



NEUE BANK

Liechtenstein Private Bank

independent and consistent since 1992

**Our Opinion**  
June 2021





# NEUE BANK

## Editorial

Dear Readers

«The most powerful force in the universe» – our analysis shows that thanks to compound interest, invested capital keeps growing faster over time.

Are you looking for advice and support in financial matters? Our investment advisers look forward to hearing from you and talking to you in person.

We wish you a stimulating read.

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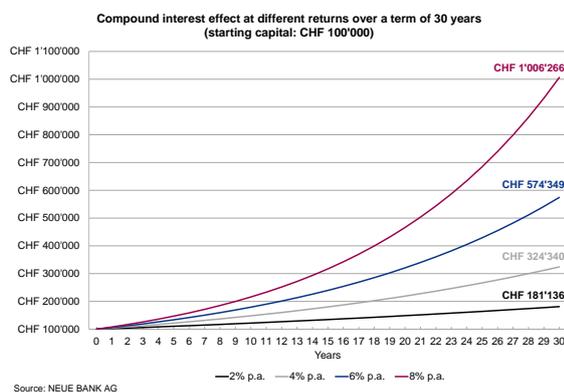
# NEUE BANK

## Today:

«The most powerful force in the universe»

### Equities

According to an urban legend, when Albert Einstein was asked what he believed the most powerful force in the universe to be, he answered, «Compound interest». Whether Einstein really said that or not is disputed, but the idea is valid nonetheless. Thanks to compound interest, invested capital keeps growing faster over time, because the returns are reinvested and gain more and more interest. This simple effect is often underappreciated by investors, though. Let's take a starting capital of CHF 100'000, annual returns of 8%, and an investment horizon of 30 years. That doesn't really sound like the makings of a millionaire, does it? But in fact, that capital would increase to a grand total of CHF 1'006'266. Even at lower returns, a substantial amount of wealth can still be achieved, as the following chart shows:



At first, the gains appear to be minor, but the longer the capital stays invested, the greater is the growth. The compound interest effect leads to an exponential rise in assets. Investing and staying invested is the motto, and compound interest takes care of the rest. But a lot of investors have trouble doing this. This is why it's worthwhile to have assets managed professionally. NEUE BANK AG offers asset management solutions that benefit from compound interest over the long term. To avoid major setbacks on the equity markets, we rely

on the NEUE BANK traffic light for our mandates. The traffic light is currently at light green (slightly bullish), which is why we are maintaining our overweight in equities. As long as the economy continues its strong recovery and corporate earnings persist, along with the loose monetary policy of the central banks, the equity markets are likely to continue their gains.

### Bonds

Inflation in the Eurozone has risen to 2%, the highest level since October 2018. The core inflation monitored by the European Central Bank (ECB) is still at a low 0.9%, however – significantly below the 2% target. The ECB is therefore not forced to act, and it is instead remaining true to its current ultra-expansionary monetary policy. The United States, on the other hand, is already battling significantly higher inflationary pressure. US inflation has risen to 5%, the highest level since 2008. The core rate as well – which omits energy and food prices – has also jumped to 3.8%, the highest since 1992. The reaction of the US bond market has been surprising.

**«US inflation has risen to 5%, the highest level since 2008.»**

When inflation rises, yields should actually follow. But exactly the opposite has happened: The yield on 10-year US Treasuries has fallen to below 1.5%. For now, the bond market evidently shares the view of the US Federal Reserve, which assumes that the rise in inflation is only temporary. We also believe that the issue seems worse than it is: In the month of May, the unfavourable year-on-year comparison came to an end (base effect). Inflation rates should accordingly fall again soon. Nevertheless, some members at the next Fed meeting are likely to raise the possibility of reducing (tapering) securities purchases, which could cause yields to rise. We remain underweight in bonds.



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## Economy

Eurozone economic data confirms the optimism regarding a strong economic recovery. The Purchasing Managers' Index for the overall economy has risen again, reaching 57.1 points, the highest level in three years. Apart from the labour market, US economic data have also been quite good. For instance, the ISM Services PMI achieved its highest level ever at 64. But there continues to be an acute shortage of workers on the labour market. At the end of April, there were more than 9 million job vacancies in the US, while the pace of hiring is stagnating.



Source: Bloomberg und NEUE BANK AG

We expect that workers will increasingly return to the workforce once additional unemployment benefits expire, which will successively reduce vacancies and wage pressure.

## Alternative investments

On the basis of our momentum filter, we have been invested in an index fund (ETF) for listed private equity since 1 April 2021. The ETF contains the largest companies in the world that offer institutional investors a broad range of investment products and special mandates in private equity, private debt, private infrastructure, private real estate, listed alternative investments, hedge funds, and alternative beta strategies. These are all illiquid assets which require a longer holding period and a large investment volume and are therefore not suitable for private investors. With an ETF, however, one can participate in these investments indirectly, with the advantage that the ETF is traded on the stock exchange and can be sold at any time. We remain invested.

## Currencies

Since the beginning of April, the US dollar has depreciated by about 4% against the Swiss franc, from 0.94 to just under 0.90. The latest weakness of the dollar has been in parallel with the decline in 10-year US Treasury yields. As a consequence, investors have increasingly shed the greenback due to the diminishing interest rate advantage. While our currency indicator is in fact showing a falling USD trend, it has not yet given a hedging signal. We are accordingly maintaining our USD positions.

## PRIMUS-ETHICS

With the PRIMUS-ETHICS asset management mandate, we give investors the opportunity to consider environmental and social aspects as well as financial aspects in their investment decisions. We invest your assets in ethically and morally irreproachable companies and apply professional approaches to implementation. Scientific studies underscore the positive correlation between sustainability and economic success. The client advisers of NEUE BANK AG look forward to showing you the special features of this asset management solution in a personal consultation.

### Performance indicators in CHF<sup>1</sup>

	2016	2017	2018	2019	2020	31.05.2021
<b>PRIMUS-ETHICS Balanced</b>	1.44%	9.23%	-4.94%	15.42%	7.63%	5.53%
<b>Peergroup</b>	1.78%	8.68%	-7.20%	11.75%	2.98%	4.38%

<sup>1</sup>Past performance is not an indicator of future performance and does not guarantee future success. Performance is presented in gross figures without taking into account your individual tax liability. Net performance is lower due to fees. Our Opinion is also available on our website: