Protection UCITS Sub-Fund Class G (EUR)	IE00BD365441	30.04.2017	EUR	944.79	-2.17%	-1.35%	n.a.
LGT Dynamic Protection UCITS Sub-Fund Class H (CHF)	IE00BD365557	30.04.2017	CHF	927.69	-2.21%	-1.83%	n.a.

Imperial Porcelain Manufactory Vienna, Sorgenthal Era (1784–1805), detail from “Cup and saucer with fir branches,” around 1789

Reflation, the savior

Reflation is currently on everyone's lips. While some market participants consider the combination of expansionary fiscal and monetary policy to be indispensable in the fight against deflationary forces, for others it fuels inflation fears. Whether one is for or against, the reflation efforts are already bearing fruit and leaving their mark on the financial markets.

The COVID-19 pandemic has led to a global economic collapse. The prescribed narcotization of social life has meant manufacturers and service providers operating below capacity. As a result, prices have fallen across the board and deflationary forces have caused unease. The historical evidence proves that economic agents are right to fear deflation like the devil fears holy water. This economic iniquity in the form of a continuously falling price level needs to be nipped in the bud. Reflation – an interplay of ultra-loose monetary policy and an extremely expansionary fiscal policy – is seen as the savior, counter-acting deflation and the associated economic misery with the desired induced inflation and boosting the currently ailing global economy.

The euro crisis at the beginning of the 2010s showed that expansionary monetary policy combined with restrictive fiscal policy does not produce the desired results, namely economic growth and moderate price increases. In the context of the COVID-19 crisis, states from the Wild West to the Far East have dug deep into their coffers – some of which were already in the red – to relieve households and businesses across the board of their economic woes with government aid packages. The fact that this will cause public debt to explode is boldly accepted and the problem is shifted onto future generations. The end justifies all means, and thus reflation is absolved in the "now" as it is an essential cornerstone for economic activity as well as for the long-awaited inflation.

For the time being, the reflationary sums seem to be adding up. Thanks to the broad-based monetary and fiscal policy support measures, the economy is picking up after what was probably the sharpest but shortest recession ever. In addition, inflation expectations have been lifted from an undesirably low level toward the desired price stability over the past few months – just the right amount of good! The reflationary environment has fueled the risk-on sentiment of market participants. This has manifested itself in various asset classes. Nominal and real bond yields have risen. Commodity prices have rallied and cyclical sectors have followed suit. In the equity markets, higher corporate earnings and lower risk premia are creating a veritable frenzy.

A sweet spot par excellence – but only as long as the desired "good" inflation does not continuously and significantly overshoot the defined 2% target. Because then it turns into the undesirable "bad" inflation. And the risk of overheating the economy with a hugely expanded money supply and the most lavish fiscal packages since wartime is not negligible. Investors that want to hedge against rising inflation can add inflation-linked bonds to their portfolio to diversify it. In addition, this asset class helps to preserve purchasing power. For the fact that reflation will be followed by increased cyclical price pres-sure is as certain as the amen in church. We can only hope that the "good" inflation that has been conjured up will remain benign. ◆

LGT Sustainable Bond Fund Global Inflation Linked (EUR) B

Fund description

The fund is an actively managed portfolio and incorporates sustainability criteria. The fund invests predominantly in inflation-linked bonds issued by governments of industrialized countries with investment grade quality. The selection of countries, duration, and yield curves aims to create an attractive risk/return profile. All investments are made with a view to long-term value creation. The fund is also available in USD, CHF, and GBP and is completely hedged back into the respective reference currency.

Why invest in LGT Sustainable Bond Fund Global Inflation Linked?

- Thanks to the global approach the fund avoids a concentration on single issuers.
- Currency risk is completely hedged back into reference currency.
- The fund focuses on high quality issuers.
- The portfolio management distinguishes itself through a stable team with a long and proven investment experience in this asset class.

Opportunities

- The investor benefits from a broadly diversified and professionally managed portfolio.
- Efficient opportunity to participate in the performance of global inflation linked bonds.
- The investment process combines macroeconomic analyses with findings from the field of Behavioral Finance.

