DYNAMIC TREE ASSET MANAGEMENT

MARKET REVIEW & OUTLOOK Q4 2020

AGENDA

A GOOD FINISH TO 2020 FOR OUR DT 15

The DT Top 15 finished the year strong, advancing by +6.87% in USD terms bringing its performance to +22.79% in 2020.

With this result, we have beaten all major equity markets by a wide margin, except for the NASDAQ.

As 2020 drew to a close - a year that was dominated by the impact of the Corona pandemic - we noticed that the year ended much as it began, with equities in a bull market and the Dow Jones hitting new all-time highs above the 30,000 point mark. The fact that US markets are hitting new all-time highs would be unsurprising if it were not on the back of the worst global pandemic in a century, and the almost shockingly brief bear market that accompanied it. In fact, the S&P500 marked its fastest ever bear market lasting a mere 33 days before its third fastest recovery to break-even level in about five months. One big lesson learned in 2020 is that stock market performance and economic growth do not always go hand in hand. Clearly, the market seems to be looking at the Covid-19 pandemic as a one-time event rather than as a sign of something fundamentally wrong with the economy. If it truly is a one-time event, it should pass in relatively short order and the economy should subsequently resume its upward trajectory over the coming years.

During the fourth quarter, US equity markets continued to rally for the third consecutive quarter and significantly outperformed fixed income. The US election result and positive news concerning Covid-19 vaccines helped more cyclical segments of the market to recover. Rising commodity prices were driven by strong demand for industrial metals in Asia. Oil prices also rose, aided by the vaccine news and OPEC cooperation.

European equities rose substantially in the fourth quarter, mostly due to the news of effective vaccines. The top gainers were stocks from the sectors that suffered the most from the Covid-19 pandemic, such as energy and financial stocks. Rising infection rates, however, saw many European countries take hard measures once again to contain the spread of the virus. Germany, for example, ordered another lockdown to combat the virus. On the political front, EU leaders approved a landmark 1.8 trillion euro budget package, including a 750 billion euro recovery fund, after overcoming opposition from Hungary and Poland. At long last, the EU also agreed a Brexit trade deal with the UK, bringing to a close a series of long and hard negotiations.

In the US, the new year started with the Democrats effectively taking control of Congress after winning both of the remaining available Senate seats in the run-off election in Georgia. Although the utterly disturbing scenes of protestors storming Capitol Hill on January 6 may have dampened the mood somewhat, the fact remains that the Democrats now essentially have control of both the Senate and the House of Representatives for the first time since 2009. With full control of Congress, they should be in a position to push through much of Joe Biden's agenda, the initial measures of which are likely to include an enhanced bill increasing the amount of the stimulus cheques most Americans are set to receive from USD 600 to USD 2000, an extension of higher unemployment benefits (from March to June), and an increase in spending on state and local government levels. All of the above could add as much as another USD 900 billion to the fiscal boost, which will likely result in higher economic growth in 2021 and 2022 and, not to forget, significantly higher US debt levels.

Stock Markets

For equity markets, the vaccine announcement on November 9 triggered a massive momentum change. Value sectors that took a beating during the pandemic, such as energy, traditional retail, hotels, airlines and financials, all shot up, while those that thrived during the pandemic, such as online retail, health care and home improvement, lagged behind.

It is also worth pointing out that US markets significantly outperformed European markets in 2020. That can partly be explained by the abundance of large US tech stocks, as well as by the unprecedented stimulus to combat virus fallout in the US. Nevertheless, we believe there is a good chance that Europe will catch up and ultimately outperform US markets in the near future. Our accounts are well positioned to take advantage of such a development.

The following table shows the performance of selected markets:

World Indices	Price Change Q4 2020	Price Change 2020
S&P 500	+11.10%	+16.26%
NASDAQ 100	+11.27%	+47.58%
TSX Composite	+7.72%	+2.17%
Euro STOXX 50	+11.23%	-5.14%
Swiss Market Index	+4.55%	+0.82%
German DAX	+7.76%	+2.49%
Japanese Nikkei 225	+16.32%	+15.62%
MSCI World Index	+13.45%	+16.50%

Source: Refinitiv (in local currency terms)

DT Top 15

In Q4 2020, our DT Top 15 strategy was up by 6.87%. In 2020, our Top 15 strategy is up 22.79%, beating all major equity markets by a wide margin, except for the NASDAQ. As a result, we continue to be very satisfied with our mix of defensive and growth companies.

The top three performing stocks within our DT Top 15 strategy in Q4 2020 were: 1) Royal Dutch Shell, advancing by 39.42%; 2) Sony, up by 30.48%; and 3) AXA, up by 29.72%. The three stocks with the worst performance during the quarter were: 1) Alibaba, dropping 20.84%; 2) Nestlé, down by 4.65%; and 3) McCormick, down by 1.49%.

