



BANCA DEL SEMPIONE  
SIMPLON BANK  
BANQUE DU SIMPLON

# Investment Policy

April 2021 - 2. Quarter





## We are going green!

Green Division, Banca del Sempione's new project, is coming to light. Through this initiative, we intend to practically demonstrate our commitment to protecting and respecting the environment and society. Our purpose is also to contribute to making the world a better place for the benefit of new generations and, at the same time, carry out our work in an increasingly sustainable way.

We therefore want to be a reference point for all those customers who are seeking a new way of doing banking based on mutual respect and transparency within the business relationship, aimed at achieving sustainable yield both in terms of risk/return ratio and from a socio-environmental standpoint.

If you wish to keep up to date with the Bank's latest initiatives, please follow our LinkedIn page @Banca del Sempione SA and visit [www.bancasempione.ch](http://www.bancasempione.ch)!

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The prospects for continued economic re-opening this year appear more promising compared to the difficult re-start we experienced in the first half of 2020.

Re-openings, stock-market rotation, and inflation were the main themes in this past first quarter of the year. If equities had an excellent quarter, the same cannot be said of bonds with the US 10Y Treasury yield rising from just below 1% to 1.74% at the end of the period.

Rising rates – mainly due to improved growth prospects – and the resulting inflationary fears led to a rotation toward value instead of growth stocks.

Technological stocks, perceived as long-duration securities, were penalized by this important rate increase. On the other hand, bank securities were the main beneficiaries of the curve steepening, a condition that in fact favours their profitability.

With accelerated growth and the approval of significant fiscal stimulus measures, we believe that the risk-on mode may continue in the coming months. While economists and markets seem to have made a decisive bet on accelerating economic data in the US, there is still some scepticism about recovery in Europe.

Despite rate volatility, credit spreads remained stable albeit with little chance of upside at the moment.

Lastly, the currency market saw the dollar lead, benefiting from the acceleration of the vaccination campaign and excellent macroeconomic data.

### The context of the start to the year

Politically, the year began with the official inauguration of Biden as the 46<sup>th</sup> US President. In his inaugural address, he encouraged the country to come together and signed 17 executive orders on the same day to highlight a complete break with his predecessor, as also confirmed by the US re-joining the WHO and the Paris Climate Accord. Italian events also captured the interest of investors who, following the government crisis that began in February, witnessed the official establishment of the Draghi government, which won an overwhelming confidence vote in the Chamber of Deputies and Senate. His programmatic speech showed not only the willingness to fight the pandemic, but also that to undertake important structural reforms, always emphasizing the vital link with the European Union. The first quarter of 2021 saw a gradual decline in the Covid cases and pandemic-related deaths, albeit below expectations. In general, the limited availability of vaccine doses could not but have a significant impact on the healthcare system. However, States at a more advanced stage of the vaccination campaign are demonstrating that vaccination can actually help the health sector's resilience, proving itself to be a decisive factor in the recovery of the economy. Currently, Europe – like Japan – is at least 3 months behind the United States, for which a herd immunity is expected by July 2021. The US scenario has experienced a decisive turning point, thanks also to the approval of two crucial fiscal plans, supporting recovery and economic confidence. In contrast, the delay in the vaccination campaign in Europe also means delay in economic recovery.

