2020 An unforgettable year!

CIO letter

We will always remember 2020 as "The Year, we faced, worldwide, the much-unexpected global pandemic of a new deadly virus, called COVID 19".

The COVID-19 pandemic is primarily a human crisis. Its most direct impact is on health and human well-being. Indeed, it also had a dramatic impact on economic activity, and led to significant job losses, increase of poverty as well as a substantial death rate surge. At Christmas 2020,worldwide, the pandemic reached 80'000'000 cases and death hit 1'750'000 persons (Bloomberg).

Respectfully, we present our condolences to those who have lost a dear one.

The World global economy fall in the first quarter (-5%) and collapsed during the second one (-31.4%). Fortunately, it rebounded strongly, in the third and fourth quarters (+33%). Nevertheless, these changes mean a fall in the GDP of -13.26%, from the last quarter 2019, up to the beginning of September 2020. In the USA, unemployment is now at 6.7% (October figure), much better than in April, when it reached over 14 %.

In the stock markets, particularly the US one, the decline occurred between mid-February and mid-March (-23.86% on the S&P; low point on March 23rd), it was, then, followed by a strong recovery, which lasts until now, December 10th (+61% since March 23rd; +13.64% since the beginning of year).

This V shape recovery on the Stock Markets was, as usual, in excess of the economic recovery. We all know the story that says that Wall Street compared to Main Street, is as the dog tied with a long leash to his master. They do not always walk in the same direction, but in the end, they both do reach the same spot.

Looking at the chart below, the upsurge, which took place in the Markets, is maybe not such an excess of price. It is rather an anticipation of the continuation of economic rebound…Indeed the earnings of the US stocks, listed on the SP500 are expected at 175, for the year 2021. This, compared to the present SP500 index price of 3700, is just a multiple of 21,14.

The main cause of the upsurge on the stock markets, during the third and fourth quarters, is the exceptionally strong support from Governments and Supra National Institutions. As a result, with such a serious "push", the Markets are about to end this year at a historically new high level!

Since mid-March, until today, Healthcare and Technology were two main winning sectors, but in general, all sectors recovered, as mentioned before, due to unprecedented support from Central Banks and Governments, in an environment of extremely low interest rates (in some European countries negative interests rates prevail).

Before looking at the construction of our different types of portfolios for this following year, let us point out some important events and parameters that will influence the financial world starting from now:

Explosion of the US Public Debt: 25T

- **The burden of debts (total world debt in 2018: USD 247 T)**, which, all over the world will exceed for the year 2020, by far, all 2019 expectations.
  For instance: in 2019, US-Public Debt was at USD 22 000 Billion. Today, we believe, it has exceeded USD 25'000 Billion. It should continue to increase, at least, during the first quarter of 2021 by a minimum of 900 Billion, because of the US Economic stimulus plan, which about to be approved...The CARES Act of 2.2 T, on which President J. Biden was elected, could, if accepted, increase even more the size of the US-Public Debt.

From Low to Negative interest rates.

- **The Interest Rates:** In all occidental countries, the rates are at a very low level. They are bound to stay low because of the size of Public debts all over the world. In the US, the FED has even said recently, if needed the rates could go lower and even go in negative territory (like in some European countries)… Former President of ECB, Mario Draghi, previously said, "Whatever it takes".
  More recently, in regard with the COVID 19 pandemic, in London, the NHS Executive Body promised: "Whatever it needs, whatever it costs".

- Indeed, this early fall, European Banks where offered, by ECB, to borrow funds (750 Billion EUR), with negative interest rates equal of -1.5% (first time in History, we believe…). It means the borrowers are paid, by ECB, a yearly interest of 1.5% on the amounts they borrowed…In order to lend the same money to their best customers at, or above, 0,7%, over a period of time up to ten years!

- In these circumstances, we can interrogate ourselves on the value of money... Normally, under such circumstances, inflation should increase... It is not (yet!) the case.

Adaptation to a permanent set of changes in the way we live, learn and work.

