

Wealth Management

Investment Outlook

Lausanne - 24th January

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CIO Wealth Management Vontobel
January 2019

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Key topics in today's world

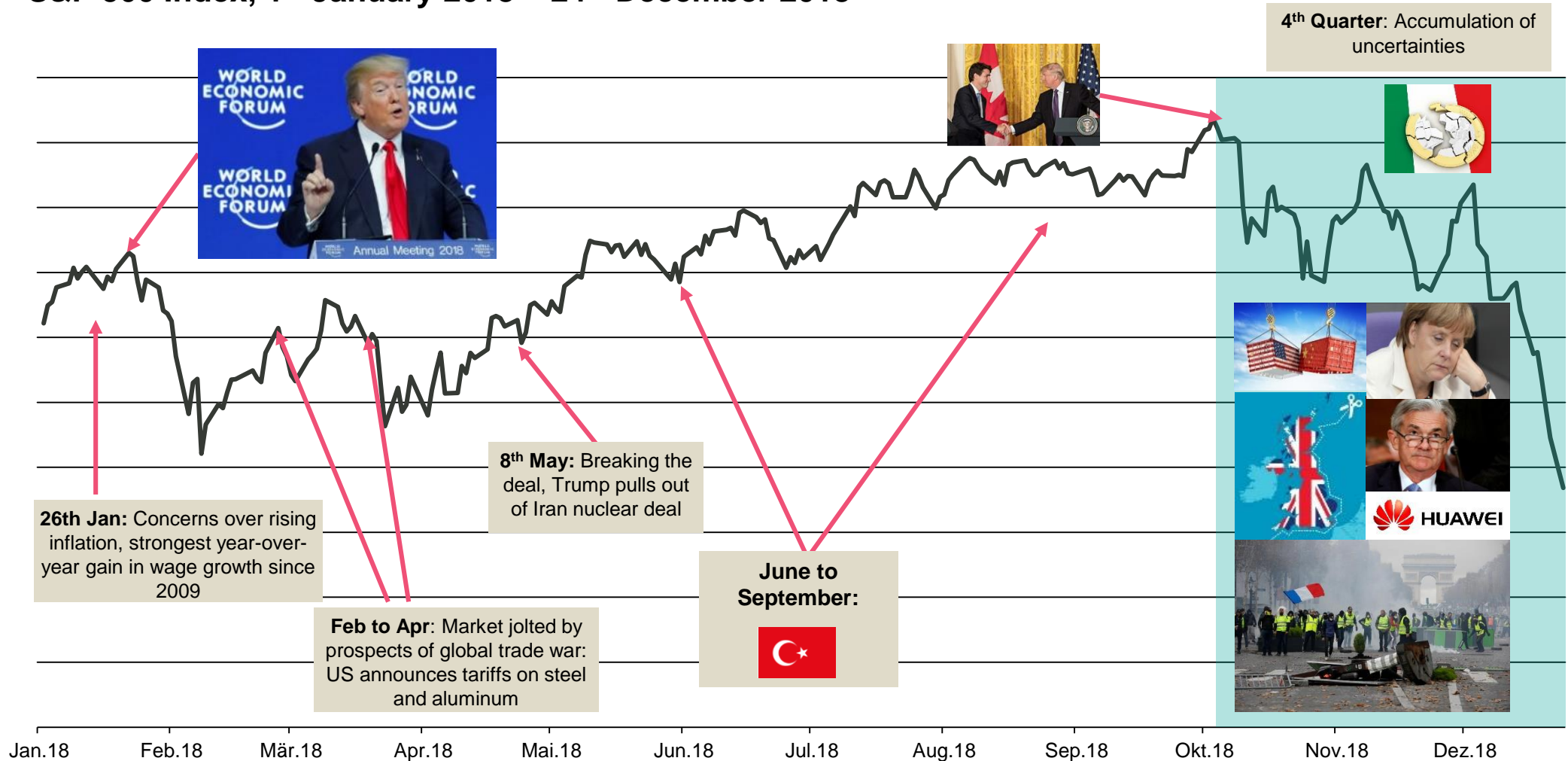
Our world view

Megatrends - attractive investment opportunities exposed to structural growth trends

Has the world really become a worse place?

The year 2018 was marked by the fear of trade wars as well as political and monetary uncertainty

S&P 500 Index, 1st January 2018 – 24th December 2018



In Q4, several global risks caused uncertainty in the market!

China–US Trade Dispute



Monetary tightening













European politics



The US-Chinese trade war!

First signs that trade dispute is resulting in more open economies...

Economic freedom of the world

RANG	LAND	PUNKTE
1	 Hongkong	90.2
2	 Singapore	88.8
3	 New Zealand	84.2
4	 Switzerland	81.7
5	 Australia	80.9
6	 Ireland	80.4
...		
18	 United States	75.7
...		
25	 Germany	74.2
...		
104	 Nigeria	58.5
...		
110	 China	57.8

China is opening its economy



- Allianz CEO Oliver Bäte: «Until very recently it was very difficult for us and other foreigners to compete in China. That is changing...» - 17th Sept 2018



- China's Premier Li Keqiang: «Chinese and foreign companies can compete on a level playing field in this big market.» - 19th Sept 2018



- BMW Chief Executive Harald Krueger thanks Chinese Prime Minister Li Keqiang for "personally supporting" the plan – 10th Oct 2018

Trade agreements must include rules for copyrights!

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Porsche Macan?



Range Rover Evoque?



Beer?