### The role of central banks and macroeconomic data

This discrepancy between the US and Europe results in the central banks' different attitudes. The FED is led to a more tolerant stance toward higher bond yields with a "wait and see" approach; the ECB, instead, has shown stronger rhetoric to halt tightening of financial conditions, stating the need to counter the yield curve steepening, and announcing an acceleration in asset purchases under the ECB's pandemic emergency purchase program (*PEPP*). The FED's new projections show US GDP growing by 6.5% in 2021, with unemployment falling to 4.5%. Powell, though worried about market disorderly performance, justified bond yield trends by improving growth prospects. He reiterated – however – that the path to full employment is still long, and the FED will support it, considering any inflation increases as transitory. By contrast, the ECB estimates lower growth, amounting to around 4% for the Eurozone over the same period. Post-pandemic growth and inflation were important issues earlier this year, especially following a marked divergence in monetary policies, fiscal policy scopes, and economic expectations. The double dose of US fiscal stimulus (\$900 billion at the end of 2020 and \$1.9 trillion at mid-March) and greater efficiency of the vaccine-buying campaign led to the expectation of a consumption boom, financed by record savings accumulated during the pandemic. Investors began to fear higher inflation leading to an increase in base rates. Indeed, although the FED planned to raise the base rate only in the third quarter of 2023, the market began to discount rate increases much earlier, raising the US 10Y Treasury yield to 1.74% and generating a strong curve steepening, indicating rising expectations for growth and inflation. It should be recalled, however, that the revision of inflation forecasts was partially altered by temporary technical factors, such as the semiconductor shortage, the restoration of VAT to normal levels in Germany, and the rise in oil prices. While on the pandemic side the alert level remains high, from an economic point of view – instead – macro data have largely beaten expectations. Manufacturers' confidence in the major countries continues to grow, driven by the manufacturing industry at levels that had not been recorded for decades. Instead, we note a significant gap between the US services data and that of other countries: the US services PMI comes in at 63.7, unlike the European one, which remains below the technical threshold of 50.

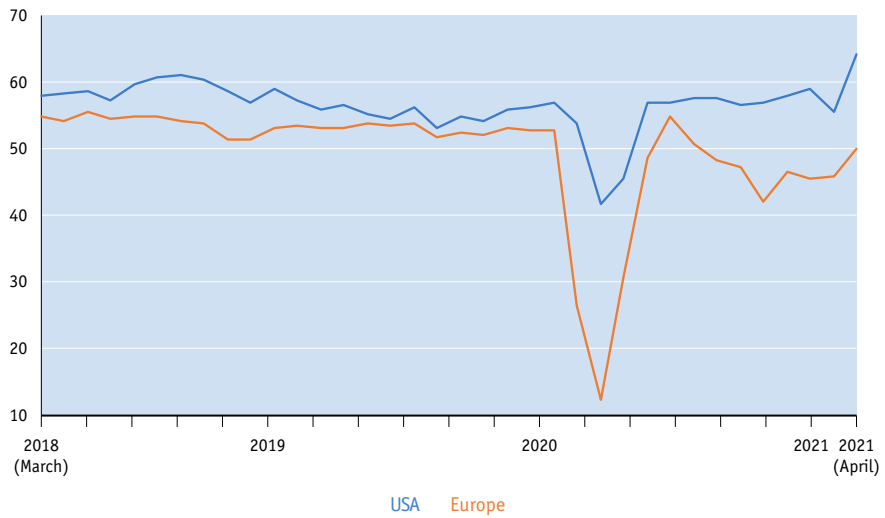
### A look at the coming months

Fiscal and monetary policies should continue to support the economy later this year, with focus primarily placed on health emergency. It will be crucial to be able to confirm the effectiveness of vaccines on virus variants as well, in order to avoid further restriction and halt to the economy. As has already been said, we expect a faster recovery in the US than in Europe. In addition to achieving herd immunity earlier, the US can count on a supportive "hands-off" fiscal policy that has enabled the country to push ahead since Biden's inauguration.

### Steepening of the 2-10yr curve in the US



### Services PMI in the US vs. Europe



### The weakening trend of the Dollar is reversed

Rising yields on the long end of the US rate curve and progress on the vaccine front lead us to be less bearish on the US dollar. Macroeconomic data also support the US currency. Specifically, employment figures and sentiment data have reached significant levels.

Growth in US bond yields (particularly on long maturities) effectively stopped the weakening trend and led to USD buying flows. Indeed, the 'short USD' trade gathered large consensus at the beginning of the year, but rising yields on US bonds reversed the situation by reviving the Dollar as a carry currency. In fact, if we consider the yield spread between US and German 2Y government bonds, the divergence has remained substantially the same. If, instead, we take longer deadlines into account, such as 10 years, we notice that the spread has returned to pre-Covid levels.

