COUNTERPOINT 2021 MID-YEAR UPDATE

From healing to growing

QUINTET
PRIVATE BANK

“The world is healing, but some things have probably changed forever”

What a difference a year makes

Reflecting on the path of the recovery and looking forward to better days ahead

This time last year, much of the world was in lockdown, which provoked a sharp recession. As cases of coronavirus soared again over the autumn and winter, many countries tightened restrictions again. Those that have been slow to roll out a vaccination programme, such as continental Europe, have paid the price and have remained in lockdown for longer.

These restrictions have hit the economy again this year but perhaps not as hard. That's because the sensitivity of economic activity to Covid-19 restrictions appears to have diminished in some countries. Three main factors explain the resilience – less public fear, better government policies, and adaptation by businesses. Whatever happens, though, the economy that went into the pandemic looked very different from the economy today.

One of the most remarkable aspects of the health crisis is just how quickly we've adapted. For example, office workers have found that it's possible to carry on doing their jobs, and enjoying the extra time now that they don't have to commute. Although the path out of the pandemic is still an uncertain one, we know that we can at last look forward to better days ahead.

Bill Street, Group Chief Investment Officer

Contents

2021
FROM HEALING TO GROWING

Looking back

Exploring what we got right and what we got wrong

At the start of the year, we said that spring would arrive with an early-cycle recovery about to start – and it did. China was the first to bounce back, and owing to swift vaccine rollouts and a lot of 'big government' stimulus, the US and UK soon followed. While it has lagged so far on vaccine logistical challenges and safety concerns, Europe too should recover. But with less fiscal stimulus, the pickup is likely to be weaker.

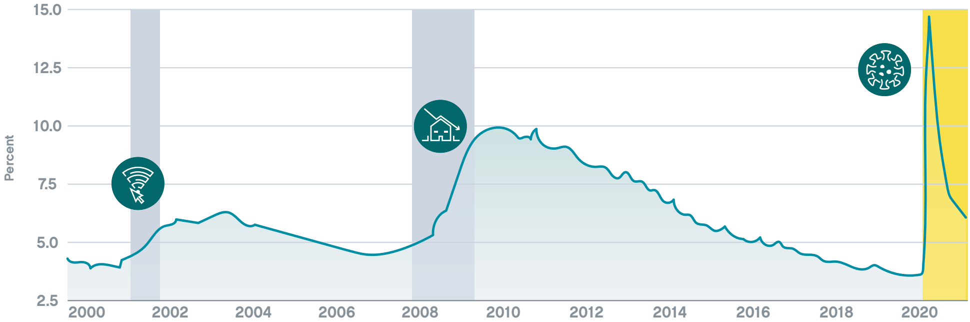
We also talked about 'the eternal zero' associated with central banks likely to keep real rates anchored. Nominal bond yields have risen, going back to pre-pandemic levels. But central banks seem likely to look through the ongoing inflation spike – which we believe to be temporary – and keep yields lower relative to past cycles, especially at the front end of the yield curve (bonds with shorter maturities). If long-term yields rise as growth recovers, which is the case, policymakers are likely to allow the rise. But we think they'll continue to ensure that they stay negative in real terms (which is stimulative), taking them to zero as the economy improves.

More structurally, we talked about a 'multi-polar world', with several blocks trading within their region and with each other. The world economy is now led by the US and China, which are both exerting regional gravitational pull. Europe could play a role too if integration progresses, but the region's first priority is tackling the scarring effects from the pandemic. A greener future is also possible following the start of Joe Biden's presidency, China's net-zero agenda and the EU recovery fund's set of environmental priorities.

US employment and personal savings show the unusual effects of the pandemic. Sharp spikes in joblessness are typically associated with steady to marginally rising or marginally falling saving rates: households have the incentive to save more when things are uncertain, but they're also forced to dig deeper into their pockets when jobs are less plentiful. But, thanks to the stimulus, savings have increased sharply. Joblessness is coming down as pent-up demand is released and these accumulated savings are spent. While this effect is stronger in the US, it's a global phenomenon.

US unemployment rate (% of labour force)

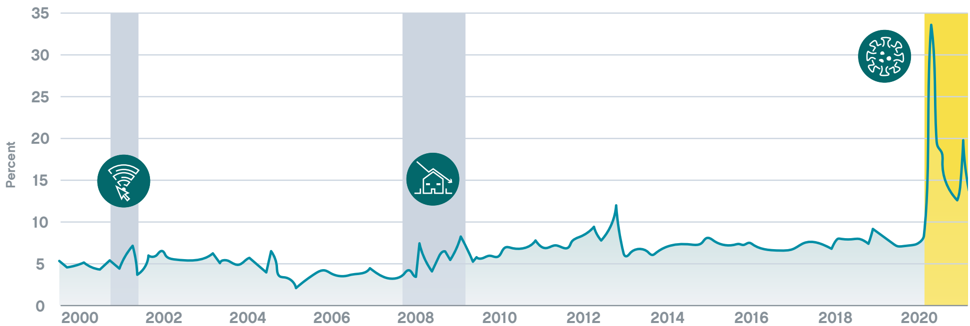
The spike in unemployment was much sharper during the pandemic than in past recessions. But, equally, the fall sharper too, given the temporary nature of Covid-19 crisis and thanks to large-scale policy support.



Source: Quintet, Federal Reserve

US personal savings (% of disposable income)

Fiscal stimulus boosted household savings to a great extent. Unlike in past crises, the saving ratio rose significantly. As economies reopen, consumer spending and domestic demand are rising as 'excess' savings are spent.

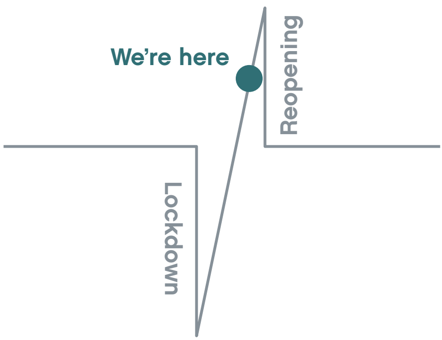


Source: Quintet, Federal Reserve

The path of the recovery

We're confident about the outlook, although it could be a bumpy journey

As economies reopen throughout the rest of the year, we're likely to see two overlapping patterns – a 'bungee jump' driven by a focal point created by the resumption of activity as mobility picks up, and a more traditional 'cycle'.



The bungee jump

The bungee jump is about the short-term displacement of activity as governments closed down entire economies by decree and deployed massive stimulus at the same time. With limited possibilities to spend on services and big-ticket items, consumers shut at home accumulated large pent-up savings. They're now being spent. This catch-up phase will likely trigger strong consumer spending and corporate activity for a while.

The cycle

The cycle is playing out from a more medium-term perspective. It's all about normalisation supported by policy and, following the catch-up phase, will likely reassert itself and lead to solid but more moderate rates of activity. The final outcome, graphically and when it comes to the investment implications, is the overlap of the bungee jump and the cycle.

Although the path ahead is likely to be bumpy occasionally, we're confident about the investment outlook. We've continued to position portfolios so that they're exposed to asset classes that tend to perform well during the early phases of an economic cycle, as we think that cyclical recovery and reflation are still in play.

While we do see continued inflation in asset prices, we think consumer price inflation will probably stay moderate after the current temporary spike. We're more dovish than market pricing and think that, within a reasonable range, central banks will likely allow long-term bond yields to rise provided that this is because of faster growth, while anchoring short-term yields at very low levels.

But all this is unlikely to happen in a straight line, with alternating periods of rising bond yields and risk asset outperformance.

Even though early-cycle phases are generally associated with outperformance in assets leveraged to faster growth and beneficiaries of steeper yield curves, we're positive on themes of technological disruption and think that the pandemic is likely to have accelerated this process to a great extent.

While getting the micro nuances right is just as important as spotting the wider macro trend, our longer-term forecast is more positive than the typical prediction in the market.

Our five conviction calls

We've identified five calls we believe will dominate the global economy and financial markets over the rest of 2021 and beyond

CALL
1

Running on high pressure

Reopening and stimulus will likely sustain a strong rebound in activity

Key investment ideas

- Equities:
  - Reopening & mobility
  - Services previously shut & discretionary spending
  - Global trade & industrial activity
  - Catch-up sectors, regions and investment styles

CALL
2

The inflation head fake

The pace of increase in consumer prices should slow soon

Key investment ideas

- Real assets
- Private equity/credit
- Alternatives
- Property & infrastructure
- Commodities & inflation hedges

Steeper for longer

Central banks are likely to refrain from hiking rates

Key investment ideas

- Financial equity & credit
- Yield curve steepeners
- Shorter duration
- More focus on specific EM stories

The power of words

Bouts of volatility as policy dovishness clashes with strong data are probable

Key investment ideas

- Higher volatility:
  - From rates to FX to equities
  - Multi-strategies
  - Options & derivatives
- Rising importance of idiosyncratic credit stories
- Limited room for spread compression

Back to the future

Technological innovation is a key legacy of the pandemic

Key investment ideas

- Tech, disruptors & growth stocks over extended horizons
- More cyclical tech subsectors at shorter horizons
- Life science & pharma innovators
- Low-carbon equities & green bonds

IN DEPTH

OUR FIVE CONVICTION CALLS

CALL
1

Running on high pressure

Consensus point of view

We're either overheating or the best of the post-pandemic bounceback is already behind us. Either way, it looks a bit worrying.

Counterpoint

We're more bullish than the consensus. We think policymakers want to 'run the economy hot' as there's still considerable spare capacity. They'll do this via government stimulus measures. We see limited overheating risks and believe growth is likely to be sustainably strong throughout the rest of the year. Cyclical recovery and reflation are still in play.

Reopening and stimulus will likely sustain a strong rebound in activity

Led by the US, the world economy will likely make up for the lost ground over the next few quarters. As economies reopen and government stimulus is implemented, GDP is likely to have bounced back very strongly in the second quarter, returning to pre-pandemic levels. It may take another quarter to return or perhaps even exceed the level of GDP we estimate we'd be at had the pandemic not occurred.

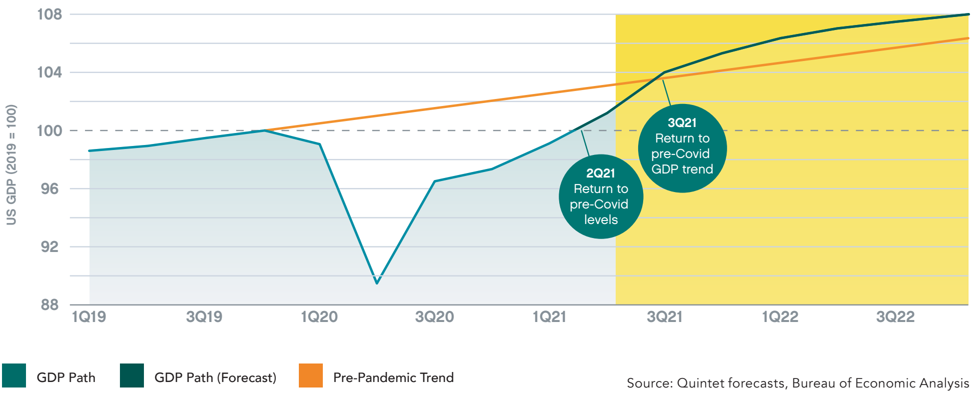
While the pace of growth in overall activity will probably begin to slow at that point, we think it will stay rather solid, as policymakers should continue to stimulate in an attempt to get the economy on a self-sustained path.

Policymakers want to run the economy 'hot' to make up for large shortfalls in activity and employment. This means that they'll aim to be 'behind the curve' – they want strong, pressurised growth and are pursuing inflationary policies. This is likely to show mostly in the form of asset price inflation rather than consumer price inflation.

We're poised for strong growth, thanks to vaccination programmes and stimulus measures. This may be priced in, but we're more bullish than the consensus on the US and, indeed, on the global economy. It's no longer about replacing lost demand, but about boosting demand beyond pre-pandemic levels.

US real GDP indexed to 2019 = 100

We expect a strong rebound in global growth, led by the US, throughout the remainder of the year.



Source: Quintet forecasts, Bureau of Economic Analysis

Investment implications

Cyclical rotation will likely continue to work, but perhaps less so, as shifts from reopening to recovery would require strong economic and earnings data just to keep up with easy comparisons with depressed numbers during the pandemic.

It's not just about sectors that have been shut down by government decree; it's about gaining exposure to growth and fiscal stimulus as before, but also to global trade, infrastructure spending and industrial activity.

Europe is a laggard, but should pick up too, just like Japan. Certain investments that we have highlighted as potential return enhancers, such as private markets and multi-strategies, should remain well supported.

Others that have already lost lustre could remain under pressure in the near term, such as emerging market equities, though they could come back in vogue if the entry point in valuations is 'right'.

Commodities, investment grade credit and, selectively, high yield, may have relatively limited upside in the near term, though for now they look well-supported and in some cases, such as those linked to 'decarbonisation', the structural story looks positive.

Small caps tend to outperform large caps during the early phases of the cycle but this pattern could weaken or even reverse as international trade resumes.

CALL
2

The inflation head fake

Consensus point of view

There are two camps: those who believe we're set for a secular pickup in inflation and those who believe disinflation will ultimately remain well entrenched. So both inflation and disinflation risks have increased.

Counterpoint

While we do see continued inflation in asset prices, we think consumer price inflation is likely to stay moderate following a temporary spike. Labour markets are only likely to put upward pressure on inflation gradually, which is why we think the major central banks won't tighten their policies for some time. Over the long term, technological innovation and ageing populations are likely to continue to be disinflationary forces.

The pace of increase in consumer prices should slow soon

Inflation is spiking, but this is likely to be transitory and we expect it to soon fall back down to the Fed's target. The factor we're watching mostly closely is wage growth, which hasn't taken off. As and when wages do pick up, we'd see a higher probability of higher inflation. But, even then, automation will likely restrain price increases.

We believe the spike in US inflation is mostly due to statistical effects (last year's prices were very weak), rising oil prices and supply bottlenecks in the context of stronger demand as economies reopen.