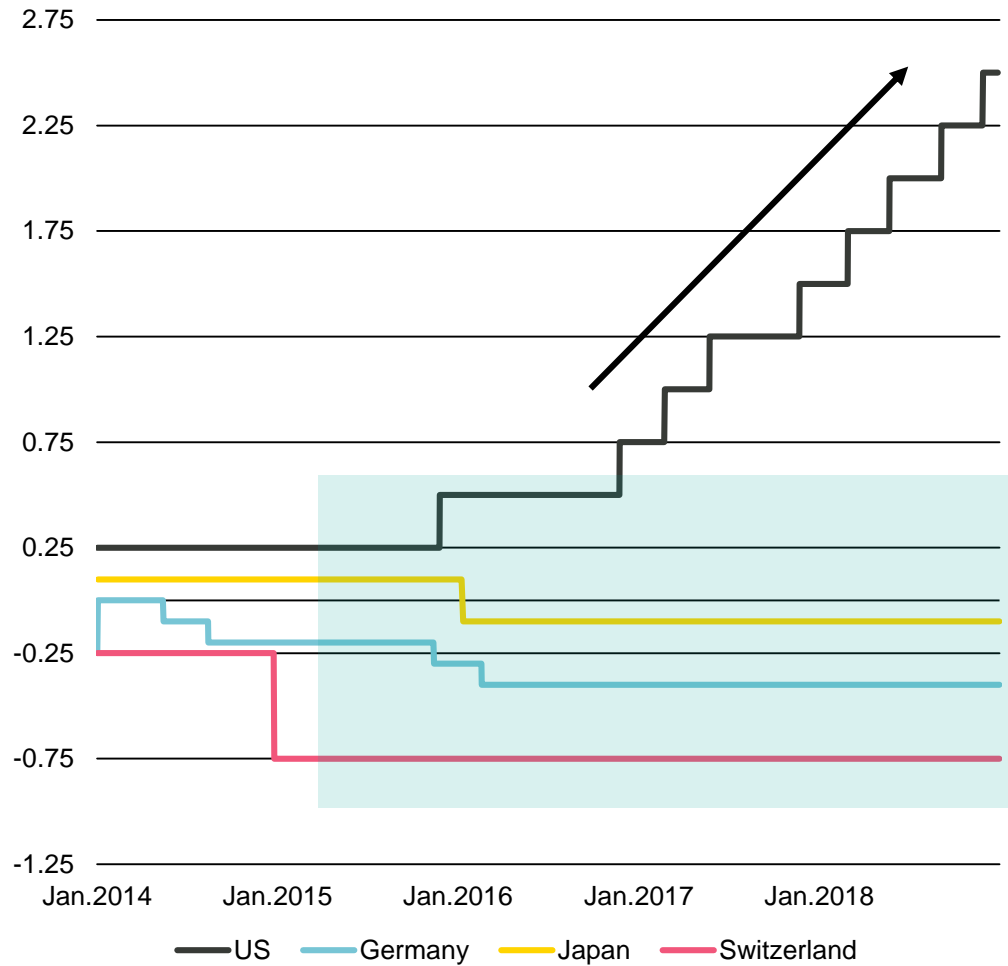


The Big Hack

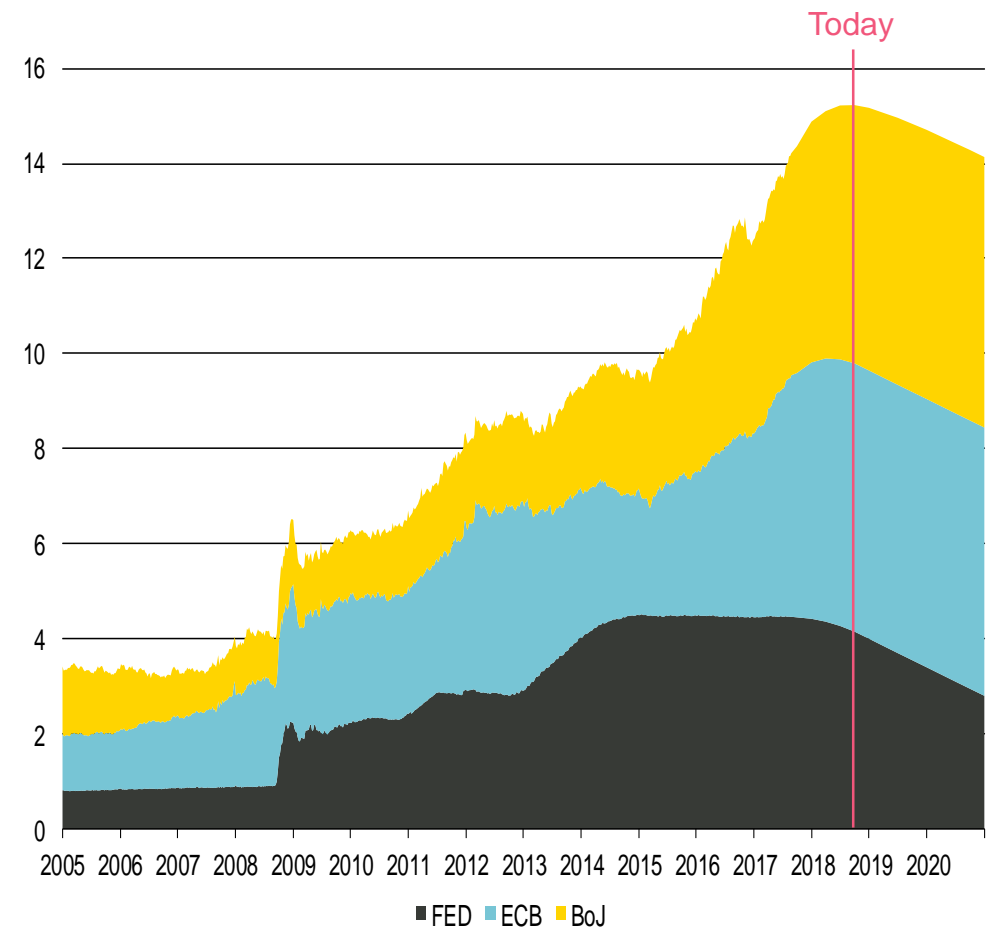


With Central Bank monetary policy divergence, volatility is to be expected...

Dispersion in key interest rates



Fed Balance sheet is shrinking

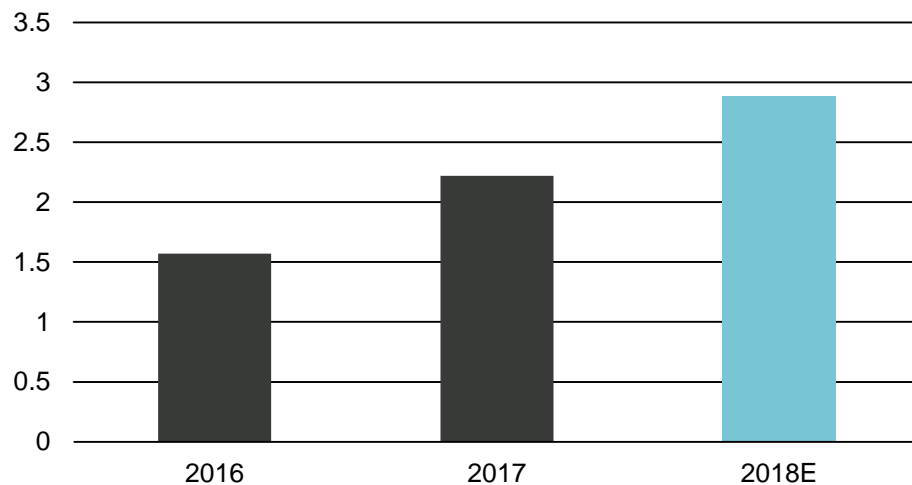


... and the FED and President Trump play the leading roles...

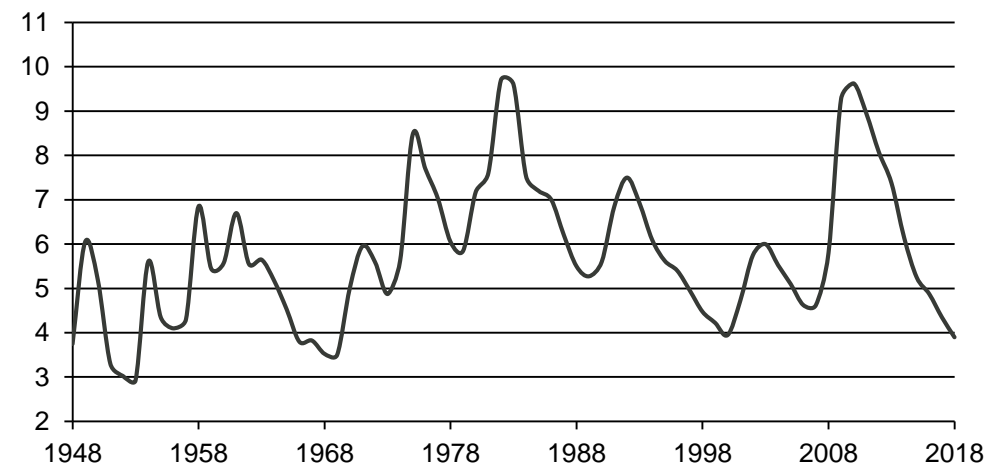
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GDP growth remains solid and above-average



US unemployment rate at 48-year low



10 years after the Lehman collapse - what has changed?

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The indebtedness of households has decreased, but...



... global government debt has risen (debt as a percentage of GDP)

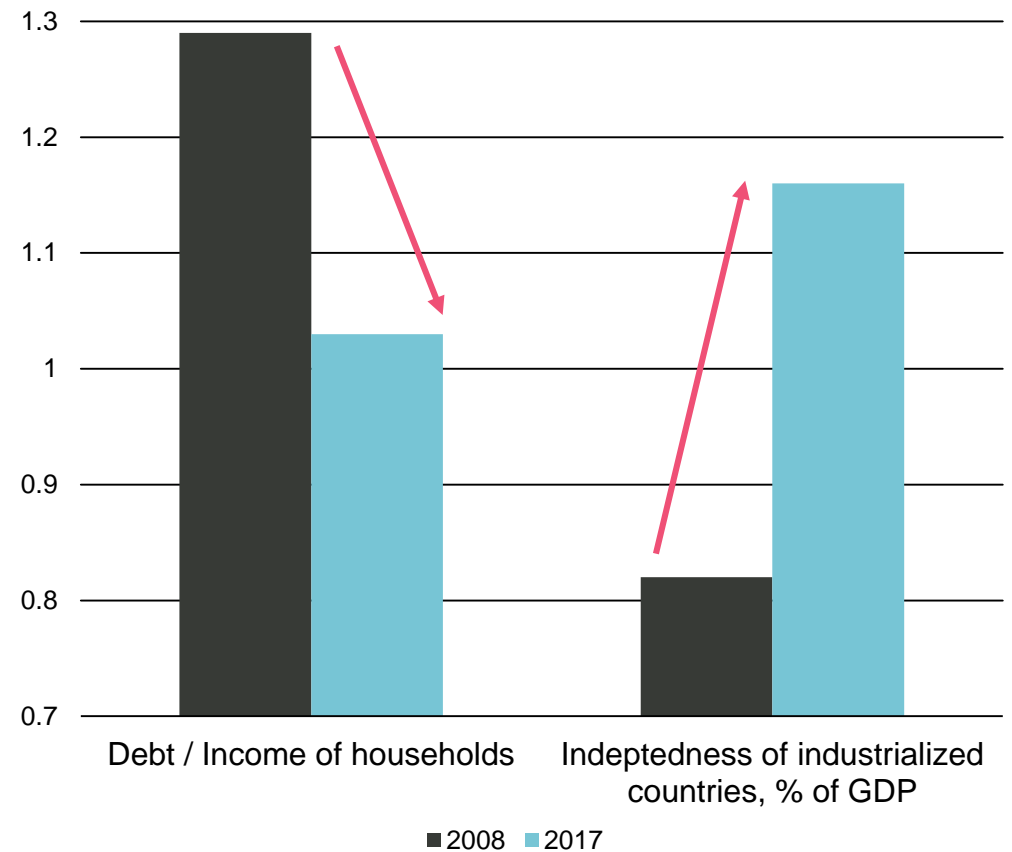


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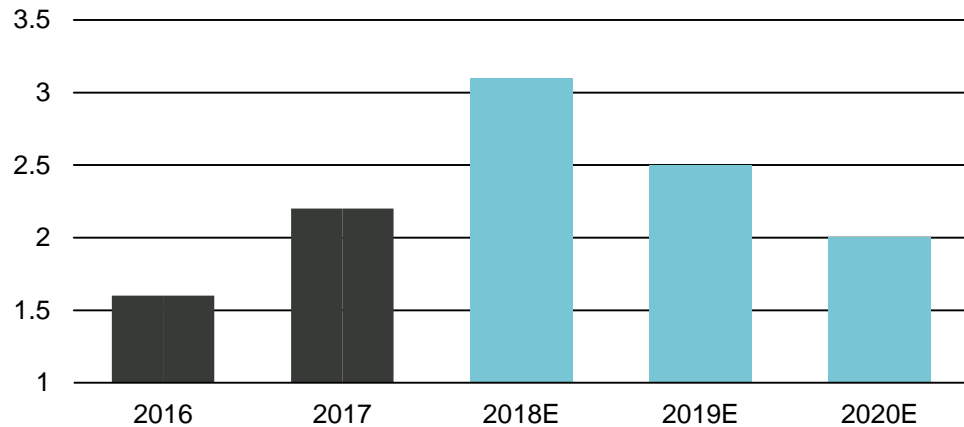


Uneven global growth. The US is leading the economic cycle, ...

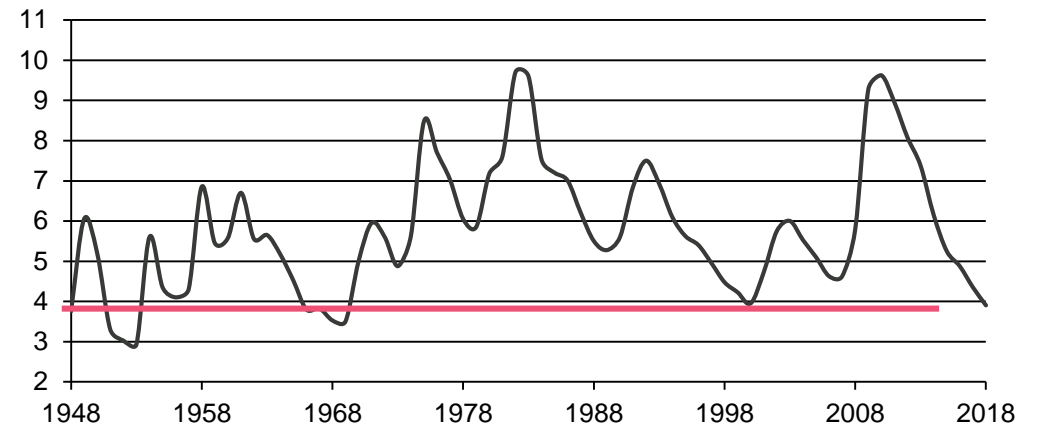
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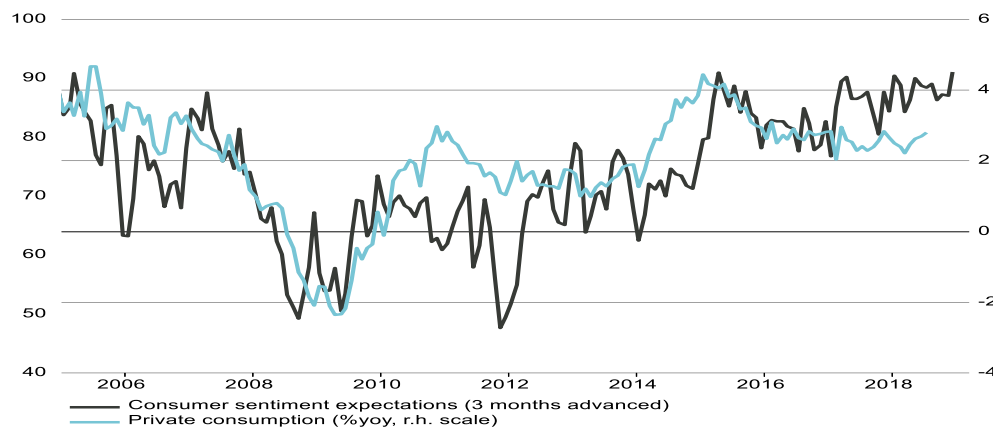
GDP growth remains solid and above average



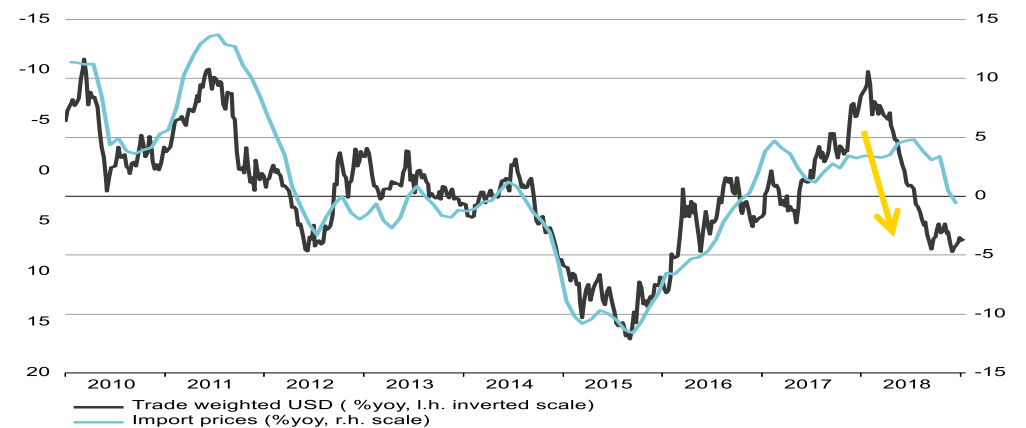
US unemployment rate at 48-year low



Consumers are more optimistic than before the global financial crisis



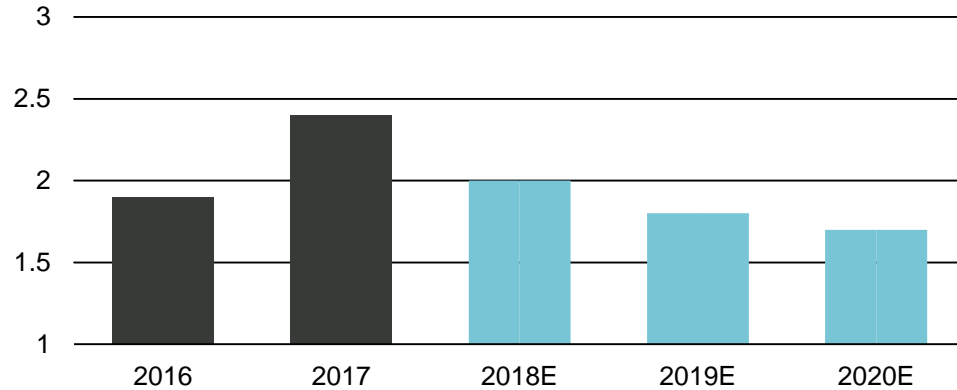
Inflation outlook: Strong USD led to decline in import prices





... Europe is challenged by politics while ...

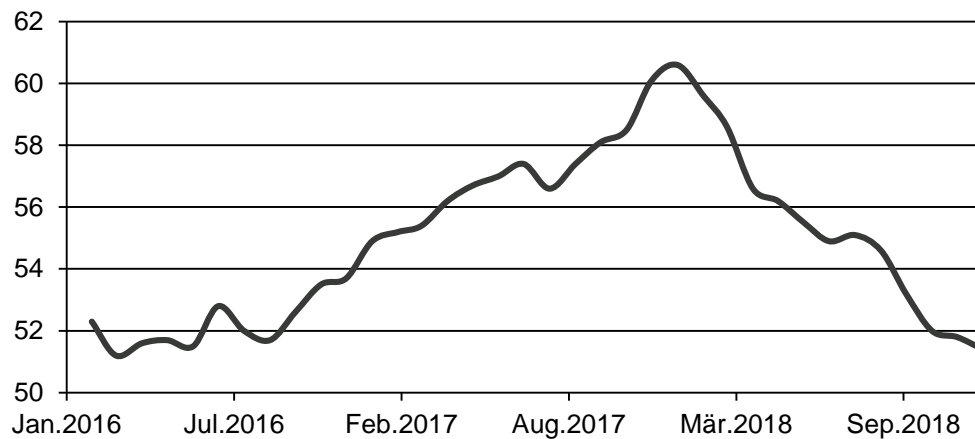
GDP growth remains solid but momentum weakens



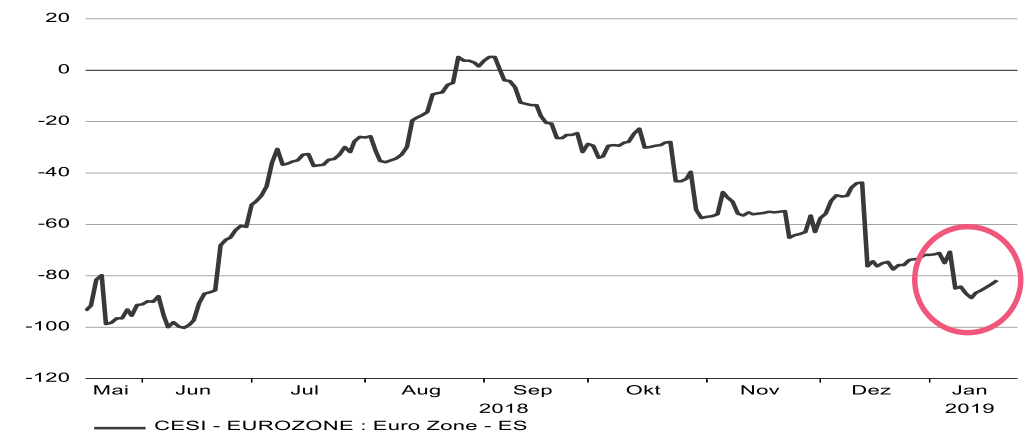
Investor sentiment hampered by political gridlock