The COVID 19 Pandemic: Contemplating the vaccines to come (Pfizer, Moderna, JNJ, AstraZeneca and others); please remember, "One swallow does not make a spring".

- More seriously, to describe the changing world we are now about to face, let me quote Mr. Urs Rohner, Chairman of Board of Directors of Credit Suisse Group AG, when he said:
  "The digitalization of everyday life, the trend toward more flexible work arrangements, the deceleration of globalization, the weakening of multilateralism, the expansion of the state or the vulnerability of cities – all of these developments were already under way prior to the outbreak of the virus. **The pandemic only acted as a catalyst**."

A market "nirvana" scenario for Equities to be expected.

"Wall Street": Growth with volatility will continue

- Progress in science, new way of living, way of doing business, learning and enjoying life, new developments, new businesses will surely compensate losses in old businesses, but each of us will have to adapt...
- The effects of these changes started modestly in mid-80th with the introduction of the personal computer, then developed until the end of the 90ties, during which the US stocks knew an extraordinary upsurge of 762 %!
- After such upsurge, a correction took place from 2000 and 2003 (-41%). It was, of course, accelerated by the terrorism attack of September 11th, 2001, now known as "9/11", which caused about 3'000 fatalities, in the US.
- Since spring 2003, markets have developed strongly (+ 312%), with a high degree of volatility, we think it will continue along these lines.

Indeed, we note that through collective investment scheme, the markets count now billions of participants. JP Morgan even said few days ago: "We see an overall improvement in equity demand of around $600Bn relative to this year (2020), due to private and professional investors." Additionally, it is clear that the Governments have gained tools, and expertise thanks to the major crisis, we pass through up to now. Henceforth, Governments will manage, in a more efficient way, the future challenges that will occur.

- **The motor of this development will be the new technologies applied, gradually, to all sectors of the economy.**

Today, Wall Street has reached, as we said previously, its present historical top and is near from their top, in other western ones.
The expected growth for the two coming years in US should push, strongly upward. The US corporate earnings are forecasted at 175 for 2021 and, even, 200 for 2022.
Such expectations lead us to believe that over, at least the two coming years we should see continuing improvement in the US Stock Markets.

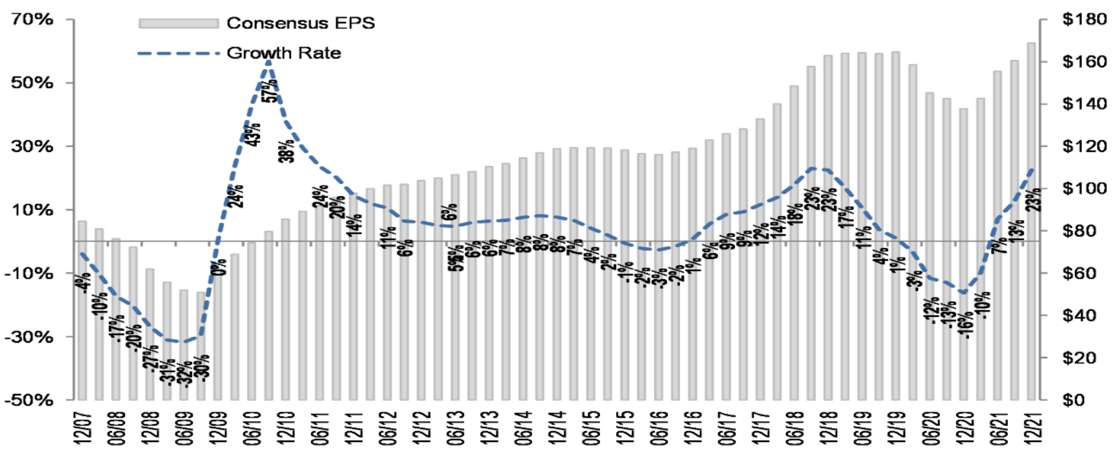

Figure 1: V-Shape Recovery in EPS Growth – S&P 500 EPS

Our selected sectors:

-Technology
-Healthcare
-Natural capital protection

Our Investment Policy for 2021, (and, very probably, for the 2 to 3 years to come): we will continue to be focus on three sectors: Healthcare, Technology and Natural Capital protection. We will keep a buffer stock of cash that we will invest on drawbacks of the markets. Indeed, the trend will continue to be volatile, but we strongly believe that we are in presence of a persistent economic growth, which started, with Technology, as early as, 1985 and evolved during the second half of the 90th with the Healthcare (Biotechnology) and much more recently with the Natural Capital protection.