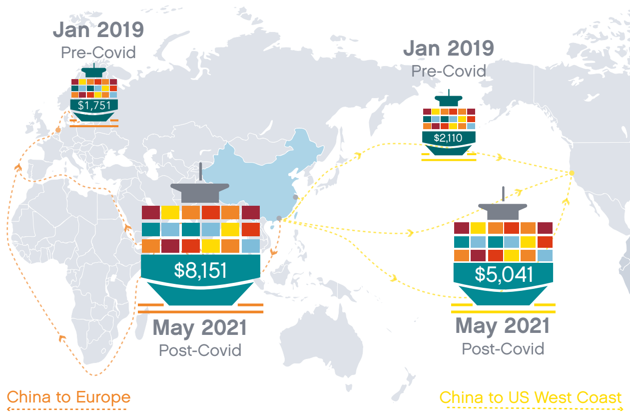
While the magnitude and duration are uncertain, this rise looks temporary to us. We expect a subsequent inflation slowdown and, globally, believe the rate of price increases will remain below central bank targets over the next couple of years.

We can see supply bottlenecks driving inflation temporarily above the Fed's target. Just look at how much more expensive shipping a container from China to Europe and the US has become. But we also see relatively weak wage growth suggesting that the inflation spike is unlikely to be sustained.

Transitory short-term inflationary pressures

The cost of shipping goods around the world is spiking.

Source: Quintet, Bloomberg



Investment implications

Our central bank rate forecast is more dovish than market prices suggest. However, markets may stay focused on near-term inflation risks, contributing to high volatility in fixed income markets.

This may affect long-duration assets, including tech stocks, every now and then. It may also lead to gyrations in longer-term inflation expectations, a potential bid for real assets including equities, private markets and inflation-linked bonds, and inflation hedges like gold and commodities.

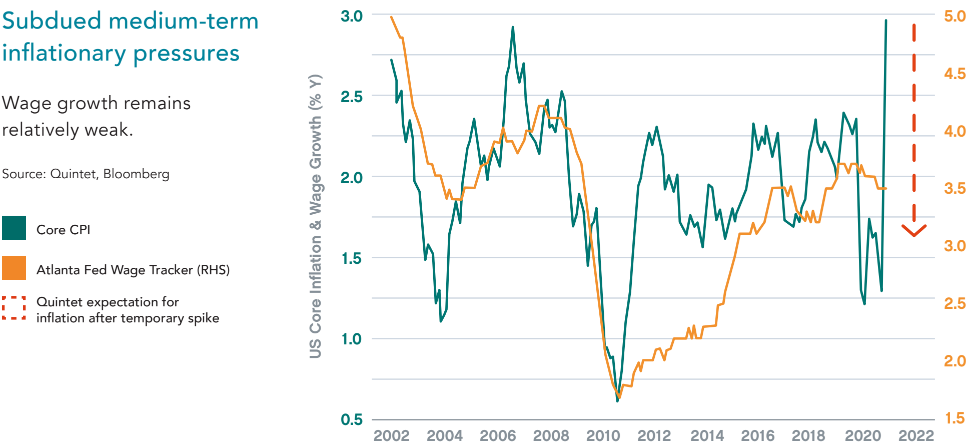
Further out, labour markets are only likely to push wages higher at a faster pace when labour scarcity becomes an issue, which we don't expect to happen for at least a few quarters, which is why we think the major central banks won't hike interest rates for quite a while.

Over the longer term, technological and demographic factors may turn out to be disinflationary forces.

Subdued medium-term inflationary pressures

Wage growth remains relatively weak.

Source: Quintet, Bloomberg



CALL
3

Steeper for longer

Consensus point of view

As the cycle matures, the yield curve should flatten as rate hikes approach. The market is pricing the first Fed rate hike for early 2023, with a probability of a hike as soon as 2022.

Counterpoint

While this is what tends to happen when economic activity shifts to mid-cycle, this time around we believe central banks aim to allow governments to fund their large-scale stimulus programmes at affordable rates. We're more dovish than the market and think that, within a reasonable range, central banks will likely allow long-term bond yields to rise as long as this is because of faster growth, while anchoring short-term yields at very low levels.

Central banks are likely to refrain from hiking rates

As we hit the zero level in interest rates, fiscal policy becomes the main tool. Deficits rise and debts increase. Given record-high levels of indebtedness today, central banks have no choice other than keep policy rates very low to allow cheap government funding and fiscal stimulus.

If long-term bond yields rise somewhat as growth picks up, central banks may allow this as long as it's because of normalisation and expectations of strong activity. They could lean against it if it's markets pricing in tighter conditions. This could lead to steeper yield curves for longer in this cycle, especially when the US Federal Reserve and other central banks begin to scale back the pace of asset purchases once the post-pandemic situation allows it.

As the cycle matures, central bank rate hikes approach and short-term market rates rise. The V-shaped phase of early-cycle recovery is ending. Yet we expect central banks to continue to anchor bond yields at the front end of the curve to ensure cheap government funding. Higher long-term yields at a moderate pace, if driven by strong growth, are perceived as a sign of improvement. This means that yield-curve steepening will likely come later than usual in this cycle.

The Fed, Bank of England and to some degree also the Bank of Japan have reacted with relative composure to rising bond yields, seeing these as the result of a stronger outlook. The ECB seems more concerned, as the economic and inflation trajectories still look somewhat fragile.

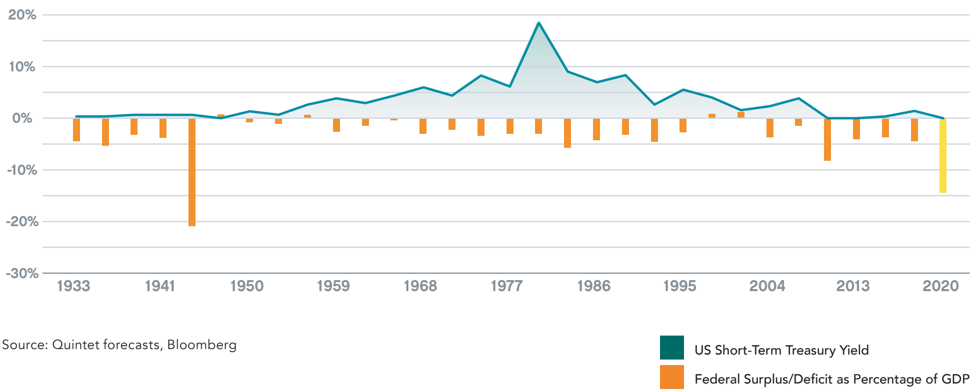
Investment implications

What tends to happen, when the cycle moves from its very early stage to a slightly more mature one, is that yields curves flatten, as central bank rate hikes come nearer. This time around, we expect steep curves for a more extended period of time. Central banks tend to be more concerned about expectations for rate hikes being priced into the front end of yield curves rather than the level of longer-dated yields.

Together with our view that inflation is only likely to spike temporarily, this reinforces our bias towards curve steepening. Given the steepening we have already seen in the US, there is also a good case for global diversification in expressing this curve-steepening view, especially in the UK and to a lesser degree the euro area too. A steeper yield curve should also benefit selected banks and financials across equity and credit, but could possibly remain a drag for some emerging markets across asset classes.

Supportive fiscal and monetary policies

Once policy rates hit zero, government stimulus becomes the main tool to support the economy.