Eurozone Manufacturing Purchasing Managers' Index (PMI)



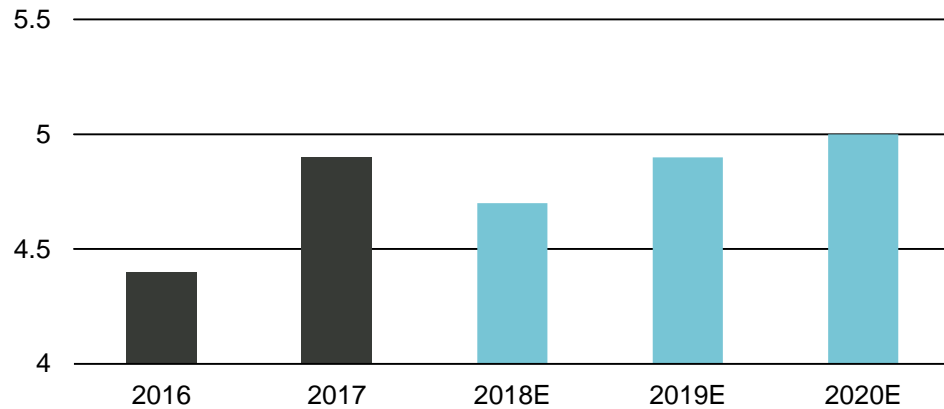
Eurozone with positive surprises - trade balance up as imports dropped more than exports





... the emerging markets continue to grow steadily. But the trade war is crucial

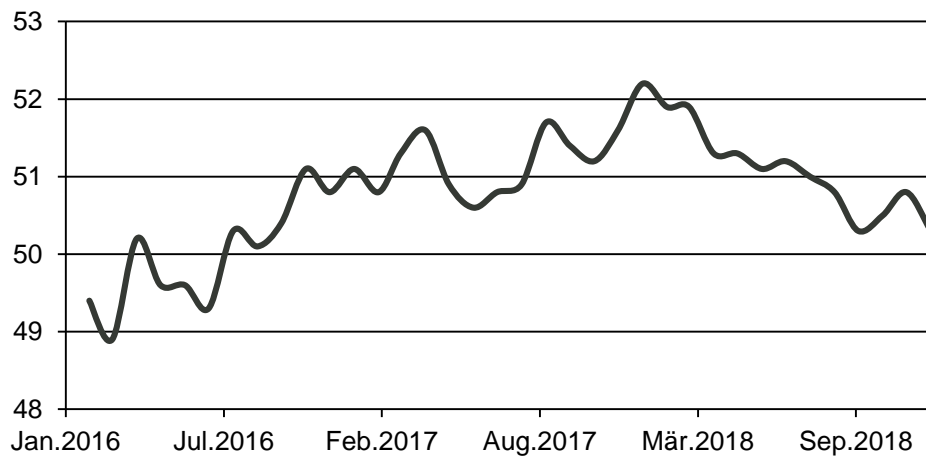
GDP growth remains solid and above average



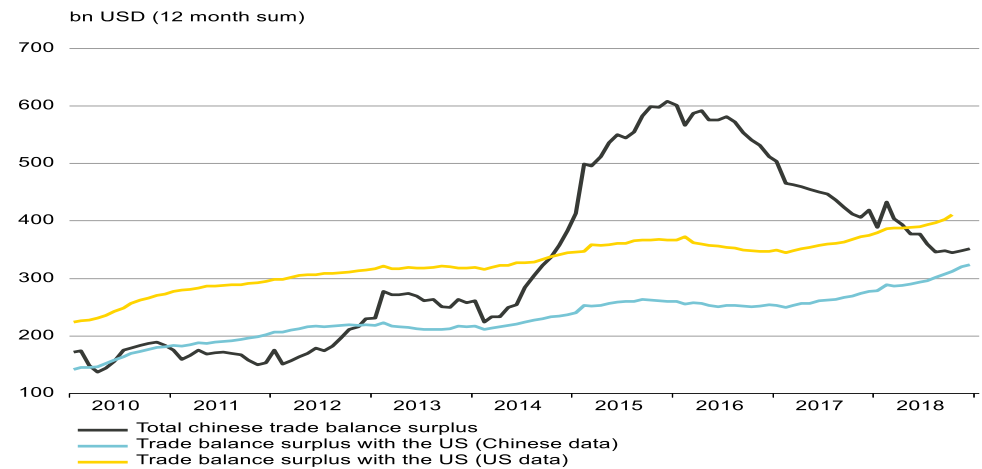
Investor sentiment affected by the global trade war



EM Manufacturing Purchasing Manager Index (PMI)



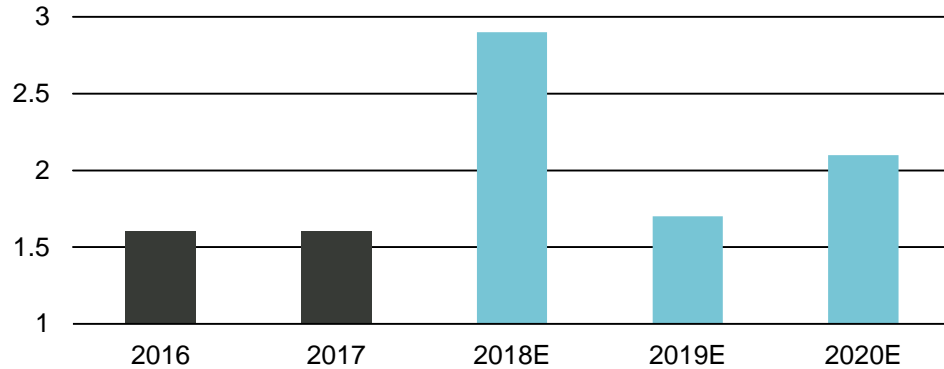
China / USA trade war - So far the bilateral trade balance has not





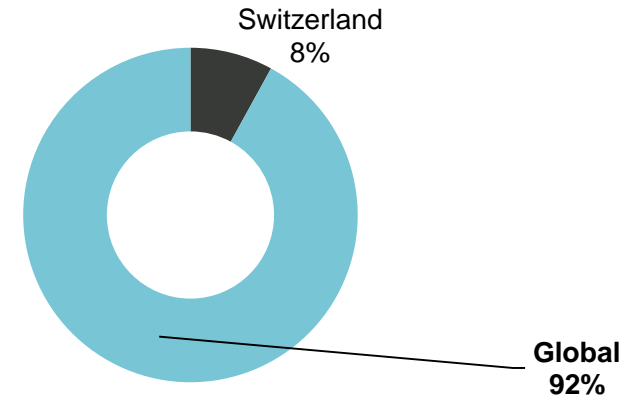
Switzerland is likely to slow down as well...

GDP growth remains solid and above average

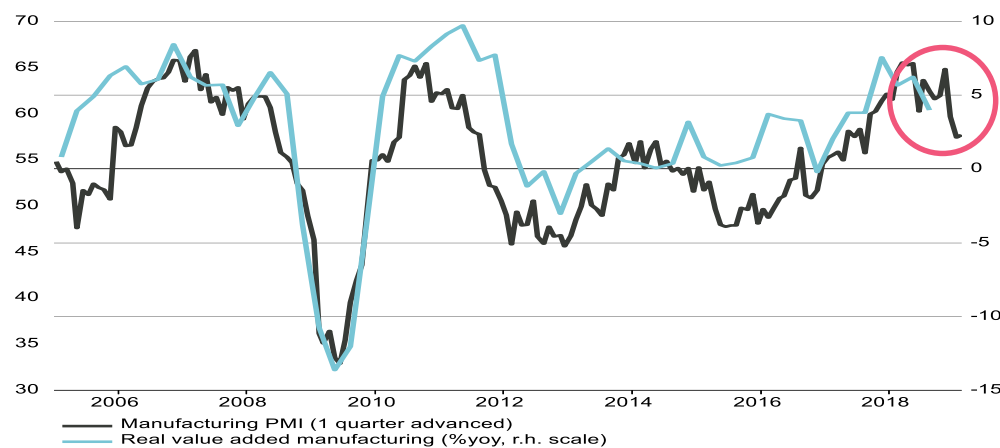


Swiss companies had to adapt to a difficult currency environment

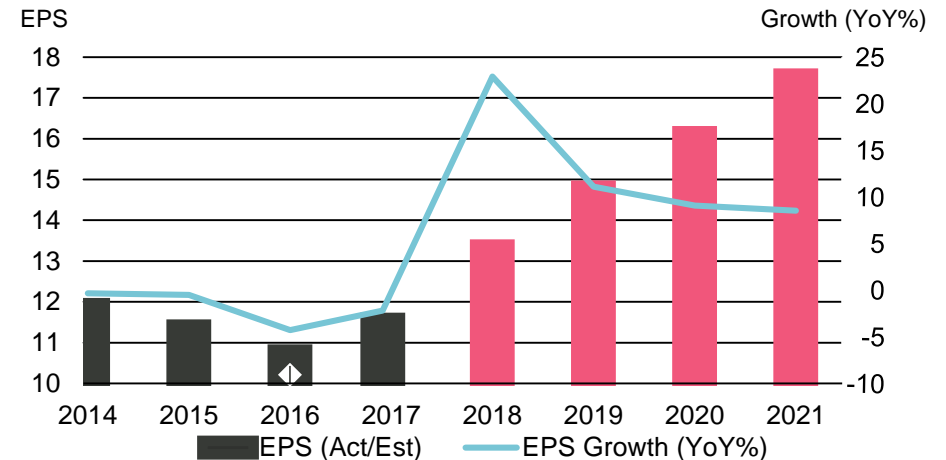
Share of sales by region for SMI® Company



