FEBRUARY 2021

MONTHLY INVESTMENT OUTLOOK

UBP

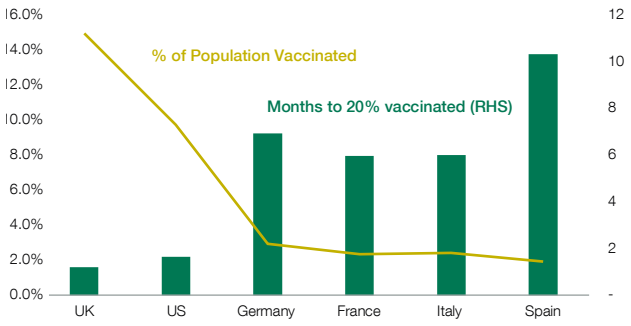
UNION BANCAIRE PRIVÉE

MONTHLY INVESTMENT OUTLOOK

CENTRAL BANKS HAND THE BATON TO FISCAL AUTHORITIES FOR THE NEXT LEG OF RECOVERY

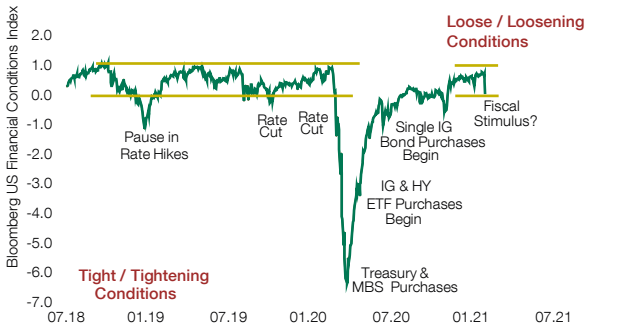
- 2021 began with renewed bouts of volatility with a tug of war emerging between concerns over slow vaccine rollouts especially on the continent and delays in US fiscal support against positive earnings trends.
- Indeed, continental Europe has lagged the UK and even the United States in the rollout of vaccines. Though the holiday surge in cases appears to be abating, concerns about the spread of new variants looks set to extend mobility restrictions through 1Q21. In spite of this, developments in Israel and the UAE provide hope regarding vaccine effectiveness once deployed.
- Delays in the delivery of additional US relief measures is likewise creating uncertainty across the Atlantic. Though we believe this is a question of when rather than if, the risk of a surge in new variants in the months ahead combined with a delay in the timing of fiscal support has reintroduced volatility into markets in late-January.
- Indeed, with financial conditions having pivoted away from the Fed's and ECB's preferred loose conditions, the global economy will need to rely on fiscal authorities to drive the next leg of recovery looking ahead.
- With 82% of reporting companies beating expectations in January, companies exceeding revenue and earnings estimates are lagging the market post-results. While disappointing, this is helping to ease valuation pressures in the market.
- With economic growth and earnings likely to serve as a tailwind for markets in 2021, we continue to prefer a 'barbell' approach within and across multi-asset portfolios.
- As recovery should drive equities around the world, we retain our 'barbell' between quality global transformation and cyclical recovery themes within our equity allocations seeking opportunities to add to cyclical recovery themes should they present themselves.
- Historically tight credit spreads warrant caution. As a result, with a short-duration bias, we have similarly used the spike in US Treasury yields in January to create a 'barbell' within our fixed income allocations as well.
- Recognising the near-term uncertainty over virus/vaccine trajectories, we likewise used the cheap cost of protection in mid-January to recreate the 'barbell' overlay strategy of January 2020 that allowed us to navigate the volatility of the early days of the global pandemic well.

Slow vaccine rollouts in Europe weigh on near-term growth expectations



Sources: Bloomberg Finance L.P. and UBP

Fiscal authorities must take the reins from the Fed to loosen financial conditions again



Sources: Bloomberg Finance L.P. and UBP

Credit spreads have priced a typical cyclical recovery well; adding a 'barbell' in fixed income