Even in terms of vaccinations, the US is among the leading countries, second only to Israel and Britain. This should lead to a rapid re-opening of economic activity with benefits for the whole country and indirectly for the currency as well.

### The Norwegian Krone has room to appreciate

The Norwegian Krone is G10's most illiquid currency and is most vulnerable to fluctuations in commodity prices and in general to risk sentiment. It strengthened by 24% since its lows recorded almost a year ago and the long-term EUR/NOK support is around 10.00, close to current levels.

The market thinks that the Norwegian Central Bank may start increasing rates at the end of 2021 and raise them in four tranches of 25 cents each by the end of 2022.

Oil prices have always been important for the Norwegian Krone: the EUR/NOK exchange rate now seems at a fair level considering its historic relationship with oil prices, but input could come from the oil rebound (say over \$70) that would be the result of the resumption of global travel later this year.

Finally, undoubtedly, what could cause the Norwegian Krone to rise by another 5% is a broader general propensity to risk.

### Solid foundations support the Renmimbi

The Chinese currency now seems to have reached some stability, after appreciating strongly last year. For the coming months our view is to remain bullish on the Renmimbi, mainly for the following reasons:

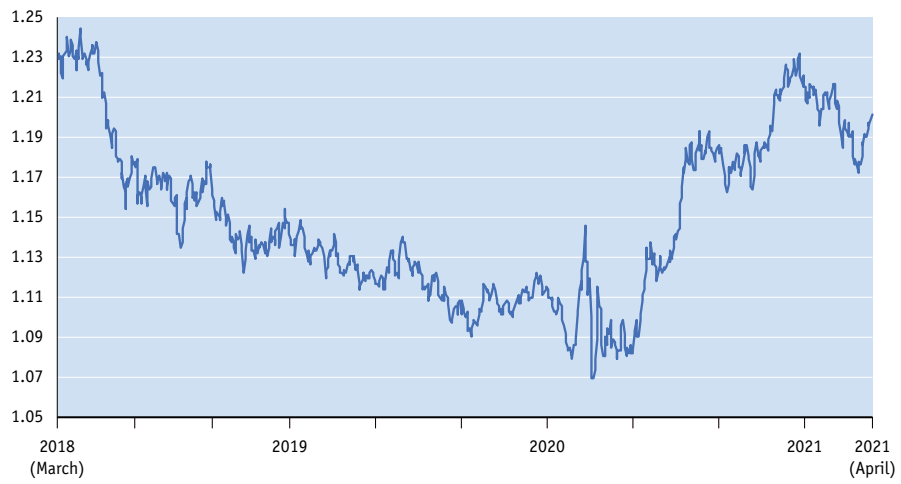
- the good macroeconomic situation;
- the solid current account surplus;
- the yield spread in favour of the CNY;
- the easing of trade tensions after Trump's exit from the White House.

Another significant aspect is the yield differential between Chinese and other developed country bonds. In fact, if we consider the yield above 2% for short-term CNY bonds of first-quality issuers, the comparison with negative yields offered by bonds denominated in Euros or Swiss francs noticeably favours the Chinese currency. This positive carry looks even more interesting when compared to the Renmimbi's very low volatility.