Honeymoon in manufacturing finished

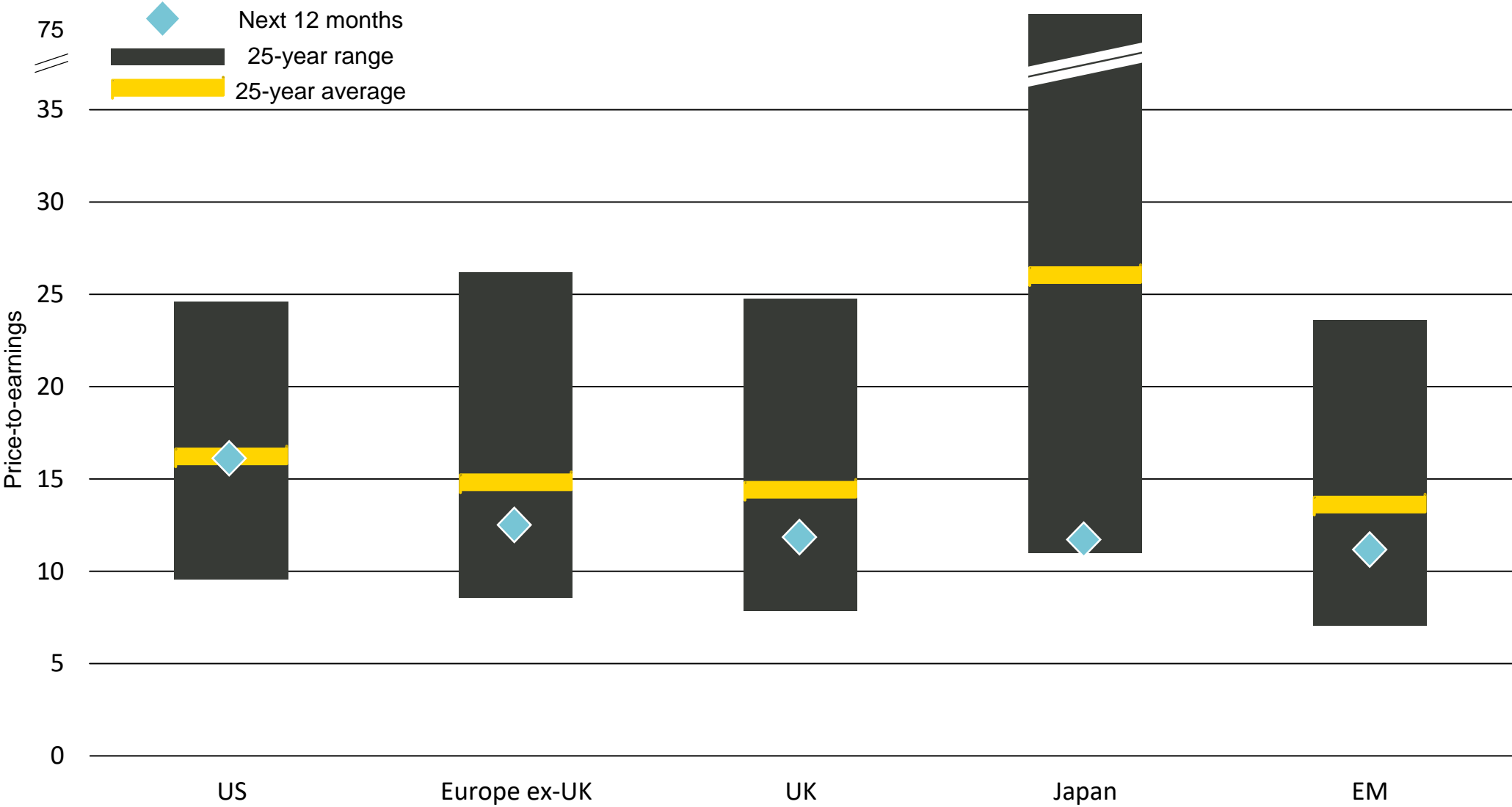


Development of Earnings Per Share (Switzerland, SPI)



Asset prices can continue to grind modestly higher but...

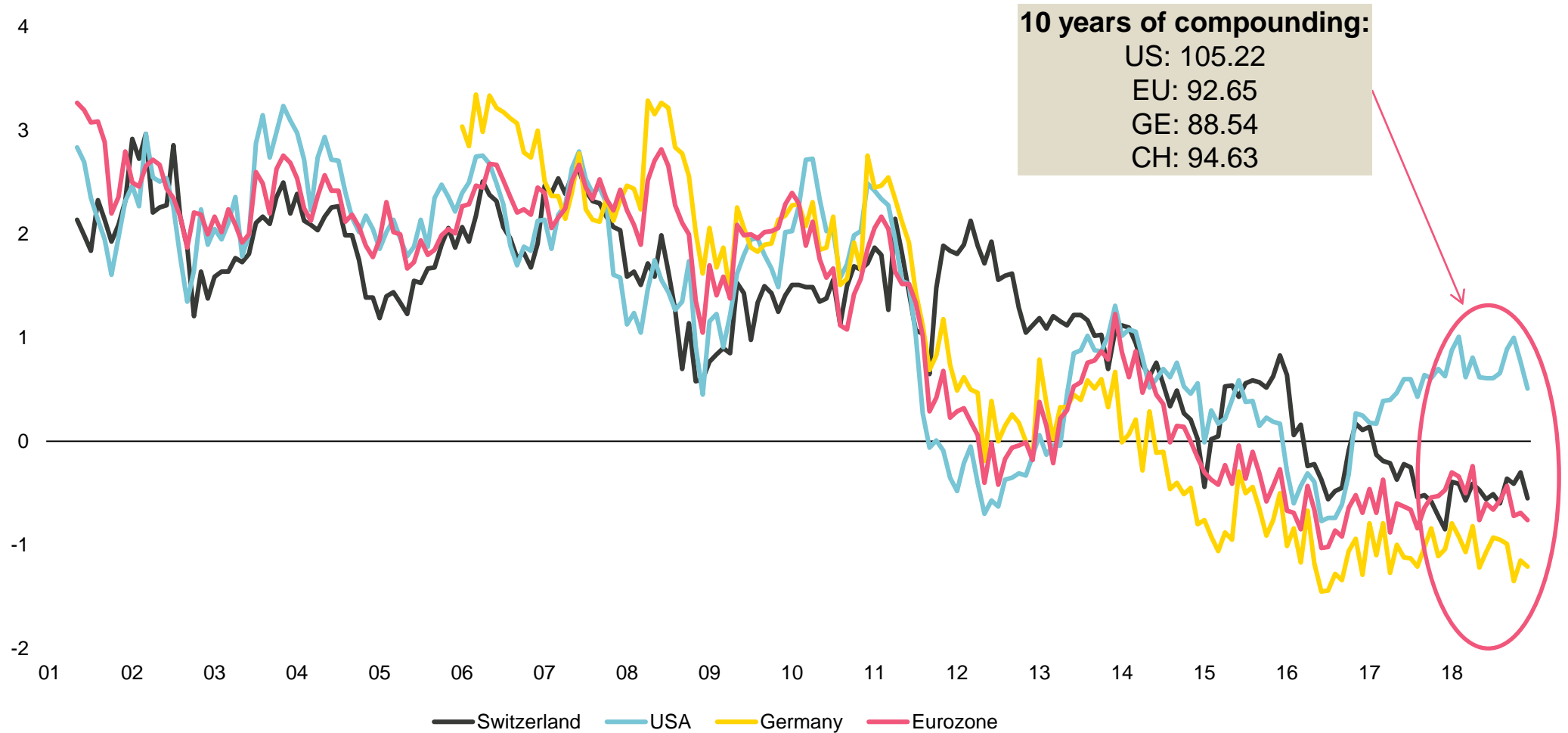
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Source: Datastream/Factset, Vontobel Asset Management, Valuation charts use MSCI indices for all regions/countries, except for the US, which is the S&P 500.

... the bond environment remains mixed: only the US offers positive real yields...

10-year government real yields (interest rates less inflation)



Our world view



Protectionist measures are on the increase. Discussions about trade barriers between the US and China will continue to occupy the markets.