Sources: Barclays, Bloomberg Finance L.P. and UBP

GLOBAL TACTICAL ASSET ALLOCATION

STAYING PRO-RISK WHILE PROTECTING AGAINST NEAR-TERM VULNERABILITIES

Global economy / Asset allocation

- Rising contagion, new variants and renewed mobility restrictions look set to weigh down on activity in Q1, mainly in developed countries.
- Europe entered a double-dip recession in Q4-20, while US growth remained positive but moderate. Activity looks stronger in Asia. The 2021 outlook favours a strong recovery after delayed rebounds in developed countries.
- More budgetary support is expected in the US after the Democrats won a thin majority in Congress. Monetary policy should remain highly accommodative in this context.
- As a result, we maintain our overall pro-risk stance by redeploying credit in fixed income and rotating some of our defensive structured products into cyclical themes in equities.
- Proactive risk management is key to navigating the likely bumpy road to global recovery. After pivoting from asymmetry to directional strategies in November, we restored protection given the near-term uncertainty related to virus and vaccines as well as elevated equity valuations.

Fixed income

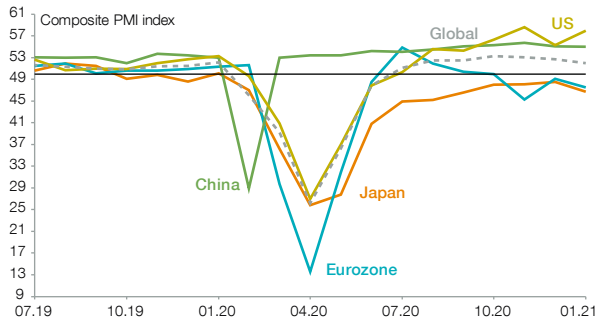
- With major central banks still flooding the financial system with liquidity, and now the prospect of substantial additional fiscal stimulus packages, expectations for an acceleration in price growth this year are on the rise. As a result, we introduced a new position in global inflation linked bonds within portfolios.
- Emerging markets should benefit the most from a cyclical reflation environment. As a result, we have also increased our emerging market debt positions which add a source of income for portfolios.

Equities/ Alternatives

- With the sharp increase in EPS expected for cyclical companies, we have added some new recovery-linked themes in portfolios and continue to look for opportunities in this space.
- Hedge funds provide useful asymmetry in highly volatile markets especially in emerging markets and China as a complement to our strategic allocations built in 2020.

Europe lagging other regions

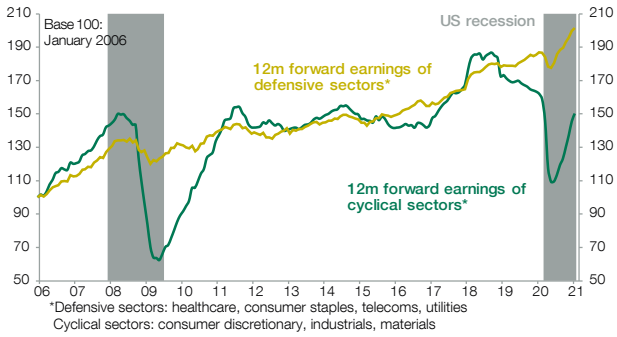
Business confidence



Source: Markti

Earnings of cyclical companies should recover quickly during 2021

Developed-market cyclical vs defensive sectors, 12-month forward earnings

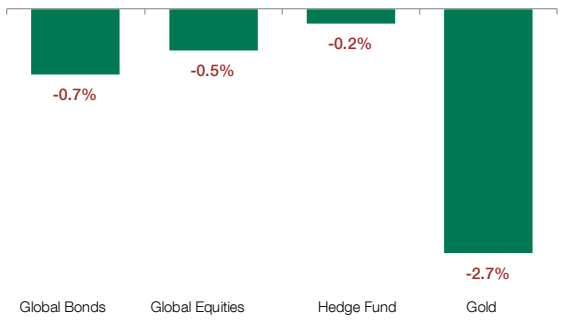


*Defensive sectors: healthcare, consumer staples, telecoms, utilities
Cyclical sectors: consumer discretionary, industrials, materials

Sources: Refinitiv, UBP ETR

Negative performance across all assets

Major Asset Classes Performance



Performance is as end of January 2021
Sources: Refinitiv, UBP

UBP ECONOMIC OUTLOOK

WEAK START TO Q1 IN DEVELOPED COUNTRIES

Key points

- Renewed contagion and tighter lockdowns should delay expected recovery, particularly in Europe. Higher vaccination rates and lower new virus cases should enable an easing of constraints in Q2.
- The 2021 recovery should be sustained thanks to several vaccines now being rolled out and a large share of people expected to be vaccinated from Q2 combined with renewed budgetary supports. A strong recovery is expected in H2-21 across all regions.
- Joint budgetary and monetary support should remain active as long as the recovery is not well anchored; lessons learned from past crises should prevent any early tightening of economic policy.