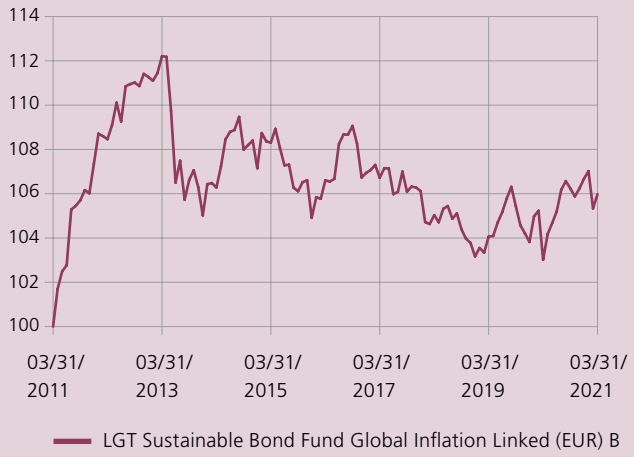
Risks

- **Market risks:** The risk of losses in an investment arising from adverse movements in market prices.
- **Liquidity risks:** The risk that fund is unable to meet short term financing demands or has to sell investment securities at lower price levels under the condition of reduced market demand.
- **Operational risks:** The risk of the Fund incurring losses as a result of inadequate or failed processes, people or systems failures, or from external or force majeure events.
- **Political and legal risks:** The risk of change in rules and standards applied in the jurisdiction of an asset of the Fund. This includes restrictions on currency convertibility, the imposition of taxes or transaction controls, limitations on property rights or other legal risks. Investments in less developed financial markets may expose the Fund to increased operational, legal and political risk.
- **Credit/counterparty risks:** The risk that a counterparty fails to meet contractual financial obligations on a timely basis.
- **Derivative risks:** The risk of losses from an investment in derivatives, due to high sensitivity to price movements of the underlying asset, and/or increased leverage.
- **Issuer default risk:** The risk of losses of an investment in debt securities or equivalent due to the issuer becoming insolvent.

Fund data

Inception	May 10, 2004
Fund domicile	Principality of Liechtenstein
ISIN	LI0017755534
Distribution	None, retains profits
Reference currency	EUR
Management fee p.a.	0.90%
Operations fee p.a.	0.30%
Total fund assets	EUR 935.02 m (as of 03/31/2021)
Registration	AT, CH, DE, DK, ES, FI, FR, IS, IT, LI, NO, SE

Performance (net of LGT fees)



Source: LGT

Past performance is not a guarantee, nor an indication of current or future performance. Returns may increase or decrease as a result of currency fluctuations.

"Either way, we get inflation"

The fact that reflation inevitably leads to more inflation cannot be dismissed. This can benefit risky assets. However, it could also depress their performance when it overshoots. In the following interview, Jim Bianco, founder and president at Bianco Research, L.L.C., elaborates why he thinks that rising prices will be the biggest story in 2021 as well as why Milton Friedman risks to end up in the dustbin of history.

Jim Bianco is President and Macro Strategist at Bianco Research, L.L.C. Since 1990 Jim's commentaries have offered a unique perspective on the global economy and financial markets. Unencumbered by the biases of traditional Wall Street research, Jim has built a decades long reputation for objective, incisive commentary that challenges consensus thinking. In nearly 20 years at Bianco Research, Jim's wide ranging commentaries have addressed monetary policy, the intersection of markets and politics, the role of government in the economy, fund flows, and positioning in financial markets.

Jim appears regularly on CNBC, Bloomberg, and Fox Business, and is often featured in the Wall Street Journal, Bloomberg News, Grants Interest Rate Observer, and MarketWatch. Prior to joining Arbor and Bianco Research, Jim was a Market Strategist in equity and fixed income research at UBS Securities and Equity Technical Analyst at First Boston and Shearson Lehman Brothers. He is a Chartered Market Technician (CMT) and a member of the Market Technicians Association (MTA). Jim has a Bachelor of Science degree in Finance from Marquette University and an MBA from Fordham University.

Investorama: Policy makers are strongly committed to continuing their reflation policies. Rising bond yields are an indication that those policies work, but at the same time, they could jeopardize the recovery and the stock market rally. How will central banks cope with this dilemma?