Divergent global growth. The US leads the economic cycle, Europe is challenged by politics while emerging markets continue to grow.

Inflation has started to rise but efficiency gains from technological innovation will continue to contain inflation.

Asset prices can continue to grind modestly higher but with central bank policy normalization underway, volatility will continue.

Most importantly, we do not see a recession for 2019.

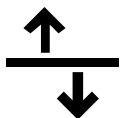
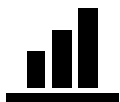
Our view across asset classes

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Asset class



AAA
BBB-



	--	-	Neutral	+	++	Comment
Cash			Yellow			
Bonds		Red				
Government Bonds		Red				
Investment Grade			Yellow			We continue to be underweight developed market government bonds, given negative real returns. We recommend investments with short duration and active management
High Yield			Yellow			
Emerging Markets			Yellow			
Equities			Yellow			
Switzerland		Red				In general, we have a neutral position towards equity markets. We favor Emerging Market equities based on strong underlying fundamentals as well as attractive relative valuations
Europe		Red				
US			Yellow			
Japan				Green		
Emerging Markets				Green		
Alternatives				Green		
Gold			Yellow			We recommend alternatives for their portfolio diversification effect and attractive yield, regardless of the market environment
Commodities			Yellow			
Hedge Funds				Green		

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Has the world become a worse place?

Megatrends Framework

January 2019



**Family Influenced
Businesses**



Smart Farming

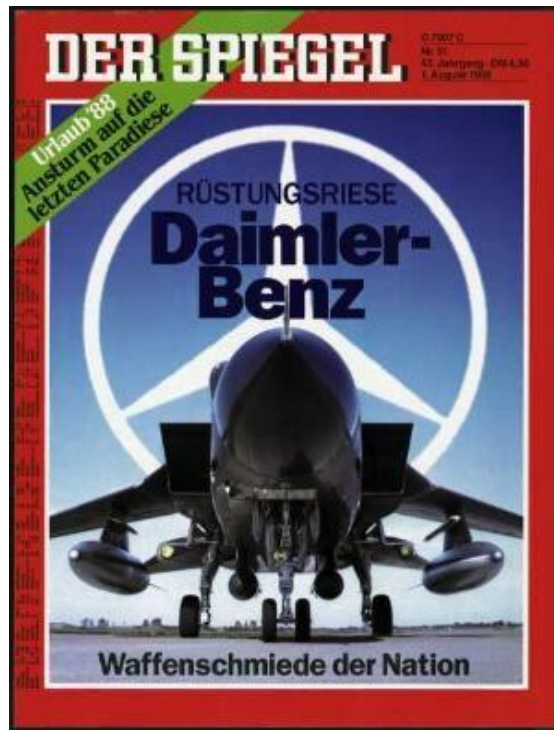


Smart Healthcare

Family Influenced Businesses

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Daimler



Per annum return over 20 years: 2.41%
Initial investment of EUR 10'000: EUR 16'101

BMW



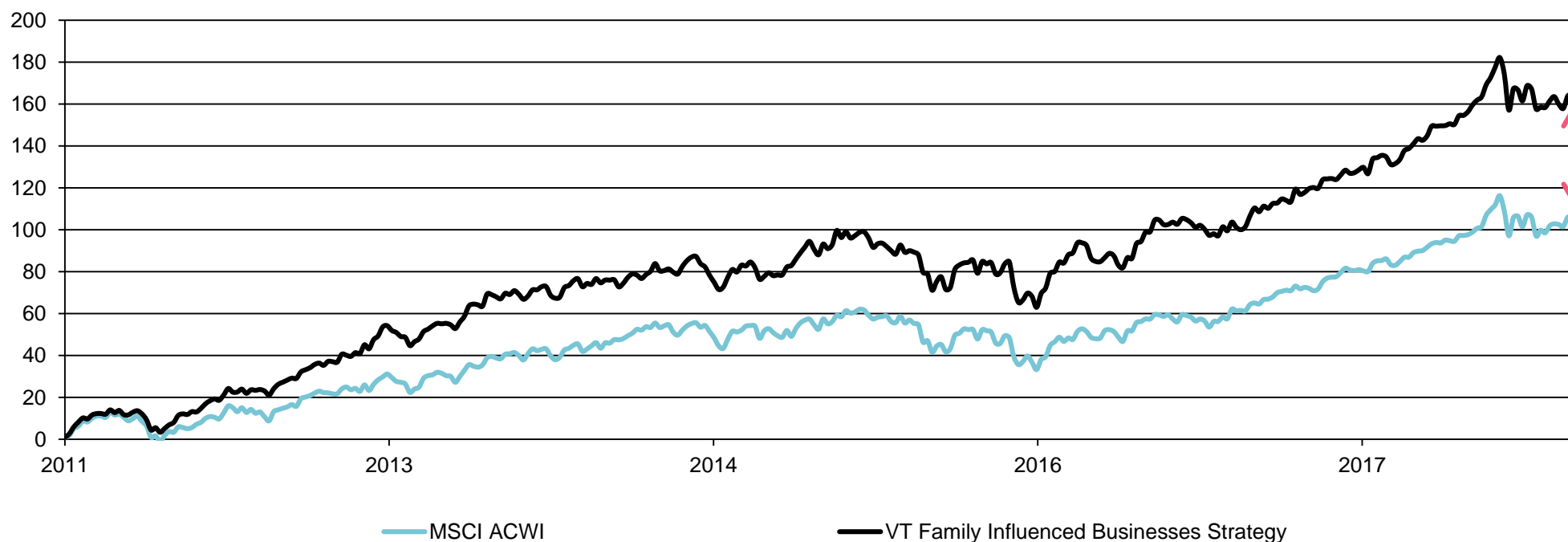
Per annum return over 20 years: 9.21%
Initial investment of EUR 10'000: EUR 58'244

Family Influenced Businesses build strong brands...

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- These businesses often build the **strongest brands** as the founders have an **emotional stake** in the business
- Our analysis shows a strong **outperformance** of Family Influenced Businesses versus the MSCI All Country Index*
- On average Family Influenced Businesses have **stronger EBITDA Growth**

Backtested performance of the Vontobel Family Influenced Businesses



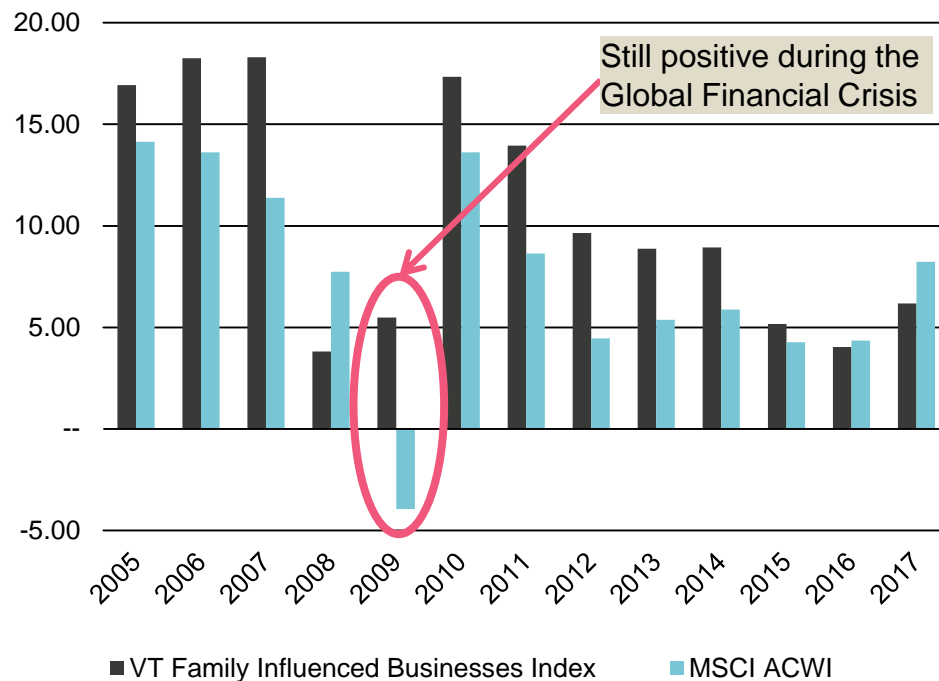
Source: Factset, Thomson Reuters Datastream

*Universe of Family Influenced Business was updated on the 31.12 of each year and is rebalanced to be equal-weighted on a yearly basis