Source: Quintet forecasts, Bloomberg

CALL
4

The power of words

Consensus point of view

Market conditions could become more volatile either because things go wrong and there's less policy ammunition left or because it's difficult to withdraw the stimulus and financial instability rises.

Counterpoint

We agree that volatility will probably rise from here. But we differ on the nature of its potential rise. Unexpected events could derail the recovery, such as new virus variants. But the main risk, to us, is too much of a good thing: stronger-than-expected growth and perhaps a more protracted period of inflation could lead to a repricing in the bond market, flattening yield curves as investors test central banks' resolve to refrain from hiking. Rather than raising equity market volatility in and by itself, this could raise bond market volatility first and foremost, and affect risk assets as a consequence, especially at a time when discussions around the tapering of asset purchases will likely intensify. But it's unlikely to happen in a straight line, with alternating periods of rising bond yields and risk asset outperformance.

Bouts of volatility as policy dovishness clashes with strong data are probable

Monetary policy normalisation is a difficult process to calibrate. Fed tapering could create extra volatility even if it's not tightening as such. And with inflation running above target for some time and the economy bouncing back strongly, it's possible that markets will continue to test central banks' resolve to stay dovish. These bouts of volatility may impact riskier assets too, even though the underlying picture remains quite constructive.

It's quite likely that volatility will rise from here. Periods of calm will probably alternate with periods of rapid market gyrations, making volatility more… volatile. This is because markets will likely continue to test central banks' resolve to stay dovish for an extended period of time, in the context of strong growth and – albeit only temporarily, in our view – rising inflation. Plus, the slowdown in the pace of asset purchases by the Fed and Bank of England and, at some point, also the ECB, may be taken by the markets as signs that rate hikes aren't that far behind, despite central banks' assurances that this isn't the case.

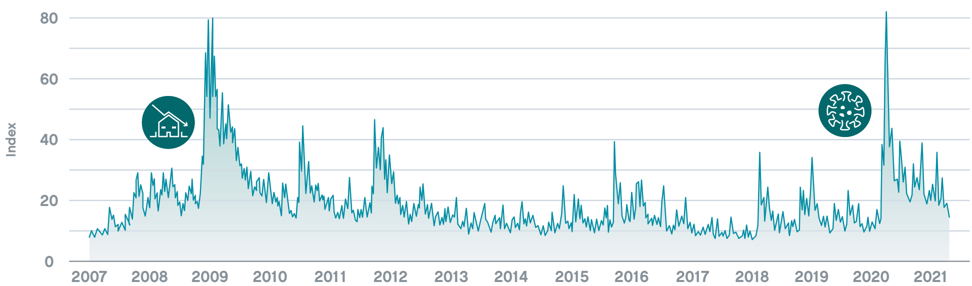
Investment implications

The epicentre of any increase in volatility is likely to be the rates market, which could affect riskier assets via a higher discount factor. This would also mean periods of dollar strength, especially against low-yielding currencies such as the euro and to some extend also the yen and Swiss franc, alternating with periods of moderate dollar weakness.

We expect sterling to appreciate slightly too, as the economy rebounds more strongly than most of its peers and adjusts to the post-Brexit world. Our framework remains one where these monetary tightening expectations will ultimately be disappointed. As long as real rates stay negative (our forecast), this is stimulative.

Market volatility (VIX)

Volatility is low now, but potential uncertainty on the rate path may push it higher.



Source: Quintet, CBOE, Federal Reserve

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Back to the future

Consensus point of view

Overall, long-term productivity should remain subdued, and we don't know whether it will ever pick up.

Counterpoint

An underappreciated legacy of Covid-19 is that it has accelerated the shift from physical to digital. What's more, breakthrough innovation, booming capital expenditure in technology and the fast adoption of new technologies are all coming through. This may boost productivity, earnings and economic growth. Even though early-cycle phases are generally associated with outperformance in assets leveraged to faster growth and beneficiaries of steeper yield curves, we're positive on themes such as technological disruption and think the pandemic is likely to have accelerated this process. While getting the micro nuances right is just as important as spotting the wider macro trend, our longer-term forecast is more positive than the consensus view.

Technological innovation is a key legacy of the pandemic

The second half of the year means the start and/or consolidation of a normalisation process to how things were before the pandemic. But some aspects of our lives will have changed forever. In one respect we'll get back to a place where technological innovation – which accelerated during the pandemic and brought forward a number of developments planned or expected over longer timeframes – is here to stay. We'll get back to the future.

Covid-19 has accelerated the shift from physical to digital and may boost economic growth. Our view is more bullish than the consensus for three reasons:

1. Breakthrough innovation: science continues to transform medicine and genetics; and artificial intelligence is making progress in fields ranging from synthetic biology and robotics to natural-language recognition and driverless vehicles.
2. Booming capital expenditure in technology: in the US, investment in intellectual property products, software and computers and peripheral equipment is on the rise; and spending on research and development is growing in many countries.
3. Fast adoption of new technologies: the data economy is increasing connectivity among and within countries and sectors, and boosting automation in factories, warehouses, offices and homes.

While the pandemic may be a one-off event (or so we hope), it turns out that the adoption of new ideas has been accelerating for over a century. The diffusion of new inventions tends to follow an 'S-curve' with a few early adopters taking the initial risk, followed by the mass market and eventually a handful of laggards.

An underappreciated legacy of the pandemic is that it has accelerated pre-existing trends under way in medicine, science and technology.

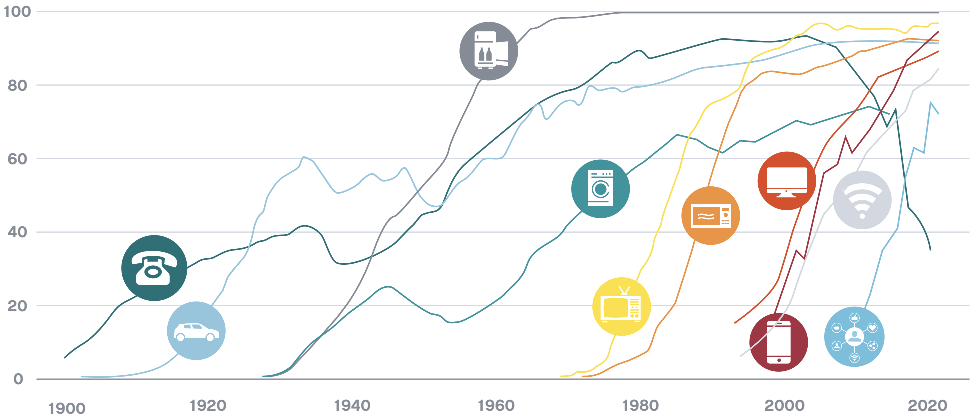
Over the past century, S-curves have been compressing. The telephone took 40 years to achieve 40% adoption, the cell phone achieved this market penetration in around 20 years, and the smartphone did so in just 10 years.

Investment implications

In early-cycle phases long-duration/growth stocks – such as tech – may be negatively impacted by a slightly higher discount factor. But the horizon that matters is a longer one: deeper structural changes playing out over many years. And it's through these parameters that investors should think about technological disruption.

Share of US households using selected technologies

Adoption of new technologies spreads faster today.