We manage our clients' assets only with a long-term approach, nevertheless we take the present situation seriously and we analyse, as much as it is possible, the nature and the size of those major changes and their impacts for our investment policy.

We have already composed our clients discretionarily managed portfolios, as follows, and we do not intend to change it, in the near term (kindly note that the difference in term of percentages, below, is due to the type of exposure chosen by our clients):

- Cash and short term assets between 15 and 30%
- Equity between 20% and 50% (Only long-term “buy and hold” positions, mainly held through ours or other selected Certificates & ETFs). As explained above, we are focused on:

    - Technology (with an emphasis on Cloud, Software, AI, Robotic).

    - Healthcare:
        - The genome revolution! We believe that for many of the coming years, it will be one of the major developments of the healthcare industry. This should be as important as the accidental discovery of the penicillin in 1928 by Doctor A. Fleming.
        - Robotics and other Hospital equipment.

    - Natural Capital protection: We have finally understood it is not a choice!

- We invested the last portion of our discretionarily managed portfolio in quality, diversified credit investment Funds, to generate some yield.

At the end of our report, we cannot avoid to invite you to look back hundred years ago, at the year 1920 and following ones, the period of the second economic revolution in the US. The comparison is stunning!

It is half the same. The economic revolution (based, at that time, on oil and the discovery of the electricity), low interest rates and major changes in ways of living.

It is half-different (I would even say half-opposed!), because we now value the natural resources protection, we understand and develop the fight against pollution, we also can speak of the damage the growing inflation can create, and limit it…

Be assured that, though we are quite positive for the coming few years, we will take all measures to follow carefully the risk of any reoccurrence of the fatal 1929 year.

Do we have, now, understood what François Rabelais meant, during the 16th century, when he was saying?

"Science without Conscience is nothing but the ruin to our soul".

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We will be pleased to answer your questions and to listen to your comments.

Important Notice:

To achieve our clients' investment objectives, we use, among others, two investment certificates of ours:

- **PARfinance HealthCare Biopharma** where JP Morgan Bank is the Custodian and the Accounting Agent.
- **ARIES (North America listed equities)** where UBS Bank Zurich is the Custodian and the Accounting Agent.

1- PARfinance is the ultimate responsible company for the management of the assets into the two above-mentioned certificates, even when we have recourse to specialised advisors to assist our company.
2- None of our depository banks is responsible of the management of the positions held into those two certificates (A bank certificate is an unregulated collective investment scheme).

3- Yearly TER (Total Expense Ratio) of the certificates:
   - **PARfinance HealthCare Biopharma** : 2.3%
   - **ARIES (North America listed equities)** : 1.75%

On Equity investment, investor should always think long term and diversification to reduce the risk to which she, or he, is exposed.

PARfinance SA WISHES YOU A VERY HAPPY 2020 HOLIDAY SEASON AND A HEALTHY AND PROSPEROUS NEW YEAR 2021!