Resilient US growth and incoming new supports

- Growth moderated in Q4 due to weak sales and job losses. Growth should remain moderate in Q1, but the manufacturing sector looks more resilient than services.
- US President Biden now seeks to deploy a larger than expected budgetary package; this should moderate the Q1 slowdown and support consumption. The 2021 recovery is expected be close to 6%.

Europe: lockdown delays recovery

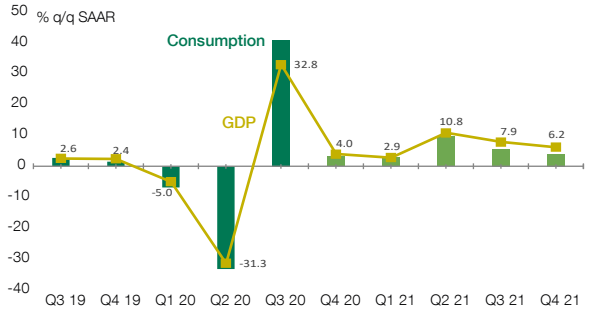
- An active pandemic, slow vaccination and tighter lockdown should prolong the double dip in place since Q4; Q1 eurozone activity is expected to contract by 1% q/q.
- However, accelerating vaccinations should enable countries progressively to ease lockdowns in Q2. A stronger rebound is expected from Q2 that should drive the 2021 recovery above 4%. But uncertainties remain as new virus variants will require a larger number of people to be vaccinated to secure the recovery scenario.

Sustained recovery under way in Asia

- In China, stronger domestic demand is expected to drive growth above 8% in 2021, even with restrictions recently introduced due to new local cases. Exports should benefit from a recovery in external demand, particularly for medical and technological equipment.
- In Asia ex Japan, the growth outlook is also improving progressively, benefiting from firmer Chinese demand and stronger intra-Asian trade.

Moderate US growth expected in Q1, but a strong rebound thereafter

US GDP 2020-2021 scenario



Sources: US BEA, UBP

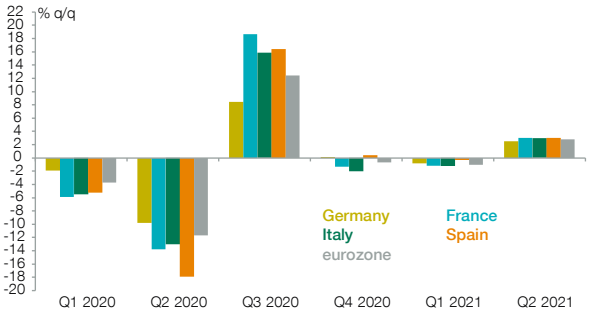
Strong recovery expected in 2021

GDP y/y %	2019	2020	2021
WORLD - *MER*	2.4	-4.1	5.1
- on PPP basis*	*2.9*	*-3.3*	*5.4*
USA	2.2	-3.6	6.2
Japan	0.3	-5.1	2.5
Eurozone	1.3	-7.1	4.6
United Kingdom	1.5	-10.3	5.0
Switzerland	1.2	-3.1	3.8
Brazil	1.4	-5.5	3.8
Russia	2.0	-4.0	3.0
India	4.2	-8.2	6.0
China	6.0	2.3	8.6
Developed countries	1.6	-5.3	5.0
Emerging countries	3.8	-2.2	5.6

Sources: UBP - Economic & Thematic Research,
MER: market exchange rates; PPP: purchasing power parity

Eurozone facing a double dip

Eurozone GDP



Sources: Eurostat, UBP

UBP ECONOMIC OUTLOOK

US BUDGETARY PACKAGES TO FACE POLITICAL AND FINANCING ISSUES

Renewed emergency measures: American Rescue Plan (USD 1.9 Tr)

- After a package adopted by the US Congress (USD 900 bn) in December, President Biden proposed emergency measures including support to households (unemployment benefits and direct payments to households), an increased minimum wage (USD 15), aid to health sector, schools, states and local governments and other safety net programs (rents, food assistance and childcare).
- With a focus on households, this should alleviate the impact of the current downturn in employment and underpin consumption in Q1, as studies revealed direct payments were spent rapidly last year.