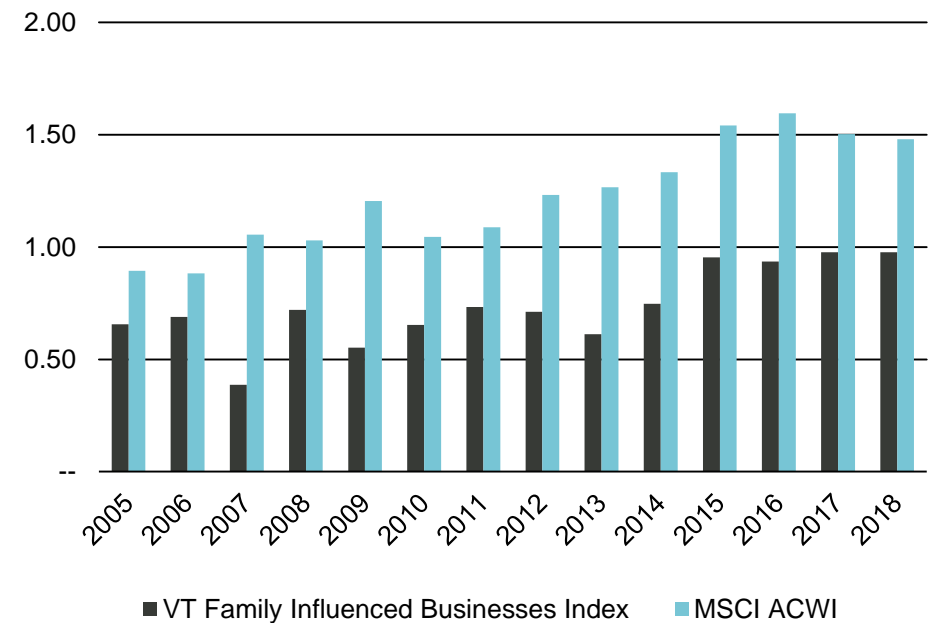
... and have higher growth rates and less leverage

- Family Influenced Businesses care about the **long-term success** of their businesses and are not held hostage by short termism
- Family Influenced Businesses tend to be run more prudently, with **lower debt and less financial leverage**
- Family Influenced Businesses have a better **alignment between shareholders and management**

EBITDA growth of Family Influenced Businesses vs MSCI World



Family Businesses have Less Debt Net debt /Ebitda



Examples of Family Influenced Businesses

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Straumann: Thomas Straumann



Thomas Straumann, owns 17% of Straumann

Founder & Innovator

Thomas Straumann, grandson of the company's founder, initially completed an apprenticeship as a precision mechanic in the watch industry before focusing on the development of material mixtures

Stora Enso: Wallenberg Family



Jacob, Marcus and Peter Jr Wallenberg, own 28% of the voting rights of Stora Enso, in their shared office in Stockholm.

Influencer & Advisor

The family's activities are directed by core values and a number of guiding principles that have evolved over the past 160 years. Striving to achieve what is best for each individual company is the lodestar for all of the family's involvements

Oracle: Larry Ellison



Larry Ellison, owns 28% of the voting rights of Oracle, is known as one of the tech industry's leading visionaries

Visionary & Industry Shaper

He was instrumental in inventing the area of cloud computing known as software-as-a-service, providing seed funding for Salesforce.com and NetSuite

Key aspects of family businesses

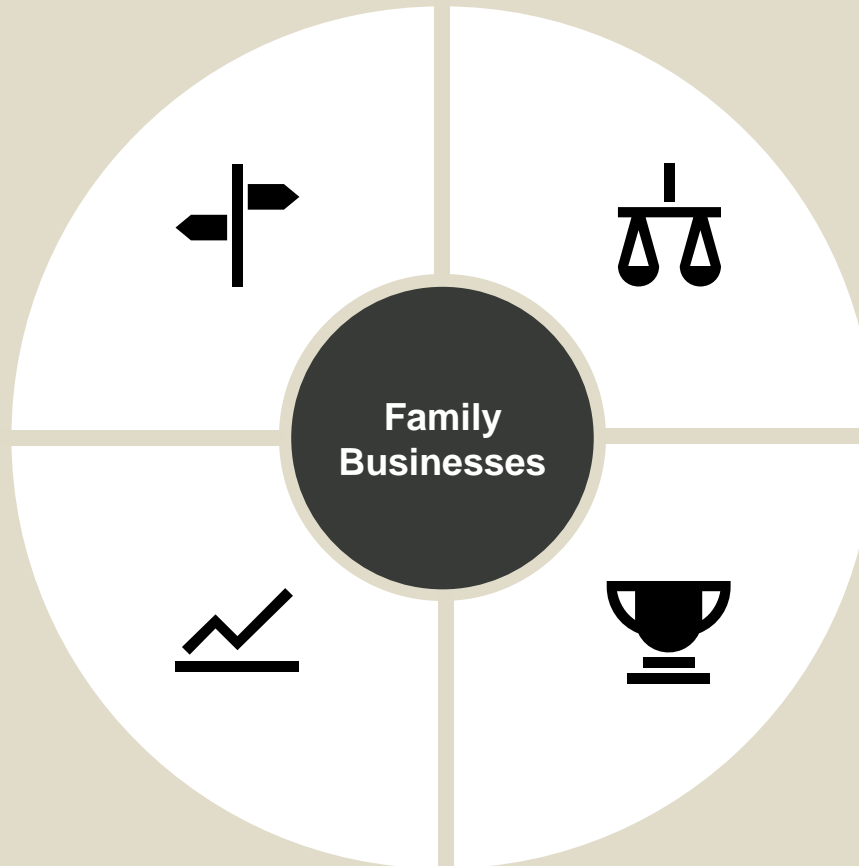
Their way to success

Long-term goals

- Long-term thinking and visions
- Several generations to survive
- Focus on core business

Constant profit growth

- Sustainably generated growth (self-financing)
- Stable but conservative dividend payouts



Conservative balance sheet management

- Stronger balance sheets
- Lower levels of debt
- Prudent investment management

Outperformance

- Better equity performance compared to non-family companies; across all sectors
- crisis resistance

Megatrends Framework

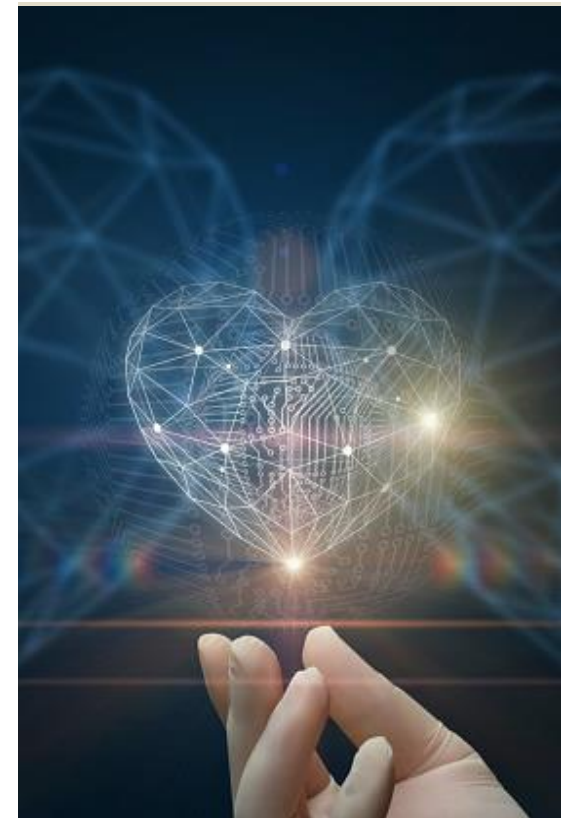
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**Family Influenced
Businesses**