Jim Bianco: Interest rates move up and down with changes in expected nominal gross domestic product, which is the combination of real economic growth and inflation. Nominal growth can come from either reflation or inflation, a difference that matters greatly to the economy and markets.

If interest rates are rising on the heels of reflation and real growth, that is positive for risk assets. In the last few decades, when interest rates have risen, it has been due to real growth. The markets have shown they are willing to tolerate the Federal Reserve's suppression of interest rates in such a scenario.

Nevertheless, if interest rates are rising because of faster inflation, then that is not good for risk assets. All else being equal, inflation depresses real economic growth and earnings as purchasing power dwindles. During the inflationary period from 1966 to 1982, stocks lost 65% of their real – after-inflation – value as inflation raged. These real losses were not recouped until the mid-1990s. Inflation has not been a problem since the 1990s.

And if inflation is pushing nominal growth higher, any attempt by the Fed to suppress interest rates will be rejected by the bond market. Nothing scares bond investors away faster than a central bank forcing negative real yields on them in the face of faster inflation. The analogy here is the Fed as a post and the market as a horse tethered to the post. The horse remains calm and in place so long as nothing spooks it. Inflation has the potential to

spook the proverbial horse, in which case the post might not hold. The horse could rip the post out of the ground and run wild.

For a couple of years already, long-term interest rates have remained far below nominal GDP or the sum of real growth plus inflation expectations, respectively. Do you think this "conundrum" will continue to persist or will it be solved within the next few quarters or years?
It will be solved in the short-term, the next year or so, via stimulus. The combination of USD 900 bn of stimulus passed in December, USD 1.9 tn passed last month, and a potential USD 3 tn infrastructure bill coming soon, has economist projecting US growth will hit its highest level in 37 years. So, the conundrum should be reconciled toward faster growth and even higher interest rates.

If interest rates and bond yields are distorted due to substantial securities purchases by the Fed, what about the breakeven inflation – is it still a reliable indicator for inflation expectations?
In February 2020 the Federal Reserve owned about 9% of the Treasury Inflation-Protected Securities (TIPS) market. This level had been constant for a decade. Currently it is near 25% and over the last 13 months the Fed has purchased more TIPS bonds than the Treasury has issued. Given this I do believe they are "distorted" and do not reflect true inflation expectations.

To quote the British Economist Charles Goodhart, "When a measure becomes a target, it ceases to be a measure."

Where is the limit of such reflation policies and when will the last straw break the camel's back as investors lose faith in fiat currency?
I have said the biggest story in 2021 will be inflation. Either way, we get inflation, and the cause will be too much spending and printing, and that sets the bond market on fire – i.e. we will get much higher rates. This is my call and I think it is not apparent until the second half of 2021 when the inflation base effects, contrary to current expectations, do not go away.

If we do not get inflation, Modern Monetary Theory and Universal Basic Income wins. And why not! If mailing money only produces desirable things – the poor get help, the unemployed get a bridge, and the rich, defined as stockholders, get new highs –, everyone wins and you should keep doing it! Milton Friedman is consigned to the dustbin of history and Stephanie Kelton becomes the greatest economist who ever lived.

So, while I think we get inflation, I will remain open-minded. I want to see it materialize in the second half of 2021 or the first semester of 2022 by the latest or this call is wrong. Now is the time for either inflation or permanent Modern Monetary Theory and Universal Basic Income. Place your bet.

As reflation policies have led to risk-on sentiment, are market participants too complacent?
Not too complacent. Rather, the risk is that all the good news from reflation has already been priced in. So, the realization of this good news will not price risk markets higher. ◆

Fall from grace with late rehabilitation

He was a brilliant mathematician and perhaps the first star economist – until a glaring misjudgment badly damaged Irving Fisher's reputation. The current phase of reflation is a reason to remember him.