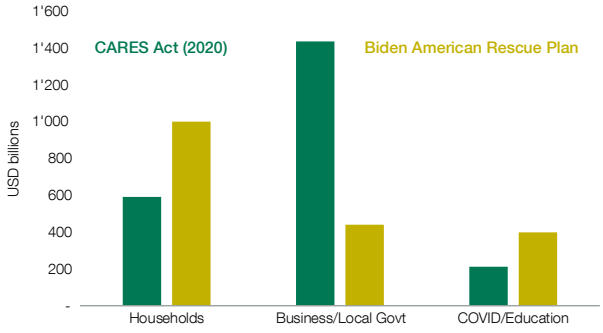
An investment plan to be presented later

- In addition to these measures, the new US President and Treasury Secretary have announced an investment plan to be rolled out by February ("Building Back Better") to strengthen the recovery by repositioning the economy towards new sectors, improving competitiveness and seeking to reach a higher growth trajectory.
- As no details have been published, the Biden campaign revealed a project to spend USD 2 Tr over four years to focus on infrastructure (rail, roads, networks, broadband), climate change (clean transport, upgrade buildings, environment) and "green" investments (solar, electric vehicles, battery storage).

Voting and financing the plans facing major issue

- While Democrats control both houses of the US Congress, their margin is slim which requires them to secure all Democrat votes and to gain support from some Republicans open to reforms to pass legislation.
- The proposed rescue plan is supposed to be financed by public debt, but will likely face difficulty to reach full political support and probably only the measures in favour of households might be adopted.
- Though Treasury Secretary Yellen testified that taxes will not be increased during the pandemic, the political willingness to raise taxes on high incomes and selected corporates appears high.
- Despite debt issues to source new financing, the US fiscal deficit should remain large (10%-12%) and public debt is expected to rise further above 100% of GDP.

The American Rescue Plan shifts the focus from businesses to households



Sources: Congressional Budget Office, Debt.org and UBP

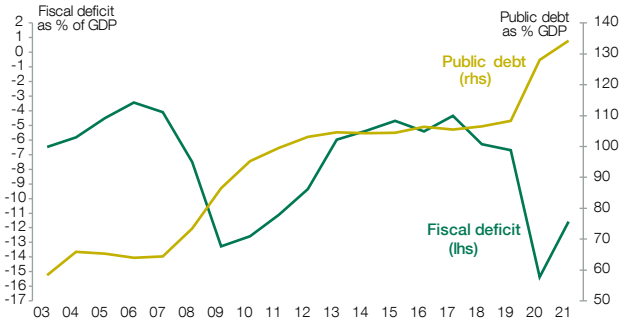
'Building Back Better' repositions the US economy for the 21st century

Biden's infrastructure program

- Create a USD 2 tn clean energy and infrastructure fund with a focus on transportation
- Invest USD 300 bn in domestic R&D to improve US systems (clean energy, public health, telecoms and infrastructure) and promote domestic production
- Expand broadband, or wireless broadband via 5G, to all Americans

