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PARTNERS ' VIEW
January 2020

Who is ... ?
Nathalie Rickli

Nathalie Rickli is a lawyer who specialises in inheritance law. She has been responsible for the estate planning and administration department at swisspartners Fiduciary Services Switzerland for the last two years. Prior to this, Nathalie worked at VermögensZentrum. «What I really enjoy is helping customers deal with sensitive and personal issues such as these and supporting them every step of the way in their planning. I appreciate to provide this type of individual customer service at swisspartners.» Nathalie's day-to-day work includes providing advice on complex issues relating to matrimonial property and inheritance law, drawing up wills, marriage and inheritance contracts and advising on adult protection law, especially matters such as power of attorney and living wills. Customers of Nathalie can be assured that everything from the planning to administration of their estate is in the right hands when executing a will. Nathalie is always happy to pass on her expert knowledge at external seminars as there is a clear need for information on these issues, which raise many questions. To unwind from work, Nathalie enjoys spending time with her family – which includes two cats – and going to regular yoga classes.

Nathalie Rickli, Legal Consultant
Fiduciary Service, Switzerland
nathalie.rickli@swisspartners.com

WEALTH MANAGEMENT
The view from outside

The really, really, really big picture show

Taking a few steps back – a few million, in fact – I tried to research a time or civilisation that did not engage in trade. The result was a big fat zero. From the Stone Age and before to the modern age, trade and the exchange of ideas have perhaps been among the most important driving forces for the development of human society. Whether it was the historic ancient empires of China or India or more recent empires such as those of the UK, Spain or Portugal, trade was one of the key drivers of their advancement and prosperity.

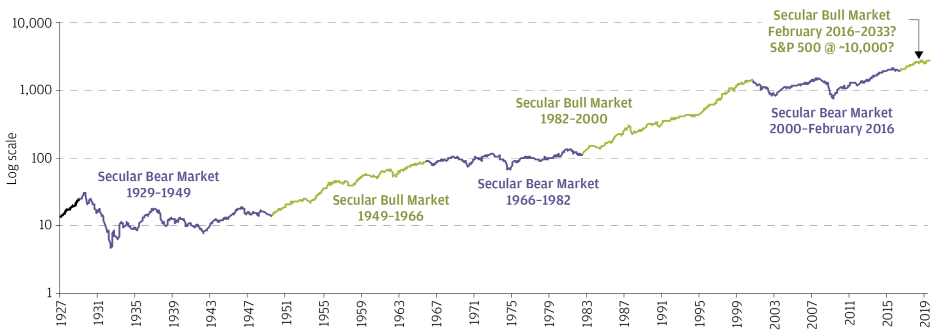
Of course, there have been some mistakes along the way such as the Smoot-Hawley Act, which erected strong tariffs and barriers (until it had to be rescinded) and was commonly believed to be one of the key contributors to prolonging the depression of the 1930s.[i]

The simple solution to all these current trade disputes would be for nations to become more patriotic and the consumers within them to only buy domestic goods. This would, however, be completely undemocratic, no fun and set civilisation back to an immeasurable extent.

As we have stressed many times before in this publication, we have been in a secular – not a cyclical – bull market for over five years now. We originally thought that this new secular bull market (a long-term uptrend in markets) started in 2013; however, it could also be argued that the bull market only started in 2016 given the very large correction in 2011, which exceeded 20% on a peak to trough basis.[ii] The exact timing is not that crucial as we expect the longer-term trend for markets to be upwards over the next three to four presidential cycles (over a decade). Indices could perhaps rise 300% or more over this period. Of course, there will not be a linear, straight upward line and there will be negative years (some of which will see double-digit declines, perhaps by as much as 20%) and probably a recession or maybe two; however, these will just be great buying opportunities in a much longer-term uptrend.

The return from the S&P 500 was just 1% per annum over the period from March 2000 to February 2016, and following the cumulative total return paths of the two previous secular bull markets of +525% (from 1952 to the peak of the secular bull market in 1966) and +992% (from 1985 to the peak in 2000), an annualised (not linear) double-digit return does not seem unfeasible.[iii]

The slightly less big picture show



Source: Robert Shiller, FactSet; S&P 500 Index, logarithmic scale, 1927-June 2019. Data shown in log scale to best illustrate long-term index patterns. The performance quoted is past performance and is not a guarantee of future results.