During the fourth quarter, we sold Geberit (at around CHF 527) and bought Logitech (at around CHF 80), a leading supplier of personal computer input devices and tablet accessories. Below is an overview of some of our current holdings:

Geberit – We sold Geberit on December 15 at around CHF 527 for a profit of about 12%. We had originally added Geberit to our portfolios back in early June 2020 at around CHF 470. Although we do not consider Geberit to be a bad stock, we feel there is more upside in Logitech at this point in time given the latter's focus on computer peripherals.

"Building wealth is a process of managing risk, not ignoring it."
Jon Duncan

International diversification helps to spread and diminish risks globally while exposing the portfolio to additional opportunities.

Geberit showed robust growth in Q3 2020, which was led by catch-up effects in almost all European markets, following the negative impact of the Covid-19 crisis on the construction industry, including the closure of construction sites in many markets during the first half of 2020. Nevertheless, we feel there could be some challenges ahead, such as a potential downturn in the residential and non-residential construction markets in Europe, and Geberit's exposure to volatile commodity prices.

Logitech – Logitech is a leading supplier of personal computer input devices and tablet accessories. A Swiss company founded in 1981 and focused on innovation and quality, Logitech develops, produces and markets computer mice, trackballs, game controllers, keyboards, personal computer video cameras, remote control units, multimedia speakers and earphones, as well as video communication solutions. Logitech started connecting people through innovative computer peripherals and produced many industry firsts, including the infrared cordless mouse, the thumb-operated trackball, the laser mouse, and more.

We bought Logitech on December 15, 2020, at a price of round CHF 80. The Covid-19 pandemic has not only been a boon for the video gaming industry, it has also led to an increase in sales of non-gaming PC peripherals such as web cameras, keyboards, and pointing devices such as mice. The company also saw a significant increase in its sales of video conferencing products like dedicated conferencing cameras, and conference room solutions supporting different software such as Microsoft Teams, Alphabet's Google Meet, and Zoom Rooms. The common thread driving growth across the businesses listed above is the shift toward remote working in light of the Covid-19 outbreak. According to a report published by Global Workplace Analytics and FlexJobs, there was a 159% spike in the number of remote workers in the US between 2005 and 2017. Nevertheless, only 3.6% of the US workforce works from home more than 50 percent of the time. Post Covid-19, it is estimated that 25% to 30% of the workforce will shift toward working remotely for multiple days a week by the end of 2021. This means that more organizations are likely to purchase equipment to help their employees work remotely in a seamless manner, opening another big opportunity for Logitech. The momentum of Logitech's gaming growth is also unlikely to run out anytime soon. The launch of new gaming consoles by Sony and Microsoft could drive sales of the company's gaming gear, such as racing wheels and headsets. Logitech has already released new products compatible with the latest consoles. At the same time, sales of gaming mice, keyboards, and streaming gear are likely to benefit from increasing interest in e-sports. Not surprisingly, Logitech has substantially increased its outlook for fiscal 2021.

Zalando – With its high brand recognition, Zalando is the leading company in the fast-growing European online fashion retail market. It has a strong balance sheet and enjoys solid top-line growth backed by the overall growth of the online industry, but it is also still likely to gain in market share. The company, like many of its competitors, is barely profitable as management is prioritising growth over profitability, which in our view is the right strategy.

Zalando was one of the best performing stocks among our DT Top 15 in 2020, gaining a staggering 101.5%! The imposition of lockdowns in the spring of 2020 pushed many shoppers online and Zalando raised its guidance for

growth in gross merchandise value in 2020 to between 25% and 27% (up from 20 to 25%) when it reported strong third-quarter results in November. For 2021, Zalando sees growth accelerating after struggling to meet a surge in demand in the early stages of the Covid-19 pandemic, and should be prepared for accelerated growth next year according to Zalando's CFO, David Schroeder.

Zalando is currently undergoing a transition from a wholesale to a platform model that enables direct-to-consumer sales by brands like Nike, and backs that up with order fulfillment. Schroeder expects the demand tailwinds caused by a second wave of Covid-19 to fade, with structural changes such as a consumer shift from offline to online shopping and more direct sales by brands set to continue. We believe Zalando's strategy is the right one, not only during the pandemic, but also for what comes beyond.

Merck - Merck KGaA (a German company, not to be confused with the famous US pharma company) is a global pharmaceutical and chemicals company. The company researches drugs in the areas of oncology, as well as neurodegenerative, autoimmune, and inflammatory diseases. It also markets cardiovascular, fertility, endocrinology, and over-the-counter products, as well as products for flat screens and the pharmaceutical, food, cosmetics, packaging and coatings industries.