Sources: Campaign documents, media sources and Goldman Sachs

US fiscal deficit & gross public debt



Source: OECD

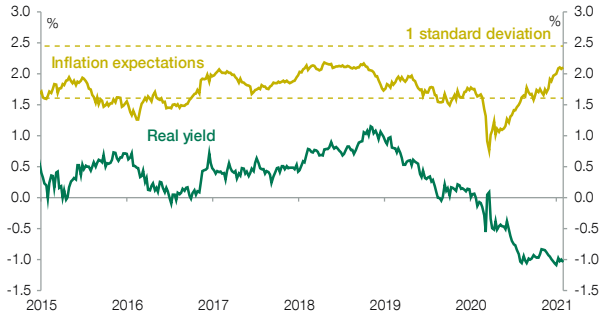
GLOBAL BONDS

BUILDING A BARBELL IN FIXED INCOME PORTFOLIOS

- After beginning the year on a positive tone, markets lost some ground on growing concerns about the pace and quality of the vaccine rollout, possible mutations and the potential for further lockdown measures.
- However, credit spreads in advanced economies have continued their move tighter approaching record lows with further volatility compression. Strong technical tailwinds, investors' search for yield and expansionary monetary policy appeared to underpin these developments.
- Long-term nominal yields rose after the Democrats won both Senate races in Georgia, raising the prospect of additional fiscal stimulus while pushing inflation expectations to two-year highs before declining near month end on new concerns about the pace of vaccine rollouts and disappointing economic indicators.
- With major central banks still flooding the financial system with liquidity, and now the prospect of substantial additional fiscal stimulus packages, expectations for an acceleration in price growth this year are on the rise. As a result, we introduced a new position into global inflation linked bonds within portfolios.
- Looking forward, the global environment should remain supportive for credit but a selective approach with a focus on quality is necessary in the US and Europe. Lower issuance in 2021 and improving credit quality looks encouraging but the prospect of a further move higher in rates could lead to some spread volatility.
- Investors can look to European banks' hybrid securities which offer premium yields compared with high yielding securities despite an implied backstop from the European Central Bank.
- With low/negative sovereign yields in the US and Europe, Chinese government bonds offer an attractive alternative with 3%+ yields and the prospect of a strengthening currency to augment total returns.
- Emerging markets stand to benefit from a cyclical reflation environment. As a result, we have also increased our emerging market debt positions which add a source of income for portfolios. These positions complement our existing positions in Asia investment-grade credit which still offers cyclically wide spreads relative to US credit.
- While the near-term outlook remains uncertain and with medium-term stimulus on the horizon – investors can benefit from a 'barbell' strategy between lower risk, moderate duration strategies and cyclical recovery oriented exposure looking to the 2H of 2021.

The prospect of additional fiscal stimulus should drive inflation expectations higher

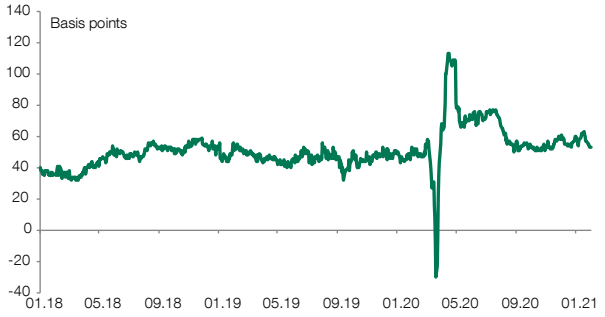
US inflation expectations and real yield (based on 10-year TIPS)