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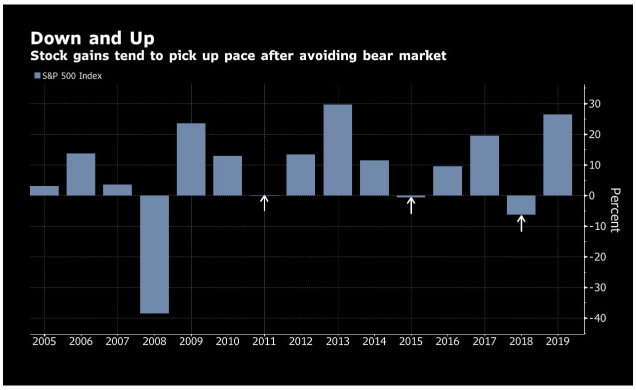
Source: Ibbotson, Empirical Research Partners Analysis, J.P. Morgan Asset Management, Bloomberg L.P., as at 30 June 2019; annualised S&P 500 20-year total returns, 1947 through June 2019. The performance quoted is past performance and is not a guarantee of future results.

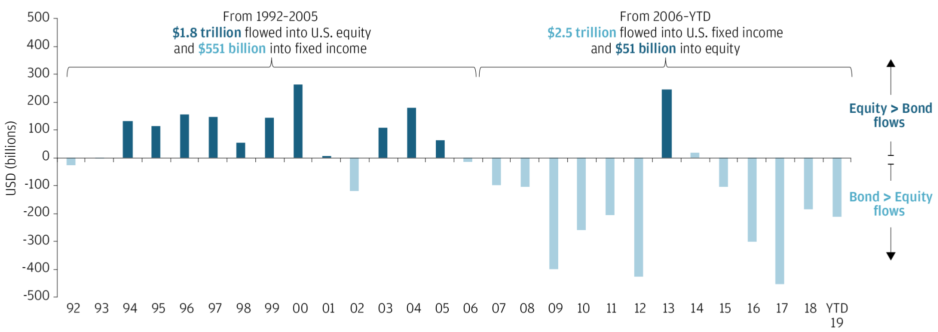
We acknowledge that many have concerns about the increase in markets since 2009. But we would once again politely point out that over the period from 2000 to 2013 markets were essentially flat.

Looking at 20-year rolling market returns, we are in the bottom 5% of returns since 1927. [iv]

Investors who have been highly sceptical of market performance since 2009 have missed out significantly as a result. Rather than blindly believing investor surveys, fund flows paint a less than positive picture showing that more money has flowed into bonds than equities over the last 13 years – a great contrarian indicator (see graph below).



Source: Bloomberg; S&P 500 Index, stock gains 2005-2019.



Source: Strategic Insight, Empirical Research Partners Analysis; annual spread of US equity net flows and fixed income net flows 1992-2019, data as at May 2019

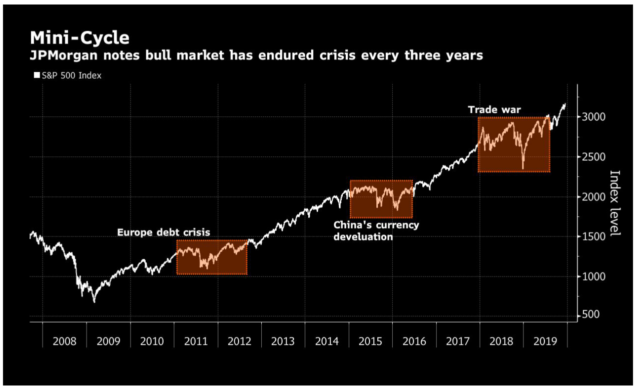
The same argument applies to those looking at the performance of markets in 2019 in isolation –when you look at two-year returns things do not appear quite so rosy. In fact, historically when stocks have risen 20% or more over a calendar year, the returns in the next 12 months have been positive two-thirds of the time. [v]

The immediate future and beyond

Our prognosis for 2020 is **GSGG: G**lobal **S**ynchronised **G**oldilocks **G**rowth.

We see global economies recovering at a moderate pace – enough to embolden investors, increase corporate profits and make people generally feel better that we are heading in the right direction. It will not, however, be so hot as to prompt central banks to hit the panic button and rein in the record amounts of stimulus that are currently in the system.