Source: Quintet, Our World in Data, Harvard Business Review, New York Times

ASSET ALLOCATION

Capturing the recovery

A new investment environment has forced us to rethink the traditional approach to asset allocation when we construct and manage portfolios

As active investment managers, one of our most powerful tools is the ability to adapt to the evolving environment by making tactical asset allocation (TAA) decisions. This approach involves identifying opportunities that have the potential to deliver attractive returns when considered against the risks involved. TAA complements strategic asset allocation (SAA), which is the long-term investment framework we use to construct portfolios.

This year's investment environment so far has been more challenging for asset allocation than the prior half year, with different regional economies and financial markets moving at different speeds as the recovery from the pandemic entered a more mature stage. We've concentrated on finding asset classes that are undervalued and have the potential to catch up with the broader market, and then monitoring them carefully when they have done so.

At the end of 2020 we dialled up risk in portfolios slightly. The start of Covid-19 vaccination programmes and the fading of political uncertainty surrounding the US elections and Brexit confirmed our confidence about the recovery. Here we explore some of the more recent asset allocation decisions we've made and the reasons behind them.

Tactical asset allocation

Strategic asset allocation

Tactical asset allocation

Adapting to the evolving environment

Financial markets reacted sharply when the coronavirus pandemic gripped the world at the start of 2020. Yet even with widespread lockdowns closing down large parts of the global economy, asset prices soon began to pick up from their March 2020 lows. Since then the price recovery has been rapid and broad based, taking in most regions and asset classes. The announcement of successful vaccine trials in the final few months of the year gave it an additional boost.

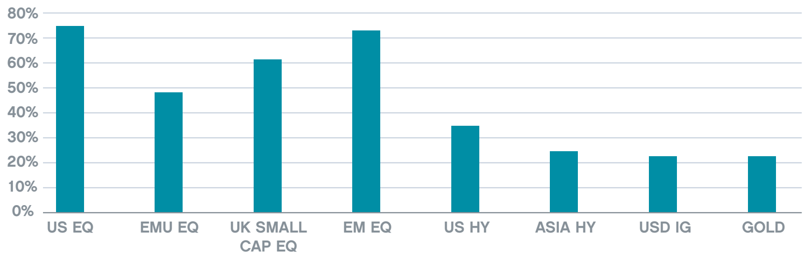
More recently, there has been divergence between asset classes again – which is a typical pattern following an initial recovery phase. Our focus shifted from being exposed to the tide that lifts all boats to identifying asset class laggards or those with attractive idiosyncratic drivers.

Macroeconomic conditions continue to be favourable for risky assets, including equities and corporate bonds. Valuations reflect a more positive outlook – for instance US high yield corporate bond spreads are the lowest they've been since the 2008 financial crisis. We continue to use well-tested drivers (valuation, carry, momentum and diversification) to identify tactical investment opportunities.

March 2020 until year-end (all LC)

Many asset classes recovered strongly from their 2020 lows.

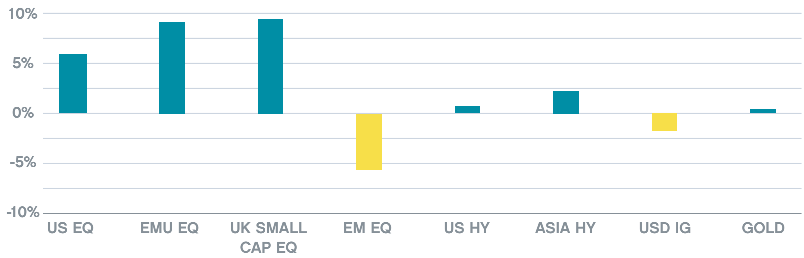
Source: Quintet, Bloomberg



Last 3 months (11 Feb – 11 May)

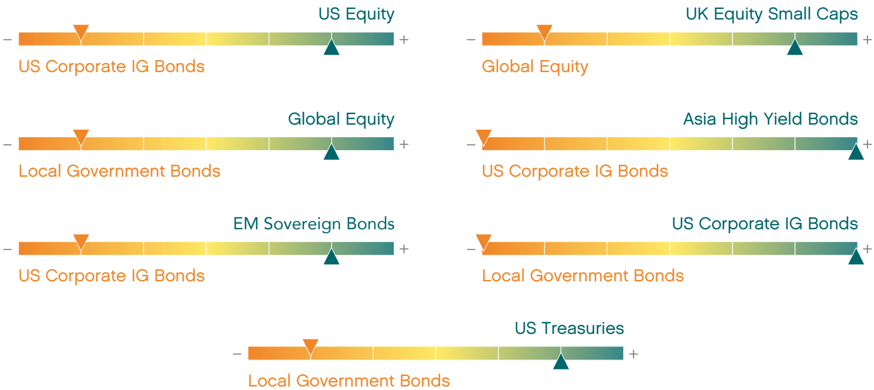
Recently, higher dispersion between asset classes made us focus on those with potential to catch up.

Source: Quintet, Bloomberg



(Past performance is no guarantee of future results.)

Our current positioning



We express our overweight allocation to risk in several ways by continuing to position portfolios to capture the growth from those areas of the market that should benefit as the world economy heals. These positions include a preference for:

- Equities over bonds, particularly US and UK small cap stocks.
- Credit risk (emerging markets and Asia) over low-yielding investment grade bonds.
- USD bonds (currency hedged) over EUR bonds for carry and diversification.

It's now been more than a year since we started using a new TAA process and the performance of portfolios has been strong throughout a challenging environment. Since the start of 2021 our TAA benefited in particular from its continued risk-on allocation to the US markets, supporting US equities and US Treasury Inflation-Protected Securities positions. Also, the "laggards" we had identified, namely UK small caps and Asian high yield, have performed well.

However, some of our decisions have not played out as we expected to this year. In particular the US yield rise weighed on US Treasuries and emerging market sovereign bond positions in the first quarter. Investing involves taking decisions with imperfect information but our disciplined investment process means that we continually monitor our positions and can quickly react to the economic and market environment.