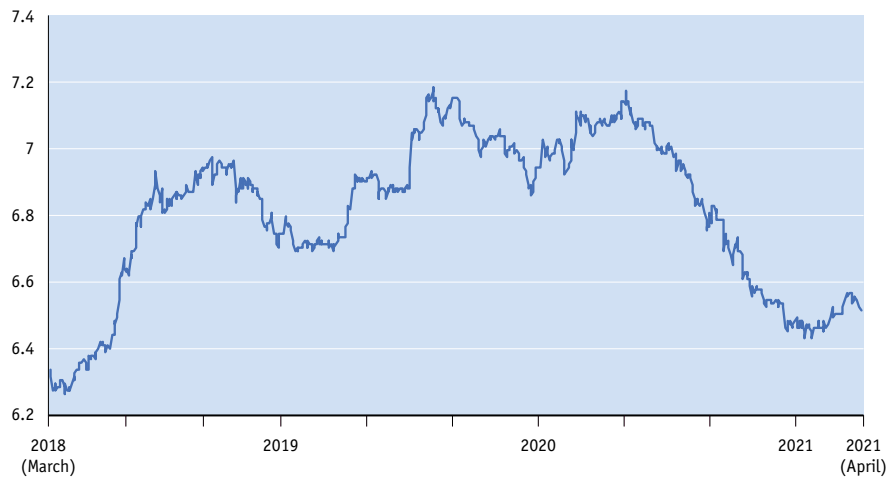
In conclusion, it seems fair to us to highlight what could be a potentially risky aspect for trade, that is, market positioning: according to various analyses, the 'long CNY' trade is already rather popular among investors.



EUR - USD Exchange Rate



USD - CNY Exchange Rate



### Everything revolves around American rates

The attention of the bond market is focused on the dollar curve trend. Prospects for strong economic growth exiting pandemic-driven restrictions have shown that rates close to zero even on the long end of the curve offered clearly inadequate returns. The first months of the year were therefore characterized by a strong steepening movement, with a significant correction of government bond indices. This movement can be interpreted as a natural repricing starting from curves that are unquestionably too flat, but it also arises from inflationary fears that slowly spread among market participants. The debate about the return of inflation has not yet generated a consensus view, but more and more people believe that the coming years will see structurally higher price increases due to the combined effect of fiscal and monetary policies.

For its part, the FED remains extremely expansionary and focused on facilitating economic recovery to the best possible extent, with the prospect of responding to inflation only when it is perceived as structurally too high, ignoring short-term spikes above the 2% target. Similar dynamics have also appeared in Europe, although the ECB has expressed itself more explicitly about its willingness to keep rates low even on long maturities.

### Our approach to curves

We believe that central banks have the willingness (and in some ways the obligation) to keep real rates negative on much of the curve, to enable governments to make high debt more sustainable. Further nominal yield increases will thus be possible, but only in the event of significant increases in growth and inflation. In general, bond valuations remain expensive and lead us to suggest maintaining limited portfolio duration. However, at the tactical level, the long end of the dollar curve can be an interesting tool and protect the portfolio from any deceleration in growth. European bonds, on the other hand, continue to offer very low and often negative returns, and are of no interest to investors. In this context of rising inflation expectations, inflation-linked bonds continue to play a useful role – though valuations are no longer at a discount as in past months, with US 10-year break-evens at around 2.3%.