It is on everyone's lips again: The term reflation, which sounds so similar to the words inflation and deflation which virtually everyone understands more or less. But the definition of reflation (often also called redeflation) – as explained in the Gabler "Wirtschaftslexikon" – as a financial policy measure to raise prices when they have fallen below cost coverage due to deflation is something only experts can rattle off. This financial policy measure is intended to put the economy back on a growth path after a recession. In plain English: Government coffers are burdened by large extraordinary items (generally economic stimulus packages). The last time this was the case was after the financial and economic crisis about ten years ago.

The term reflation was coined by the neoclassical economist Irving Fisher after the stock market crash of 1929, but his theory was largely ignored at the time. After all, Fisher had irreparably ruined his reputation shortly before the stock market crash with his blatant misjudgment that the stock market had reached "a permanently high plateau". Economists turned away from Fisher's theories and toward the work of John Maynard Keynes.

Fisher's contemporary, the Austrian economist Joseph Schumpeter, who had emigrated to the USA, nevertheless described him as "the greatest economist the United States has ever produced". This view was later echoed by two Nobel Prize winners in economics, James Tobin and Milton Friedman, after Fisher's theories were rediscovered in the late 1960s and 1970s.

Today, not only are Fisher's theories considered fundamental – he was the first economist not only to create price indices but also to tease out the difference between nominal and real interest rates – but his ability to translate complex economic theory into plain language is also admired. If nothing else, he experienced posthumous satisfaction: Irving Fisher's later work on debt deflation was adopted by the post-Keynesian school.

Photo: George Grantham Bain Collection

Irving Fisher

was born in Saugerties, New York, in 1867, the son of a teacher and parish priest. He showed early mathematical aptitude and an inclination for invention. Since his father taught him that he had to be a useful member of society, he decided against studying his strongest subject, mathematics. He imagined that, as an economist, he could make a better contribution to society.

Irving Fisher also championed many reformist causes, including healthcare, eugenics, nature conservation, prohibition, and the League of Nations. An able businessman, he made a fortune marketing an index card system he invented. He was also one of the founders of Remington Rand, Inc. in 1926 and served on its board until his death in 1947.

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Around USD 15 tn is said to have already been spent or announced just by the 30 largest and richest countries on earth to dampen the economic consequences of the coronavirus pandemic – about five times as much as the aid provided in the 2008 global economic crisis after the Lehman bankruptcy.

International presence

LGT Private Banking

Austria, *Salzburg, Vienna*
Bahrain, *Manama*
Hong Kong SAR
Ireland, *Dublin*
Principality of Liechtenstein, *Vaduz*
Singapore
Switzerland, *Basel, Berne, Geneva, Lugano, Zurich*
Thailand, *Bangkok*
United Arab Emirates, *Dubai*
United Kingdom, *Bristol, Jersey, London*

LGT Capital Partners

Australia, *Sydney*
China, *Beijing*
France, *Paris*
Germany, *Frankfurt*
Hong Kong SAR
Ireland, *Dublin*
Japan, *Tokyo*
Principality of Liechtenstein, *Vaduz*
Switzerland, *Pfäffikon*
United Arab Emirates, *Dubai*
United Kingdom, *London*
United States, *New York*

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Imperial Porcelain Manufactory Vienna, Sorgenthal Era, detail from "Cup with saucer depicting Rinaldo and Armida, after Angelica Kauffmann," 1801

A look inside the Princely Collections: The Princely Collections are known in particular for their paintings and sculptures, but also include a large number of porcelain pieces. Once part of the furnishings of the family's castles and palaces, these fragile works not only reflect the diverse relationships between lifestyle and dynastic interests. They also provide us with insights into the ideas and the artistic development during the respective period.

For more than 400 years, the Princes of Liechtenstein have been passionate art collectors. The Princely Collections include key works of European art stretching over five centuries and are now among the world's major private art collections. The notion of promoting fine arts for the general good enjoyed its greatest popularity during the Baroque period. The House of Liechtenstein has pursued this ideal consistently down the generations. We make deliberate use of the works of art in the Princely Collections to accompany what we do. For us, they embody those values that form the basis for a successful partnership with our clients: expertise, reliability and a long-term perspective.

Cover image: Imperial Porcelain Manufactory Vienna, Sorgenthal Era, detail from "Cup with saucer, striped, garlanded with flowers," around 1800

www.liechtensteincollections.at

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