Strategic asset allocation

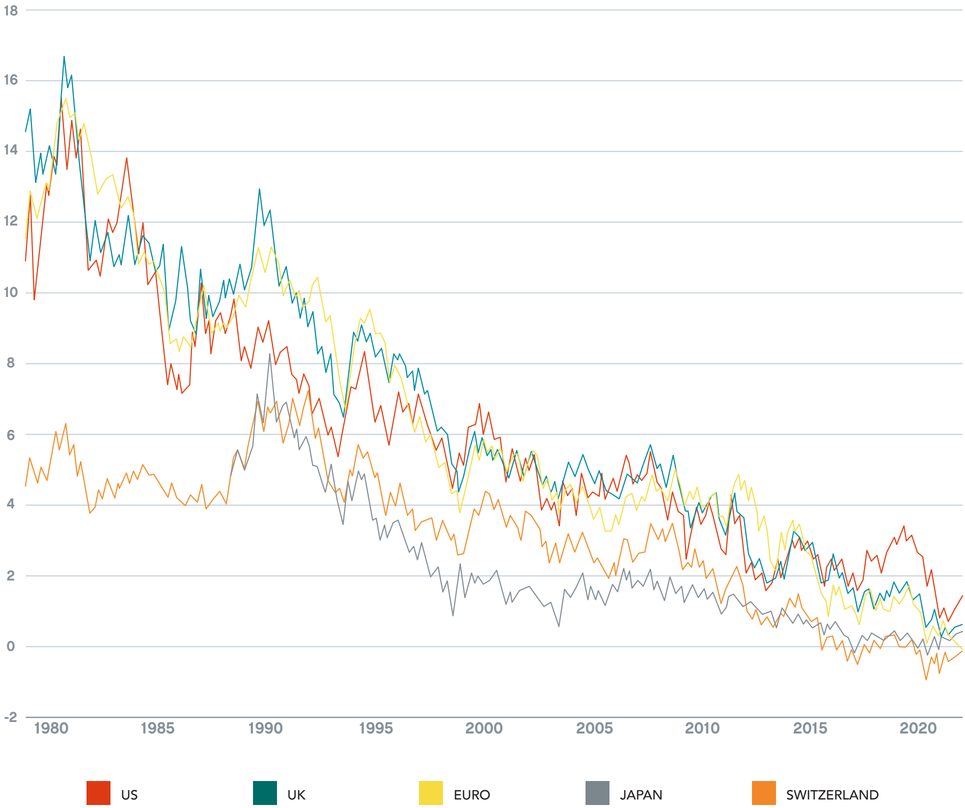
A brave new world for investing

Last year was a forceful reminder that the unexpected happens frequently; throughout life's journey and when investing. For decades investors could rely on developed market government and high-quality corporate bonds to deliver relatively safe and stable returns, while also reducing risk. A portfolio that blended stocks and high-quality fixed income securities usually achieved satisfactory returns – but no more. Government bond yields throughout the developed world are now very low or even negative. A fifth of the high-quality bond universe trades with a yield below zero.

A formidable challenge for the long term

Selected developed market government bond yields (in local currencies, %)

Source: Quintet, Federal Reserve



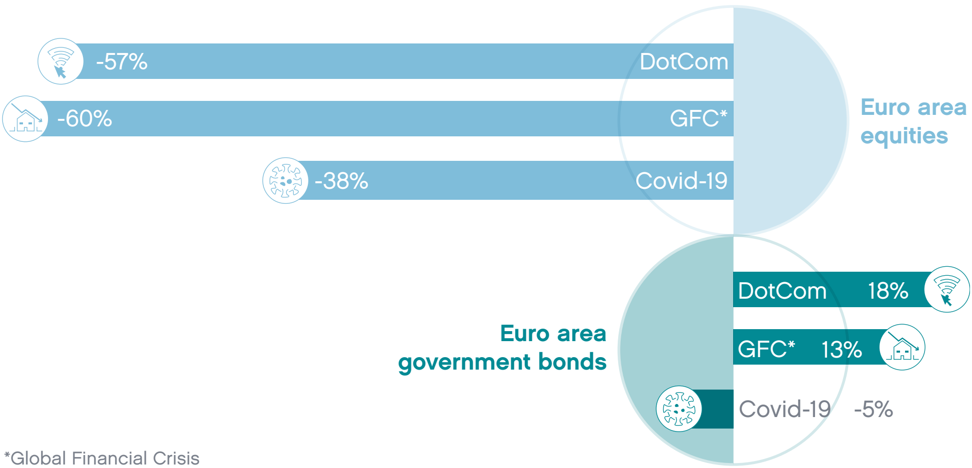
Are government bonds still worth it?

Some investors question the value of owning bonds when yields are so low. They may underestimate the power of diversification. High-quality bonds still provide ballast to well-constructed portfolios in times of market stress. Historically, they have helped your portfolio 'zig' when global equity markets 'zag'. For example, during the great financial crisis between 2007 and 2009, eurozone government bonds returned 13% while eurozone equites dropped 60%.

Government bonds, including those in the eurozone, continue to play an important role in achieving a smooth investment journey over the long term. But in the brave new world of investing, investors need to dig deeper to find income and work harder to diversify the risks.

Ballast for your portfolio

Asset class performance of euro area equities and bonds during periods of market stress (in %)



*Global Financial Crisis

Source: Quintet, Bloomberg

(Past performance is no guarantee of future results.)

Expand your universe

We believe government bonds should have a place in your portfolio. But it pays to reach beyond high-quality bonds to add additional sources of income, such as high-yield credit and emerging market debt. As almost always when investing, these additional returns don't come for free. Credit exposure comes with additional risks in the form of higher default and liquidity risks than high-quality bonds. But we think these risks are well compensated for by the additional expected yield.

Adding exposure to high yield credit and emerging market debt is particularly attractive for investors who follow two of the key concepts of our approach to building robust portfolios: diversification and a long-time horizon. Over long holding periods, the chances of suffering a loss on a well-diversified credit portfolio are no higher than for portfolio of purely high-quality bonds.

Risks well compensated for

Total return and volatility expectations over the next 10 years (in %)

Source: Quintet, Bloomberg

(Past performance is no guarantee of future results.)

Diversify your diversifiers

In risky waters, high-quality government bonds can act as your portfolio's safety buoy. But we acknowledge that the safety buoy may be a bit deflated these days and bonds' ability to provide protection in future downturns may be lower. To compensate for this, we have extended the set of diversifying assets in our quest for optimal portfolios.

We include fewer government bonds and diversify across regions globally. But we go one step further than that – we have also added gold to our universe as an additional source of diversification. Gold doesn't tend to move in step with either equities or bonds over the long term. The economic factors driving gold prices can be different from the drivers of other assets. Gold is an asset that does not pay a regular coupon, but there's no default risk.

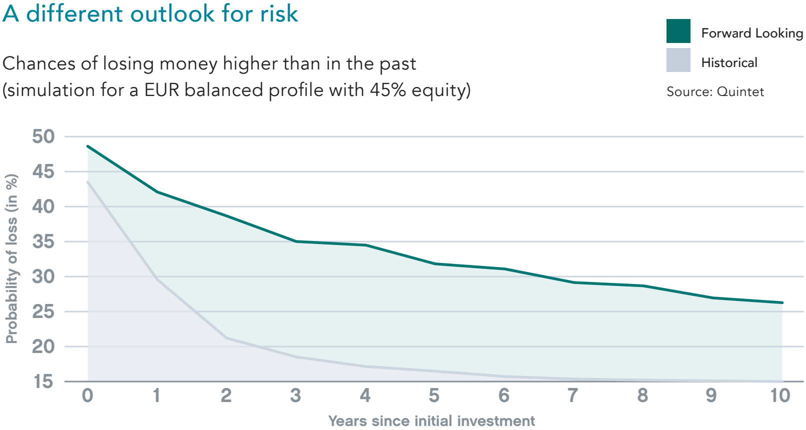
Know your risks

In a world of lower bond yields, the risks you face have changed. We now expect a globally diversified and balanced multi asset portfolio to yield a total return of 3% a year over the next decade (in EUR). Over previous 10-year periods, the same portfolio would have generated an annual return of 7%. Lower long-term returns mean there's a greater chance of losing money when investing today than in the past and it may take longer to recover any losses.

But that's not all. The brave new world of investing also means that portfolios we tend to think of as 'more conservative' because of their lower volatility may now take longer to recoup losses than 'more aggressive' ones. That may present you with a trade-off between how deep of a drawdown you are able to tolerate and how long you are willing to wait to make back your money when things don't go as planned.