Sources: Thomson Financial and UBP

Emerging market corporate bonds continue to be relatively attractive vs. US

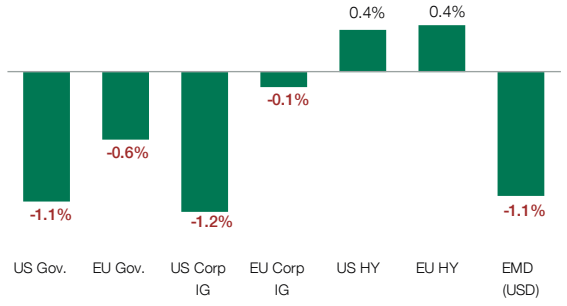
Relative value: EM IG vs US IG



Sources: BoA ML and UBP

Fixed income suffered from rising yields

Fixed Income Performance



Performance is as end of January 2021
Sources: Refinitiv, UBP

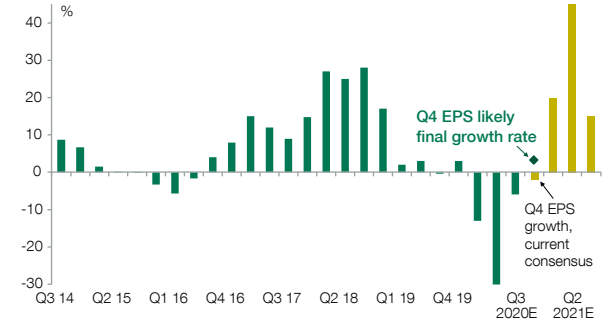
GLOBAL EQUITIES

BUILDING BARBELLS IN EQUITIES AS WELL

- After a strong start, equities declined at the end of January as risk sentiment faltered on the new coronavirus variants, delayed vaccine deployments, worries around bubble-like conditions and the eventual size of the US fiscal stimulus.
- Both in the US and Europe, the first Q4 results were much better than expected with a record proportion of companies beating estimates. If this trend continues, 4Q S&P 500 EPS growth will have been slightly positive year on year after -6% in Q3.
- Moreover, in the US, estimates for Q1 crept higher, with the growth rate moving up to +20% from +16% at the beginning of the year.
- Still, price reaction to positive surprise has been slightly negative for the median S&P 500 company. This reflects the fact that a lot of good news was already priced in after the strong rally since November, but also that guidance has often been cautious. In Europe, however, price reactions have been largely positive.
- The 2021 expected earnings growth rate for global equities has remained steady at just below 30% since last summer, with a wide dispersion between markets. The weighting of cyclical stocks is the main differentiating factor as illustrated by low-cyclically oriented Switzerland at +16% versus high-cyclically focused eurozone at +48%.
- The fact that valuations are equally polarised argues for a barbell strategy that we have put in place in recent months between our high-quality transformational growth themes and cyclical exposure.
- We have added global mining equities, small-capitalisation Japanese equities and a basket of high-quality cyclicals in portfolios. We will continue to look for opportunities to add exposure to themes linked to the cyclical recovery.
- Given current rich valuations, at least in absolute terms (but less so relative to bonds), ongoing earnings acceleration will be the key driver of equities in the coming months.
- With equity volatility having reached pandemic-era lows in mid-January, we have recently taken advantage of this market opportunity to restore asymmetry into portfolios via put options to protect against a relapse in the recovery narrative built into current market expectations.

S&P 500 EPS growth was probably positive y/y in Q4

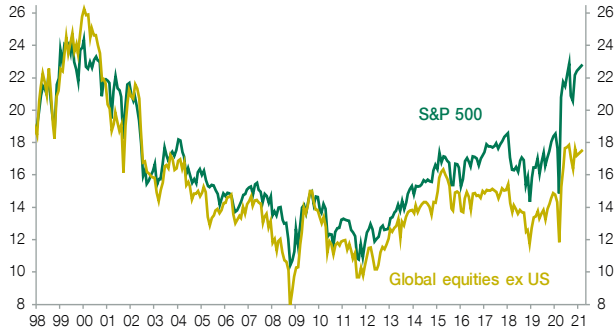
S&P 500: actual and estimated earnings growth rates (analysts' consensus)



Sources: Refinitiv, UBP

Equity valuations at nearly two-decade highs

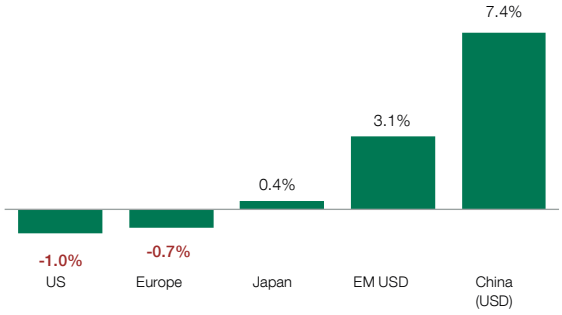
S&P 500 & global equities ex US: 12-month forward PER