Data & Forecasts

ECONOMIC GROWTH 2019			
	Growth	Inflation	Net Growth
Global	2.60%	2.50%	0.10%
USA	2.20%	1.80%	0.40%
Canada	1.50%	2.00%	-0.50%
UK	1.30%	1.20%	0.10%
EuroZone	1.30%	1.20%	0.10%
Switzerland	1.10%	0.40%	0.70%
Japon	0.70%	0.60%	0.10%
China	6.10%	2.90%	3.20%

FORECAST NET ECONIMIC GROWTH 2020			
	Growth	Inflation	Net Growth
Global	-3.70%	1.80%	-5.50%
USA	-3.60%	1.20%	-4.80%
Canada	-5.20%	0.60%	-5.80%
UK	-11.80%	0.90%	-12.70%
EuroZone	-7.60%	0.30%	-7.90%
Switzerland	-4.00%	-0.70%	-3.30%
Japon	-5.00%	-0.20%	-4.80%
China	2.20%	3.30%	-1.10%

FORECAST NET ECONOMIC GROWTH 2021			
	Growth	Inflation	Net Growth
Global	4.10%	2.30%	1.80%
USA	2.20%	2.00%	0.20%
Canada	1.50%	1.30%	0.20%
UK	4.50%	0.60%	3.90%
EuroZone	1.30%	0.90%	0.40%
Switzerland	1.10%	0.30%	0.80%
Japon	0.70%	1.10%	-0.40%
China	7.10%	2.50%	4.60%

Figure 2: Economic growth 2019, Forecast growth 2020 and Forecast growth 2021

2019 - 2021 FORECAST NET ECONOMIC GROWTH				2019-2021 ESTIMATED CUMULATIVE FIGURES
	2019	2020 ?	2021 ?	
Global	0.10%	-5.50%	1.80%	-3.60%
USA	0.40%	-4.80%	0.20%	-4.20%
Canada	-0.50%	-5.80%	0.20%	-6.10%
UK	0.10%	-12.70%	3.90%	-8.70%
EuroZone	0.10%	-7.90%	0.40%	-7.40%
Switzerland	0.70%	-3.30%	0.80%	-1.80%
Japon	0.10%	-4.80%	-0.40%	-5.10%
China	3.20%	-1.10%	4.60%	6.70%

Figure 3: 2019 – 2021 Forecast Net Economic growth

MAJOR STOCK MARKET GROWTH	
07.01 2019 - 04.12.2020	
MSCI World Index - MXWO	37.50%
USA - S & P 500	45.08%
Canada - SPTSX	20.80%
UK - UKX	-3.83%
EuroZone - SX5E	35.98%
Switzerland - SMI	21.42%
Japon - NKY	33.50%
China - SHCOMP	35.98%

Figure 4: Major Stock Market Growth

MAJOR CURRENCY EXCHANGE CHANGES				DELTA	DELTA
Since 07.01 2019 Until 04.12.2020				07.01.19/ 04.12.20	07.01.20/ 04.12.20
	2019	2020	2020		
	07.janv	07.janv	04.déc		
EUR/US$	1.1449	1.1121	1.2121	5.87%	8.99%
CHF/USD	1.0208	1.0306	1.1212	9.84%	8.79%
GBP/USD	1.2777	1.3126	1.3441	5.20%	2.40%
EUR/CHF	1.1241	1.0821	1.081	-3.83%	-0.10%
EUR/GBP	0.8979	0.8498	0.9022	0.48%	6.17%
GBP/CHF	1.2519	1.2734	1.1985	-4.27%	-5.88%

Figure 5: Major Currency Exchange Changes

GOVERNMENTS 10 Y INTEREST RATES CHANGE				DELTA	DELTA
Since 07.01 2019 Until 04.12.2020				07.01.19/ 04.12.20	07.01.19/ 04.12.20
	2019	2020	2020		
	07.janv	07.janv	04.déc		
USA	2.696%	1.918%	0.952%	-64.70%	-50.37%
CANADA	1.956%	1.580%	0.795%	-59.35%	-49.68%
UK	1.253%	0.791%	0.350%	-72.05%	-55.73%
GERMANY	0.219%	-0.286%	-0.549%	-139.91%	-91.92%
Switzerland	-0.13%	-0.56%	-0.55%	-76.47%	0.02%
Japon	-0.018%	-0.028%	-0.019%	5.56%	-32.14%
China	3.16%	3.14%	3.29%	4.34%	4.93%

Figure 6: Governments 10Y Interest Rates Changes

DISCLAIMER