Our best guess is that markets will perform much better than most participants expect. Think double digits (albeit not without volatility), as just like an elastic band whenever this bull market appears too stretched, we seem to hit the reset button every three years or so (see graph below).[vi]

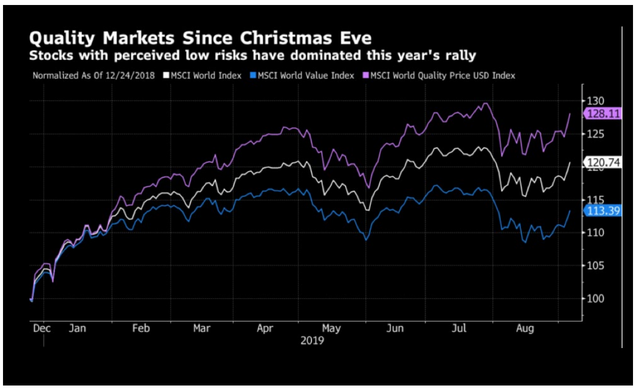


Source: Bloomberg; S&P 500 Index, 3-Year mini cycles in markets, 2008-2019.

The phase 1 trade deal represents an important psychological step for both the US and China in terms of trust and should not be underestimated. We fully expect it to be signed, sealed and delivered shortly.

A phase 2 deal in 2020 is quite possible and indeed likely now that this first hurdle has been overcome. Don`t be surprised if a US/Europe trade deal is also done. We really like the overall market scepticism regarding progress on trade as this shows that not everything is priced in, thus providing upside opportunities.

In this environment the strong outperformance of US stocks versus their overseas peers is likely to dwindle



Source: Bloomberg Data; performance of MSCI's factor indexes for stocks in its World developed market index from 24 December 2018 until mid-September 2019

as it already looked to have reached unsustainable levels. But no, this does not signal a disaster for the US market as a whole, just that there will be better-performing opportunities elsewhere.

Amidst a recovering global economy, the trend of quality growth stocks[vii] outperforming is now likely to reverse.[viii] After all, a year like 2019, when the Swiss SMI was one of the best performers, hardly smacks of unbridled animal spirits.

Especially given their stretched valuations.

US bond investors will probably have a few panic attacks over inflation fears, but drags on the economy and bouts of equity volatility will help them get through such scares.

Source: Bloomberg Data; prospective P/E multiple for the MSCI World Quality index and the main World index, 2013-2019

As we head into the new decade having only just recovered from the millennium hangover, we expect the next ten years to provide significantly better returns for risk assets, and not just because of the longer-term chart and market set-up.

We are now about to see some key technological advancements – mainly in transportation – the like of which have not been witnessed for over 100 years.

Autonomous driving will increase productivity, lower fatalities and broaden people's horizons and mutual understanding.

Urban air mobility – pilotless (eventually) drones transporting people quickly and efficiently will again increase productivity and help ease congestion on our overburdened roads. It will also lead to the rejuvenation of inner cities in terms of construction – think of the film The Fifth Element.

Hyperloop will enable super-fast travel in a fraction of the time in an environmentally sensitive way.

New jet engine technology (already in development) will allow transatlantic travel in as little as one hour.

Off-planet mining and eventually colonisation will ease pressure on our finite resources.

We honestly cannot remember a time when we were more excited about the future prospects.

Peter Ahluwalia, Partner
Chief Investment Office
peter.ahluwalia@swisspartners.com

[i] https://www.britannica.com/topic/Smoot-Hawley-Tariff-Act
[ii] J.P. Morgan Asset Management, Portfolio Insights, Why we're in the early innings of the secular bull market, G. Devulapally, August 2019.
[iii] See above (i)
[iv] See above (i)
[v] Bloomberg, Recession Gets Priced Out in a Stock Rally for the Record Books, S. Ponczek und V. Hajric, 28. Dezember 2019
[vi] Bloomberg, The Three-Year Crisis Cycle and a Case for a Reborn Bull Market, L. Wang, 13. Dezember 2019
[vii] MSCI World Quality Net Total Return USD Index FIGI BBG003Q182S9: The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage.
[viii] Bloomberg, Quality Street is Becoming a Very Crowded Place, J. Authers, 6 September 2019

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FINANCIAL PLANNING
Property financing

Many people dream of one day being able to finance their own home. Others take things a little further and treat themselves to the luxury of a holiday home. Others still invest their assets – or some of them at least – in bricks and mortar by purchasing investment property.