Sources: Refinitiv and UBP

Emerging markets outperformed led by China

Equities Performance



Performance is as end of January 2021
Sources: Refinitiv, UBP

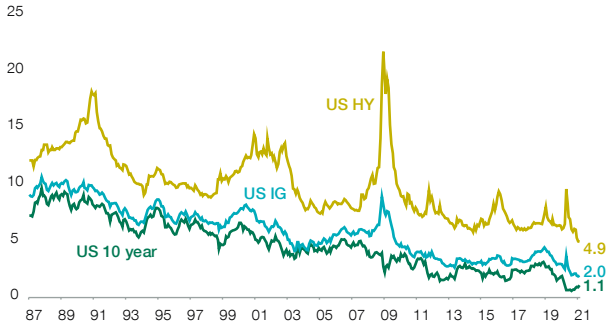
RECENT VIEW CHANGES

RESTORING RISK-REWARD ASYMMETRY TO PORTFOLIOS

- Since last November, with vaccines starting to roll out and Democratic control of the White House, we gradually removed our portfolio protection and rotated some of our defensive strategies such as hedge funds and structured products into directional equities, adding to Europe and China.
- We extended these moves entering 2021. In addition to our long-term strategic holdings in technology and healthcare, we added exposure to quality cyclical themes that should capitalise on the recovery of the global economy. The global mining sector, small caps in Japan as well as quality industrial companies should be beneficiaries going forward.
- Similarly, in fixed income, we deployed our cash into carry strategies such as emerging market, high yield and CoCo bonds. While central banks and governments around the world should continue to support the credit markets, selectivity is key in investing in these strategies.
- As US 10-year yields rose towards 1.2% in January, we restored some of our government bond holdings which should provide some cushion should volatility rise once again. We also introduced a new position by moving into global inflation linked bonds to protect our fixed income portfolios against inflation.
- While we are positive in our 2021 outlook, we also see rising vulnerabilities in stock markets in the near term. The extended lockdowns related to uneven rollout of vaccines in Europe, emergence of new virus strains, as well as elevated market valuations could lead to volatile markets.
- A proactive and dynamic risk management approach is key to navigating the bumpy road towards global recovery. As a result, we took the advantage of relatively cheap volatility in mid-January to restore protection through put options which will protect us from downside market moves while continuing to allow us to participate in the markets' upside potential.

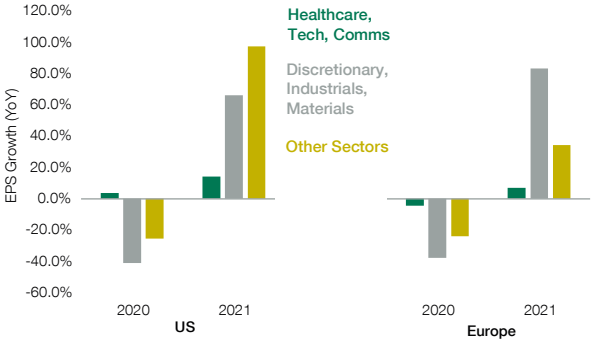
Carry is scarce in a low interest rate environment

US Fixed Income (yield to maturity (%))



Sources: Refinitiv and UBP

Earnings should rebound back strongly for sectors suffering from the pandemic



Sources: Bloomberg Finance L.P., UBP

Buy put options when volatility is relatively low

Implied Volatility Index

Sources: Refinitiv, UBP

Disclaimer

This document is a marketing communication containing GENERAL INFORMATION on financial services reflecting the sole opinion of Union Bancaire Privée, UBP SA and/or any entity of the UBP Group (hereinafter "UBP") as of the date of issue. It is not and does not purport to be considered an offer or a solicitation to enter into any transaction with UBP, buy, subscribe to, or sell any currency, product, or financial instrument, make any investment, or participate in any particular trading strategy in any jurisdiction where such an offer or solicitation would not be authorised, or to any person to whom it would be unlawful to make such an offer or solicitation. This document is meant only to provide a broad overview for discussion purposes, in order to determine clients' interest. It does not replace a prospectus, KID, KIID or any other legal document relating to any specific financial instrument, which may be obtained upon request free of charge from UBP or from the registered office of the issuer of the instrument concerned, where applicable. The opinions herein do not take into account individual clients' circumstances, objectives, or needs.

UBP performs analysis on the financial instruments on offer in the market and may maintain and/or seek to develop business affiliations with third parties for that purpose; furthermore, UBP may create its own financial instruments. This generic information is therefore not independent from the proprietary interests of UBP or connected parties, which may conflict with the client's interests. UBP has policies governing conflicts of interest and takes appropriate organisational measures to prevent such cases.

The information contained in this document is the result neither of financial analysis within the meaning of the Swiss Banking Association's "Directives on the Independence of Financial Research" nor of independent investment research as per the EU's regulation on MiFID provisions. EU regulation does not govern relationships entered into with UBP entities located outside the EU.

Reasonable efforts have been made to ensure that the content of this document is based on objective information and data obtained from reliable sources. However, UBP cannot guarantee that the information contained herein and gathered by the Bank in good faith is accurate and complete, nor does it accept any liability for any loss or damage resulting from its use. Circumstances may change and affect the data collected and the opinions expressed at the time of publication. Therefore, information contained herein is subject to change at any time without prior notice. UBP makes no representations, provides no warranty and gives no undertaking, express or implied, regarding any of the information, projections or opinions contained herein nor does it accept any liability whatsoever for any errors, omissions or misstatements in the document. UBP does not undertake to update this document or to correct any inaccuracies which may have become apparent after its publication.