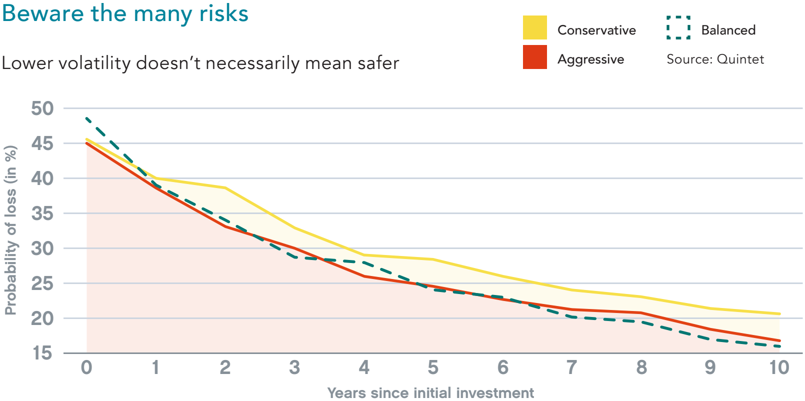
A different outlook for risk

Chances of losing money higher than in the past
(simulation for a EUR balanced profile with 45% equity)



Beware the many risks

Lower volatility doesn't necessarily mean safer



(Past performance is no guarantee of future results.)

Rethinking the strategy

With the yields on government bonds so low, the returns available to new buyers are slim. This traditional safe-haven asset class can no longer provide sufficient protection for portfolios.

That's why we're including additional sources of income and diversification, such as emerging market debt and gold. These asset classes can help to improve risk-adjusted returns over the long term.

We're also encouraging investors to reassess how they look at risk, and the amount of time that it could take their portfolios to recover when they fall in value, as they inevitably will when market conditions become more challenging.

> We're encouraging investors to reassess how they look at risk

INVEST IN A CHANGING WORLD

We have the power to change the world through our investment decisions and company policies

Sustainable investing has the power to bring about positive change. This approach is one way we can help you invest with intention by aligning your portfolio with your personal preferences. It's about investing with intention, and we're committed to providing you with innovative and flexible solutions.

We use a thematic framework to identify long-term investment opportunities, including demographic change, regulatory waves, social shifts, sustainability and technological progress.

We believe the investments we offer and how we act as a firm should be congruent. For this reason, we have put our sustainable investing team and our corporate sustainability team together. Earlier this year we launched a new corporate sustainability framework, endorsed by our Executive Committee, with the mission to embed sustainability in everything we do – our values, behaviours, processes and products.

A framework for the future

We're committed to making sure that sustainability flows through all aspects of our business. That's why we've set out a framework for a more sustainable future, which draws on industry-leading reporting standards and ensures that we as a firm, always stay aligned to our clients. Quintet's sustainability framework embraces our sustainability vision and mission:

Sustainability vision

To be the most trusted fiduciary and sustainable boutique private bank in the world. We will serve our clients' needs above our own, while maximising our positive contribution to our clients, society and the planet.

Sustainability mission

To embed sustainability in everything we do: our values, behaviours, processes and products. We will create long-term value by redefining perceptions of success, security, legacy, and environmental and social responsibility to enable our clients to live a richer life.

Our framework encompasses three pillars

People

Supporting our colleagues and communities by fostering diversity, nurturing wellbeing, encouraging training and strengthening employee engagement.

Planet

Minimise our operational footprint by reducing how much energy, paper and water we use, cutting down on waste, and avoiding unnecessary business travel.

Product

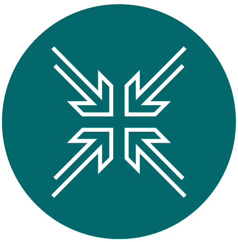
Maximise the impact of our investments by offering sustainable strategies, using our shareholder votes, and engaging with companies we've invested in.

Climate neutral investing

We believe the investment industry has a large role to play in funding the firms and technologies working towards climate neutrality. Our work highlights investment opportunities in low-carbon equities and green bonds, as well as the value of verified emission certificates. In order to guide our approach, we've introduced a simple, yet effective, lifestyle and investment framework in pursuit of climate neutrality called 'reduce, transform and remove'.

Reduce, transform and remove

We believe there are three ways individuals and investors can reduce their emissions and support climate neutrality.



Reduce

Consume fewer resources, create less waste and substitute products and services.

Transform

Innovate by adopting and funding new sources of energy, supporting new technologies and re-engineering supply chains through a circular economy.

Remove

Actively remove CO_2 from the earth's atmosphere by ecological or engineering methods.

Reduce

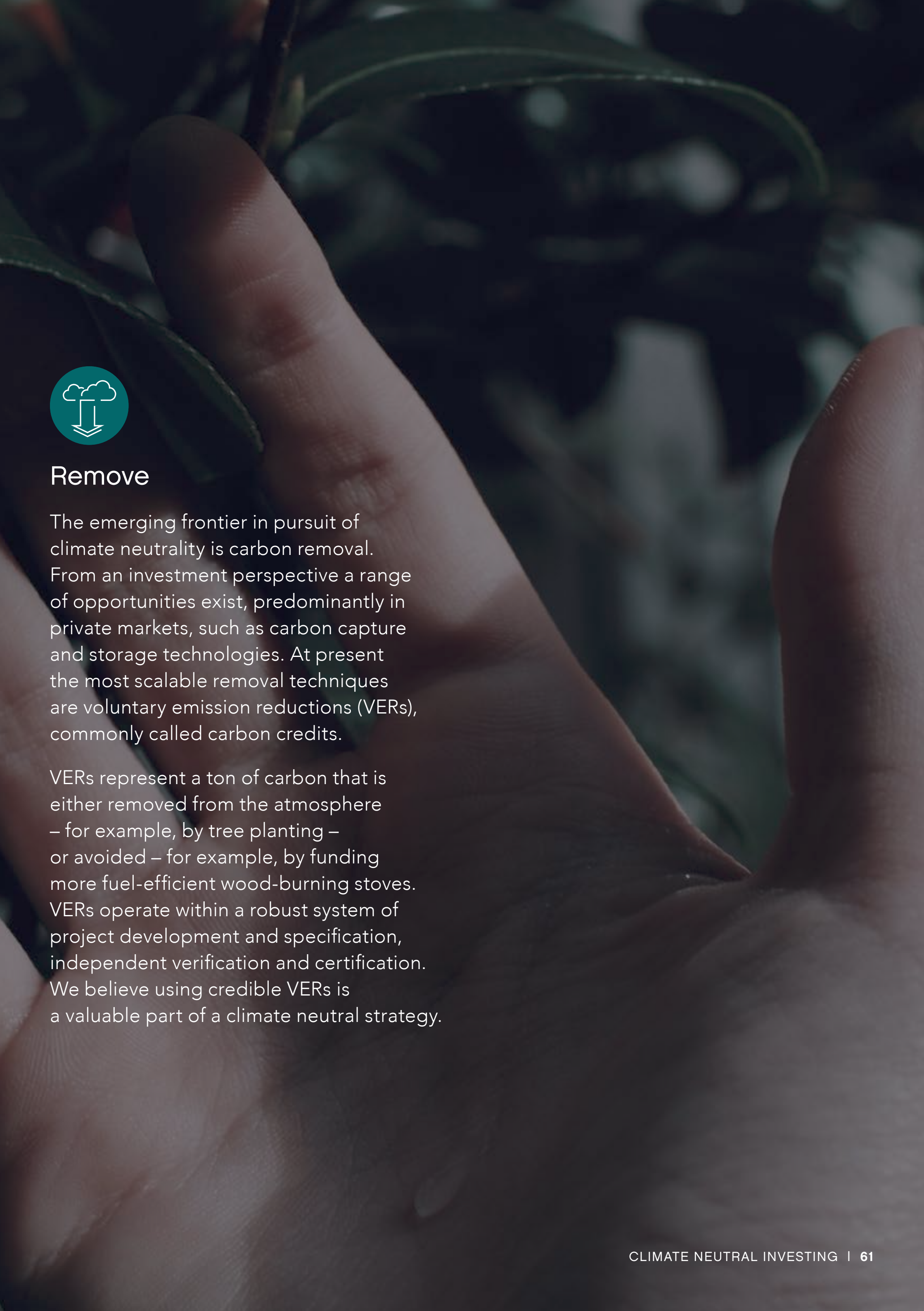
Reducing greenhouse gas (GHG) emissions is a simple and effective concept. Consuming fewer resources, creating less waste, and making substitutions all contribute. From an investment perspective we can measure the carbon emissions from corporations and then calculate an investors' share of, "responsibility" for, them.