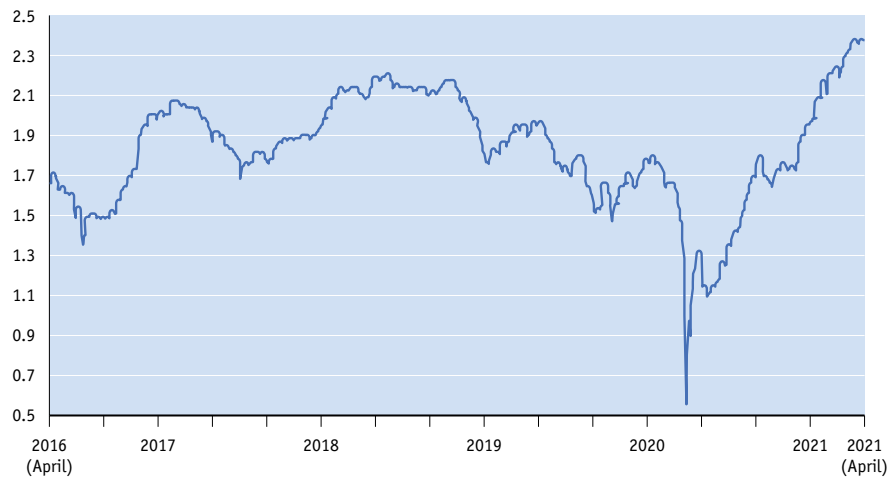
### The credit segment remains stable

Despite interest rate volatility, credit spreads have remained stable in a somewhat surprising way. Liquidity in the system continues to be high, thanks to expansionary measures taken by central banks. Also, it seems that the supply of corporate bonds generated by the primary market can be absorbed rather smoothly. At the aggregate level, we do not believe there is much value in the corporate bond market, and we prefer to give up some yield to maintain a liquidity percentage that allows us greater flexibility in the event of unforeseen market corrections. However, some interesting niches remain. First and foremost, bank and insurance legacy tier 1 bonds, which have been in our portfolios for a long time, continue to offer significant appreciation potential. Some banks have already adopted the directives issued by EBA (which considers it rather inappropriate to keep old-generation instruments circulating) by exercising call options with very good profit for investors. We believe that other issuers may follow suit in the months ahead. In particular, some selective opportunities can still be found in the tourism sector, severely hit by the pandemic but well positioned to benefit from progressive re-openings.

10yr Treasury Yield (%)



10yr Breakeven Inflation Rate (%)



### The context of the first quarter

The first quarter ended with US indices at their all-time highs. In Europe too, there were strong signs of recovery, such as to bring the Eurostoxx 50 closer to record levels compared to the highest reached more than 10 years ago, before the subprime crisis of 2008. In short, by quoting John Authers from Bloomberg, markets “could hardly do better.”

However, there were also a few surprises. First of all, there was a correction of the excesses accumulated on Nasdaq’s hypergrowth stocks: the best small-caps of 2020 slowed by 20-30% in the first quarter, on a quick, volatile trend, as is often the case in this context. This movement was triggered by the US curve, steepening sharply and rapidly, in the wake of concerns over inflation and rate hikes by central banks.

The quality segment - which includes Switzerland, the Swiss franc, gold, and countercyclical “defensive” stocks - also slowed. In these cases, the correction was very strong and accompanied by low volatility, materializing only gradually.

On the other hand, the following sectors particularly benefited from the events of the period under review:

- cyclicals and financials that were among the worst performers in 2020 (-28.5% and -3.8%) decidedly reversed their trends in 2021 (+17.7% and +11.4%). Among financials, banks performed very well, benefiting in particular from the inflation forecast revision and the rate curve steepening.
- the automotive sector, even though affected by a large semiconductor shortage, resumed production significantly, and the major companies made big steps forward towards electric powered vehicles.

Ultimately, therefore, the high level of equity indices hides an extreme gap in performance, with momentum and hypergrowth stocks (or perceived as such) penalized in favour of cyclicals, financials, and small caps.

### Forecasts for the second quarter

As we move forward this year, we remain of the view that ten-year yields will tend to stabilize, causing a slowdown in sector rotation from quality and growth, which will thus have the opportunity to recover, but with greater selectivity than last year. A decline in volatility will then give further support to systematic strategies.