This document may refer to past performance which is not a guide to current or future results. All statements in this document, other than statements of past performance and historical fact, are "forward-looking statements". Forward-looking statements do not guarantee future performances.

The tax treatment of any investment depends on the client's individual circumstances and may be subject to change in the future. This document does not contain any tax advice issued by UBP and does not reflect the client's individual circumstances.

This document is confidential and is intended to be used only by the person to whom it was delivered. This document may not be reproduced, either in whole or in part. UBP specifically prohibits the redistribution of this document, in whole or in part, without its written permission and accepts no liability whatsoever for the actions of third parties in this respect. This document is not intended for distribution in the US and/or to US Persons or in jurisdictions where its distribution by UBP would be restricted.

Switzerland: UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA).

UK: UBP is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA.

Dubai: This marketing material has been communicated by Union Bancaire Privée (Middle East) Limited, a company regulated by the Dubai Financial Services Authority ("DFSA"). It is intended for professional clients and/or market counterparties only and no other person should act upon it. The financial products or services to which this material relates will only be made available to a client who meets the professional client and/or market counterparty requirements. This information is provided for information purposes only. It is not to be construed as an offer to buy or sell, or a solicitation for an offer to buy or sell any financial instruments, or to participate in any particular trading strategy in any jurisdiction.

Hong Kong: UBP is a licensed bank regulated by the Hong Kong Monetary Authority (HKMA) and a registered institution regulated by the Securities and Futures Commission (SFC) for Type 1, 4 & 9 activities only in Hong Kong. The securities may only be offered or sold in Hong Kong by means of documents that (i) are addressed to "professional investors" within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and any rules made thereunder (the "SFO"); or (ii) are defined as "prospectuses" within the meaning of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the "CO") or constitute offers to the public within the meaning of the CO. Unless permitted to do so under the laws of Hong Kong, no person may issue or have in his/her possession for the purpose of issuing, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the securities, directed at, or likely to be accessed or read by, the public in Hong Kong, except where the securities are intended to be disposed of only to persons outside Hong Kong, or only to "professional investors" within the meaning of the SFO.

Singapore: UBP is a bank regulated by the Monetary Authority of Singapore (MAS), is an exempt financial adviser under the Financial Advisers Act (Cap. 110 of Singapore) to provide certain financial advisory services and is exempt under section 99(1) of the Securities and Futures Act (Cap. 289 of Singapore) to conduct certain regulated activities. This document has not been registered as a prospectus with the MAS. Accordingly, this document and any other document or material in connection with generic recommendations may not be circulated or distributed, whether directly or indirectly, to persons in Singapore other than (i) to institutional investors under Section 274 of the Securities and Futures Act (Cap. 289) of Singapore ("SFA"), (ii) to relevant persons pursuant to Section 275(1), or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This advertisement has not been reviewed by the Monetary Authority of Singapore.

Luxembourg: UBP is registered by the Luxembourg supervisory authority the Commission de Surveillance du Secteur Financier (CSSF).

Italy: Union Bancaire Privée (Europe) S.A., Succursale di Milano, operates in Italy in accordance with the European passport – held by its parent company, Union Bancaire Privée (Europe) S.A. – which is valid across the entire European Union. The branch is therefore authorised to provide services and conduct business for which its parent company, Union Bancaire Privée (Europe) S.A., has been authorised in Luxembourg, where it is regulated by the Luxembourg financial supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF).

Monaco: This document is not intended to constitute a public offering or a comparable solicitation under the Principality of Monaco's laws, but might be made available for information purposes to clients of Union Bancaire Privée, UBP SA, Monaco Branch, a regulated bank under the supervision of the Autorité de Contrôle Prudentiel et de Résolution (ACPR) for banking activities and under the supervision of the Commission de Contrôle des Activités Financières for financial activities.

Union Bancaire Privée, UBP SA | Head Office
Rue du Rhône 96-98 | P.O. Box 1320 | 1211 Geneva 1 | Switzerland
ubp@ubp.com | www.ubp.com