We added the stock to our DT Top 15 portfolio in March 2018 at a price of around EUR 77.50. As of December 31, 2020, Merck KGaA was trading at EUR 140.35, a gain of 81.1% since inception of the trade, and it continues to hit new all-time highs – quite a robust performance for a stock that is mostly under the radar. Merck's three divisions (Life Science: ca. 36% of operating profit; Healthcare: ca. 50% of operating profit; and Performance & Materials: 14% of operating profit) are all doing well. Its Healthcare division has been driven by the launch of new drugs such as Mavenclad (against MS) and Bavencio (against bladder cancer), both of which performed very well. Furthermore, there is significant potential in Merck's drug pipeline. In Mid-November, Merck reported that it now expects a higher adjusted EBITDA for the current fiscal year, somewhere in the range of between EUR 5.05 billion and EUR 5.25 billion. We believe Merck is well on track for a robust 2021, and intend to stick with the story for the time being.

Cyber Security (HACK) - During 2020, many things changed beyond recognition, such as the way we live, work and shop. As a result of the Covid-19 pandemic, both overall internet use and the frequency of cybersecurity incidents have increased tremendously. Microsoft is currently monitoring as many as 12 million attacks per day, and that number is increasing at an alarming rate. 80% of companies have reported an increase in cyberattacks, and there has also been a significant increase in ransomware attacks as the number of attacks against banks has soared.

Although the IT environment is becoming increasingly more complex, cybercriminals are also getting better at identifying and targeting intrinsic weaknesses. Nearly 40% of IT security, line-of-business, and data management specialists cited the rising sophistication of attacks and the increasing complexity of managing and supporting security products as significant challenges, according to IDC's *Data Services for Hybrid Cloud* survey. The latest victim, as reported on January 11, 2021, is the central bank of New Zealand, which confirmed a cyber attack that they suspect to have resulted in a severe data breach.

With more people working remotely and more devices connected to the internet, cybersecurity incidents such as denial-of-service attacks, phishing scams and ransomware are on the rise, and not only against individuals, but against corporations and government agencies too.

We believe this trend is going to continue and attacks will become increasingly more sophisticated. Therefore, we plan to stick to our Cyber Security ETF for the time being, despite the massive gains we have booked since initially purchasing it.

Market Outlook

2021 will be all about getting the Covid-19 pandemic under control and igniting global economic growth after a year of shock and the deepest recession since the Great Depression. The year 2020's unprecedented economic slump was very different from the financial crisis of 2008/2009, and we believe that the ensuing recovery will also be a very different one. The Covid-19 pandemic led to an enormous economic shock, with the United States having its Q2 2020 GDP fall by 31.4% – the first economic shock of that magnitude in a very long time that was not accompanied by a disintegrating banking system. In fact, the banking system is still entirely intact and functioning, in stark contrast to during the financial crisis of 2008/2009, which is a major positive.

Globally, central banks are flooding the financial system with money, the impact of which will be felt particularly during 2021 as people return to a more normal life. Once fear of the virus is set aside as a result of the vaccine, money will start to be put back into the economy. People will want to go out shopping, travel, go to restaurants, in short, to live their lives outside of their homes again, which will most likely result in very strong growth for 2021.

Democratic control of Congress should provide Joe Biden with more flexibility to act on his ambitious agenda, including new stimulus and infrastructure spending, which should be positive for risky assets. On the other hand, it might also mean higher corporate taxes and a higher regulatory burden, policies not typically favoured by Wall Street. On balance though, we believe the Democratic sweep will be positive for risky assets.

Although equity markets are currently trading at elevated valuation levels, given the ultra low rates and strong earnings growth potential, we believe markets could easily trend higher in 2021. However, high valuation levels mean the markets are priced for perfection, and any negative surprises could lead to sharp losses. As a result, we intend to continue carefully monitoring our investment strategy going forward, so that in the event of a severe market correction we will have ample ammunition to step in.

Gold/Silver

Gold and silver fell sharply from August's all-time highs, with both markets trying for some time to find new buying momentum. The turnaround point happened around the beginning of December, when gold was at around USD 1,770 (and silver at about USD 22). Since then, gold has gone up by about 5%, and silver by about 15%.

We believe it is only a matter of time before gold and silver prices push back above the highs seen last August, given the expectation that governments and central banks will inject more liquidity into financial markets.

Even if the Covid-19 pandemic can be brought largely under control during the second half of 2021 – which we consider likely – the enormous increases in public debt levels caused by the pandemic, and the inflated balance sheets of central banks around the globe, will remain in place for a long time to come as governments and central banks seek to soften the negative impact of anti-Corona measures such as lockdowns. Furthermore, the increase in the quantity of money that has been printed (and will be printed) in the US and the Eurozone will eventually also push up consumer prices, which should bode well for precious metals.

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"Emotions are your worst enemy in the stock market"

— Don Hays —

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