Low-emission investment strategies can be unconstrained or optimised. Unconstrained strategies underweight high-emission industries without regard for the resulting sector and style biases. Optimised strategies use quantitative techniques to limit sector and style biases, ensuring that a low-emission strategy can deliver comparable returns to conventional strategies while being "responsible" for significantly lower emissions.

Transform

The path to climate neutrality requires our society and economy to transform. It's essential to innovate with new sources of energy, fund new technologies and re-engineer supply chains through a circular economy. From an investment perspective, we can fund transformative projects and technologies that are facilitating a low-emission future. Potential investments span the asset class spectrum, from venture capital to private equity and debt, as well as public markets.

Within the public markets, green bonds are an effective and transparent dedicated asset. They are debt instruments where the proceeds are exclusively used to fund green projects. We believe the green bond market is now deep enough to run a full investment grade credit portfolio, with suitable diversification across sectors and tenors.



Remove

The emerging frontier in pursuit of climate neutrality is carbon removal. From an investment perspective a range of opportunities exist, predominantly in private markets, such as carbon capture and storage technologies. At present the most scalable removal techniques are voluntary emission reductions (VERs), commonly called carbon credits.

VERs represent a ton of carbon that is either removed from the atmosphere – for example, by tree planting – or avoided – for example, by funding more fuel-efficient wood-burning stoves. VERs operate within a robust system of project development and specification, independent verification and certification. We believe using credible VERs is a valuable part of a climate neutral strategy.

Look forward

The coronavirus pandemic has put environmental issues into the spotlight and policymakers around the world have promised to use their recovery funds to “build back better”

Climate has been the central focus of the US President Joe Biden administration’s first few months in office. As well as rejoining the Paris climate pact, he has pledged to cut carbon emissions in half by 2030 from 2005 levels. This new target, which was unveiled at a virtual summit of 40 global leaders, essentially doubles America’s previous promise.

We believe the investment industry has a large role to play in funding the firms and technologies that can make this happen.

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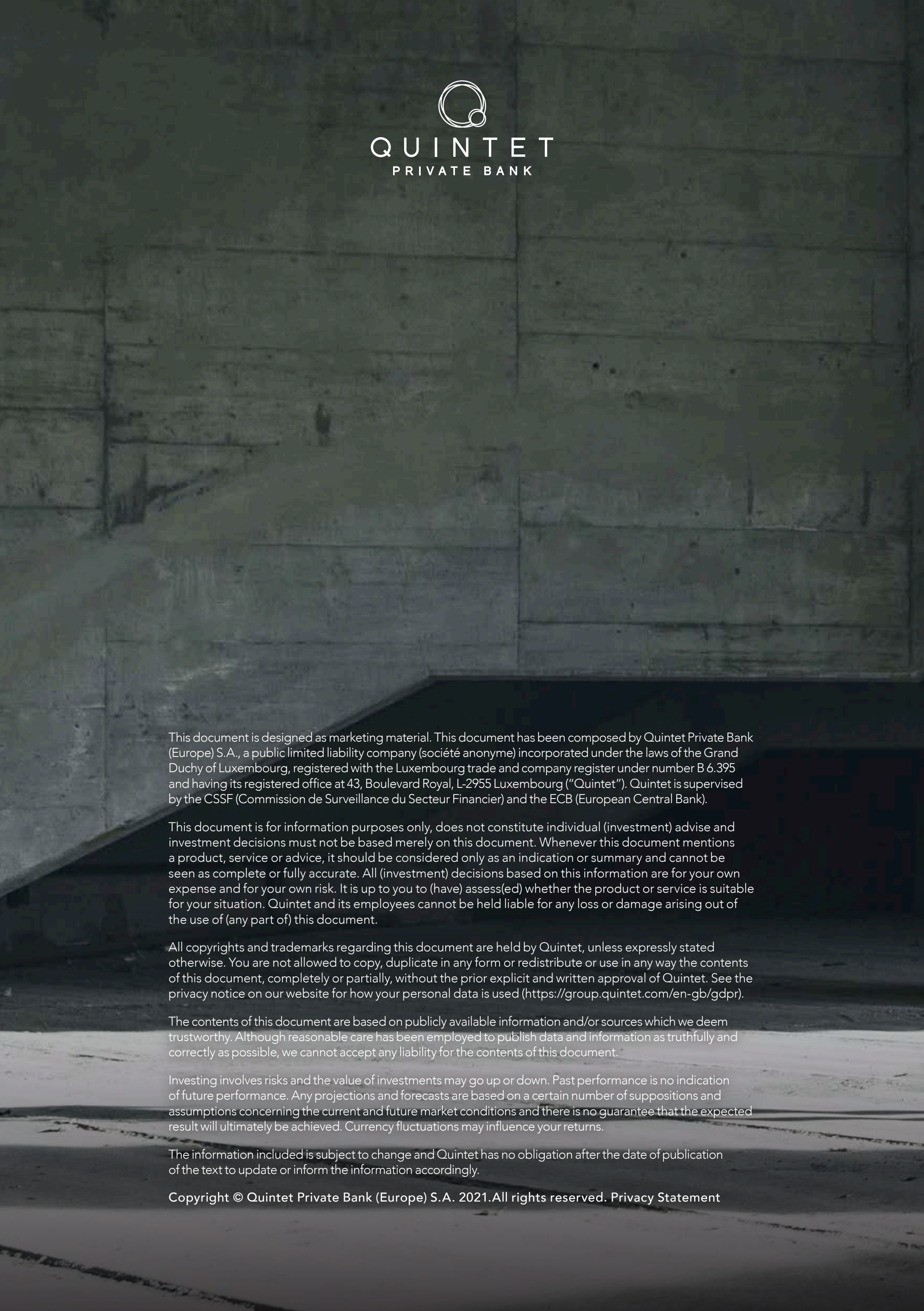

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