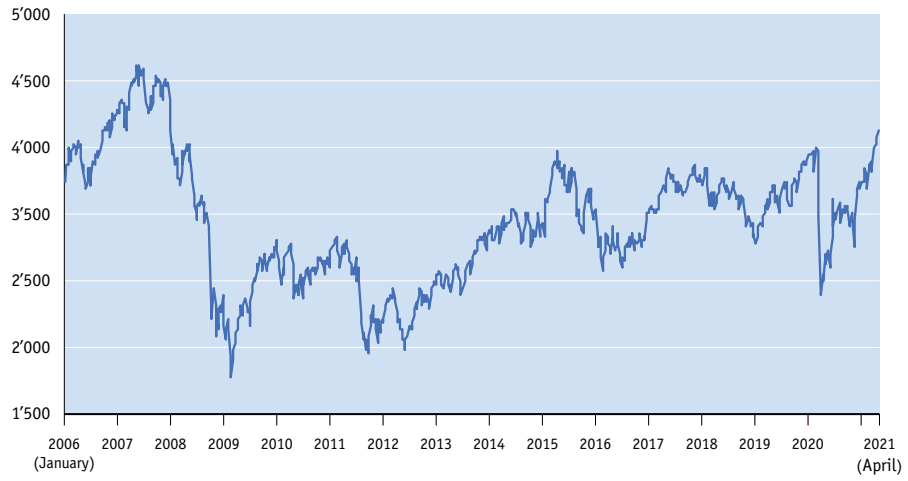
Finally, thanks to an acceleration of the vaccination campaign, Europe could get out of the hole in the second half of the year and, with far more interesting valuations than the US, have more room for appreciation.

### Key risk factors for 2021

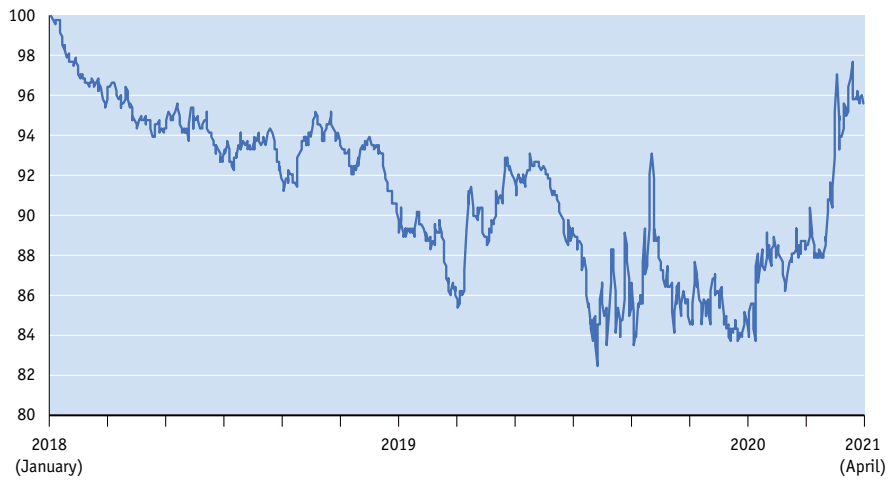
However, there are still many uncertainties:

- Corporate earnings first. Although it may seem easy to beat forecasts skewed by the base effect obtained by comparing today’s figures to disastrous 2020, particular attention will have to be paid to guidance over the next quarters.
- While central banks have been comforting for markets, fear of inflation spike with abundant US and European fiscal stimulus remains. As a result, movements in US yields should also be monitored to understand the shape the curve will take in the near future.
- Finally, outside the United States, Britain, and Israel, the vaccination campaign is still slow, which may seriously jeopardize a rebound in the travel industry, especially at the intercontinental level, in the current year.

**Eurostoxx 50 Index**



**Relative Return of Value vs. Momentum stocks in the US**



### Goals

In a world characterised by increasingly squeezed yields expected for traditional risk categories (shares and bonds) and by more and more frequent market shocks, the objective set by Banca del Sempione's asset management is to achieve a real growth in capital in the medium-long term. To achieve this result we use the most advanced and innovative techniques accompanied by the healthy values of a Swiss tradition and culture which within the area of asset management can rely on people with an excellent level of professionalism.

### Investment Philosophy

Our investment philosophy is based on five main principles:

- Composition of profits
- Drawdown reduction
- Discipline of the method, rather than "passivity" of the method
- Reduction of cognitive and emotional biases
- Limited presumption of market timing

Specifically, a reduction in drawdowns (i.e. negative fluctuations in asset values) combined with capitalisation of profits (defined by Einstein as the eighth wonder of the world), allows for triggering a snowball effect, through which profits are generated on profits, resulting in growth of invested capital over the medium-long term.