So there are numerous reasons why people buy real estate. However, buying or financing a property is not all plain sailing. Properties are often advertised publicly, which means that prospective purchasers face competition. These days this frequently leads to a bidding process and a corresponding upward spiral in prices. Evidence that funding is in place – issued by a bank or mortgage financier – is often required in support of any purchase offer.

For those fortunate enough to secure the property for which they have submitted an offer, there are some key questions to be answered without delay. How will the funding actually be made available? How much of their own funds – and from which sources – should buyers contribute? What funding mix makes sense for the buyer's specific situation in life? What happens if the worst comes to the worst in the event of incapacity, death or divorce? Are capital repayments required? If so, should they be made directly or indirectly?

All this means that new homeowners have various items on their to-do list which they did not need to consider at all back when they were renting. Building or converting a home often entails a number of decisions for which the most sensible approach is to seek professional support.

This makes it all the more important to draw on the right expertise in making the necessary financial arrangements in good time. This is the only way to ensure that what could be very expensive mistakes over the medium or long term are avoided.

When the time comes to arrange funding for a property purchase, we are happy to support and assist our clients in relation to all these issues and more.

Konstantin Wyser, Partner
Management Financial Planning
konstantin.wyser@swisspartners.com

Am Schanzengraben 23 | P.O. Box | CH-8022 Zürich | Phone +41 58 200 0 000 | info@swisspartners.com | swisspartners.com

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TRUST & CORPORATE SERVICES
swisspartners opens office in Singapore

In January 2020, swisspartners Marcuard Heritage AG acquired the well-established trust company of Marcuard Heritage in Singapore, which it has renamed swisspartners Marcuard Trust (Singapore) Pte. Ltd. The company has been fully licensed as a trust company by the Singapore Monetary Authority since 2010 and is located in the heart of the central business district at 1 George Street.

Our team

The board of swisspartners Marcuard Trust (Singapore) Pte. Ltd. consists of Dorothy Yeo, Evelyn Tay, David Sykes and Robin Graetz.

swisspartners Marcuard Trust (Singapore Pte. Ltd.) has a team of professionals based in Singapore who are dedicated to assisting our existing and new clients with an emphasis on personal service. The team speaks Mandarin, English and Italian and consists of trust and corporate professionals as well as compliance specialists.

Asia is important for the trust group to complement our offering in Europe, including our longstanding operations at swisspartners Marcuard Heritage AG in Zurich and SPMH (Cyprus) Ltd. in Larnaca, which was established in 2018.

Our services

The company provides wealth planning and wealth structuring, using a variety of tools including trusts, foundations, companies, life insurance and private label funds. Trusts and companies based in Singapore are often used as holding vehicles for businesses or indeed to engage in commercial activities. In this area, we offer trust and corporate services and can assist in the relocation of family members to Singapore.

We continue to see a demand for relocation and residency services from individuals in the region and further afield, and our team is well placed to assist those looking to take up residency in Singapore. As we believe it is vital to listen to clients, we work with third-party experts to find the best solution that fits the family's dynamic.

Singapore as a gateway to Asia

We are very excited about this new initiative as we believe Singapore is the key jurisdiction in Asia for wealth planning and wealth structuring.

Singapore is the gateway to Asia and is well placed to benefit from the growing wealth of entrepreneurs in the region who now require wealth planning and wealth structuring. Wealthy individuals and their families are concerned about the preservation of their wealth and wish to ensure that it is safeguarded not just for the next generation but for future generations as well. The growth of the Chinese economy has also spurred growth in other countries in the region and this wealth is looking for a safe home.

Singapore is often referred to as the Switzerland of Asia as it is politically and economically stable and has an excellent range of professional service providers. swisspartners Marcuard Trust (Singapore) Pte. Ltd. has already been providing bespoke services to its clients for the last 10 years and is well placed to benefit from the increased interest in Singapore.

We are very excited to have this new member of the swisspartners family and we look forward to working with our existing clients as well as welcoming new ones.

If you have any questions or require more information, please do not hesitate to contact Evelyn Tay (Singapore) and David Sykes (Zurich).

Evelyn Tay
swisspartners Marcuard Trust (Singapore) Pte. Ltd
evelyn.tay@swisspartners.com

David Sykes, Partner
Head Trust & Corporate Services
david.sykes@swisspartners.com