### Portfolio Structure

Investment Profile	Risk category	Maximum investment limits (%)					
		Cash	Investment Grade Bonds (>=BBB-)	Non Investment Grade Bonds (<BBB>)	Equities	Other Funds*	Currency Diversification
Income	Low	100	100	0	0	5	15
Income Plus	Medium-low	50	100	15	15	15	15
Dynamic	Medium	30	100	20	30	25	25
Balanced	Medium-high	30	80	20	50	25	25
Growth	High	30	50	20	75	30	25
Equity	Very high	30	50	20	100	30	25

\* Non-directional funds, total return funds, funds of funds

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The limitation of drawdowns via compounding of profits – defined by Einstein as the eighth wonder of the world – permits the accrual of profits on profits, triggering a snowball effect that results in growth of capital invested in the long term. The main innovation of this approach is in the way of limiting losses: in the past, portfolio volatility was offset by investments in instruments considered to be free of risk, namely bonds. Today, the protection offered by such instruments is mostly limited, while in the medium/long-term, traditional investment in bonds could even increase portfolio risk, especially if we consider that over the recent period, stocks and bonds have increased in perfect harmony.

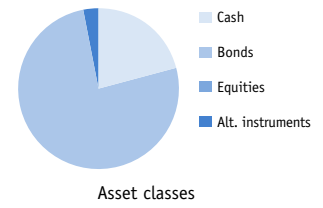
In our opinion, the implementation of systematic strategies allows for portfolio risk reduction and profit achievement whilst protecting invested capital, even in difficult markets. Due to their cold and mechanical approach, these strategies sharply mitigate the emotional component that drives and influences investment decisions and are based on the concept that it is preferable to participate in market trends rather than anticipate a shift or change in trend. On this basis, market prices are the best indicators of the current trend. As opposed to traditional ones, systematic strategies may also participate in market price downturns and, combined with a more traditional fundamental analysis approach, are able to offset sharp downward shifts such as those of 2008 or 2011.

In essence, common sense, systematic behaviour and discipline in making investments are the bases on which we build the portfolios of our clients.

Allocation by asset class

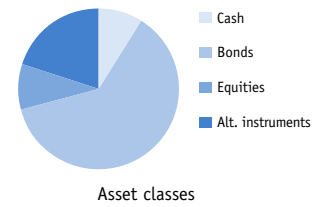
**Income**

Cash	21
Bonds	76
Equities*	0
Alternative instruments	3
	<b>100</b>



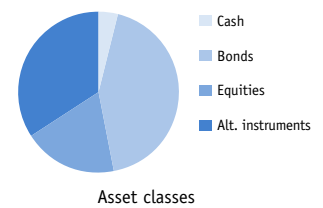
**Income Plus**

Cash	9
Bonds	62
Equities*	9
Alternative instruments	20
	<b>100</b>



**Dynamic**

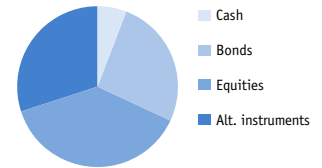
Cash	4
Bonds	43
Equities*	19
Alternative instruments	34
	<b>100</b>





### Balanced

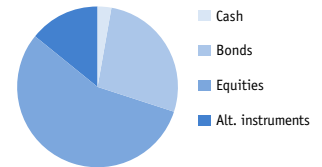
Cash	6
Bonds	26
Equities*	38
Alternative instruments	30
	<b>100</b>



Asset classes

### Growth

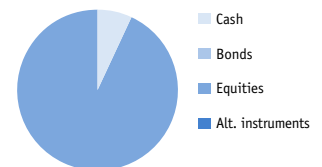
Cash	3
Bonds	27
Equities*	56
Alternative instruments	14
	<b>100</b>



Asset classes

### Equity

Cash	7
Bonds	0
Equities*	93
Alternative instruments	0
	<b>100</b>



Asset classes

\* Part of equity allocation is hedged with index options or futures

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