Smart Farming



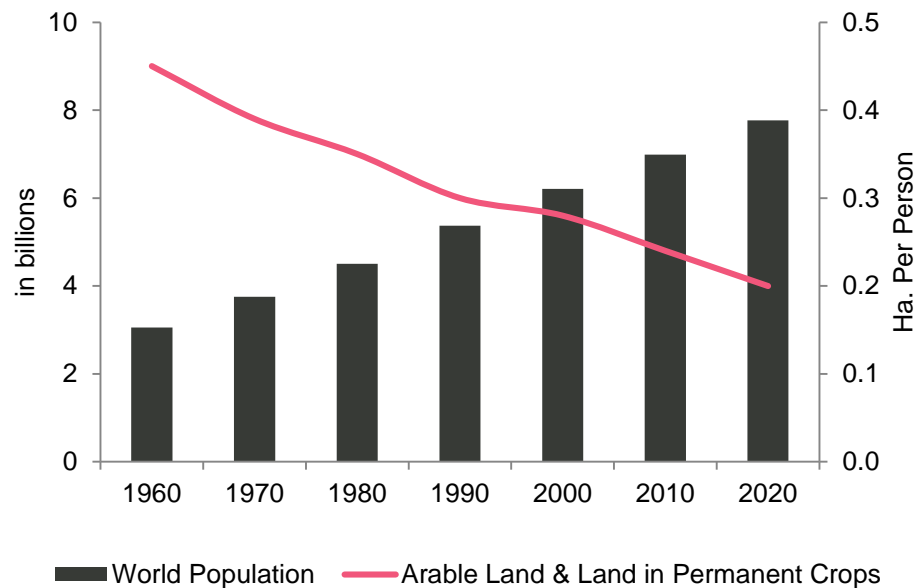
Smart Healthcare

Increasing food consumption as a result of population growth

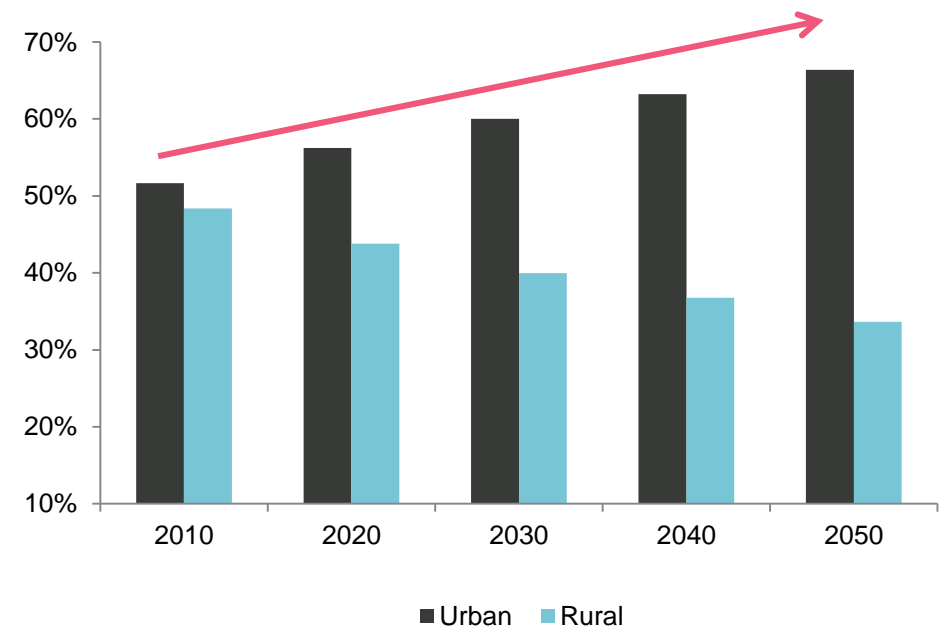
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- Demographic changes, greater variability in weather patterns, and other environmental constraints pose major **challenges in meeting future global food needs**
- The **world population is estimated to rise to 9.7 billion people by 2050**. That's 2.5 billion more than today and this will lead to significantly lower per capita arable land
- Urbanization leads to **rising food consumption** while also causing labour shortages in the farming sector

Global Arable Land vs. Population



World Population: Growing Urban-Rural Split



Smart Farming

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Autonomous machines



Precision agriculture



Vertical Farming



Robotics

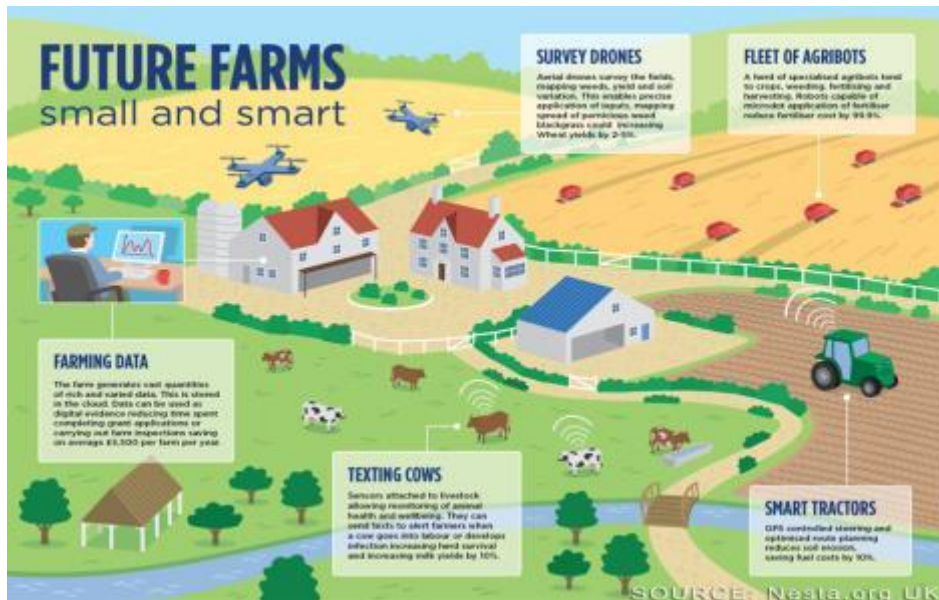


Smart Farming

ADDRESSABLE MARKET AND SEGMENTS

- Smart farming aims for a more efficient and **sustainable production** framework, based on a more precise and resource-efficient approach
- Smart farming methods include precision agriculture, robotics, vertical farming, biologicals, biotech, and aquaculture
- **Vertical agriculture** is expected to have an e-commerce level impact on traditional farming. Currently, Emirates Airlines is building the world's largest vertical farming facility in Dubai (2,700 kg capacity), in a USD 40 million partnership with Crop One, a California-based firm. The facility is expected to be operational by December 2019

Future of traditional agricultural farms



Emirates forging ahead with the future of airline catering



Megatrends Framework

January 2019



**Family Influenced
Businesses**



Smart Farming



Smart Healthcare

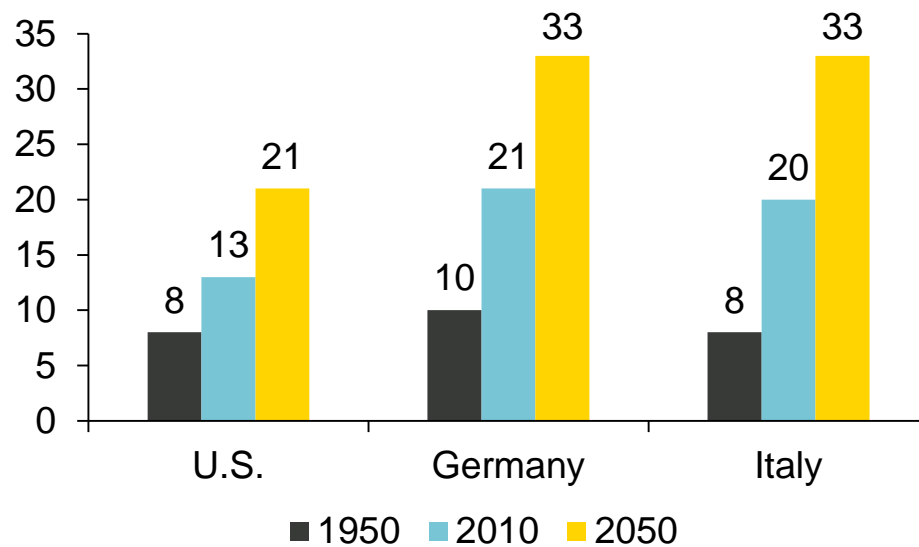
Megatrend Smart Healthcare

Key Drivers

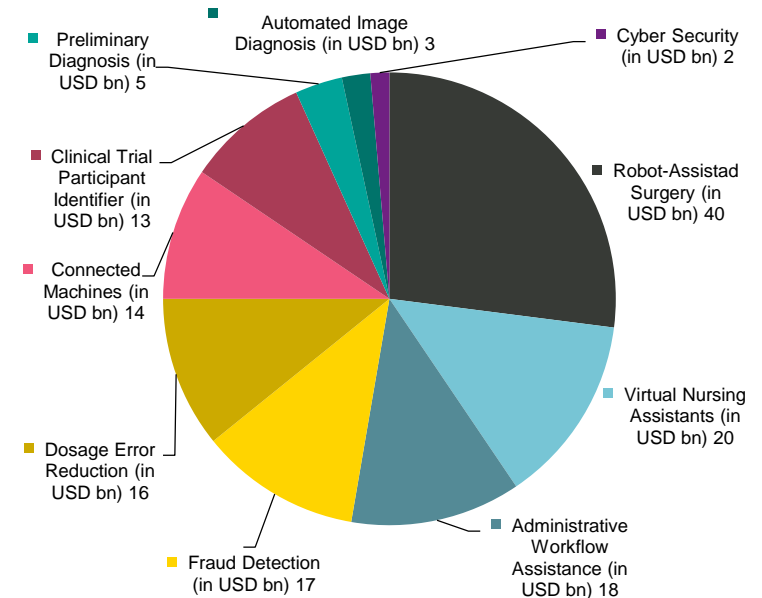
KEY DRIVERS

- **Demographics:** Population growth and **ageing** drive an unsustainable **rise in healthcare costs**. Demand of healthcare shows constant growth due to higher life expectancy.
- **Cost saving opportunity:** Healthcare expenses are rising relentlessly. In order to overcome inefficiencies and save costs, the industry must invest heavily in **new technologies**.
- **Technology adoption:** AI-supported diagnostics, remote patient monitoring, telemedicine, robotics in surgery, new insurance concepts etc.
- the Healthcare industry will go through a **massive transformation**.

Growing population of older people in the U.S., Germany and Italy (% population ages >65)



AI cost savings opportunities by 2026 – USD 150bn opportunity in the US



Megatrend Smart Healthcare Key Investment Themes

Healthcare IT/Services



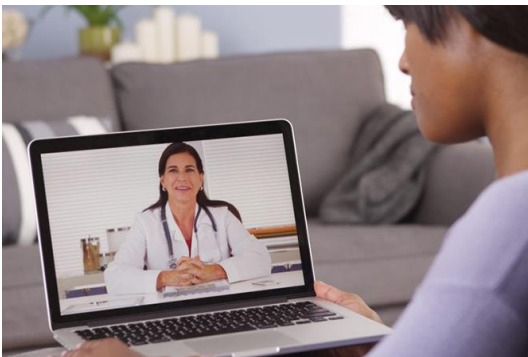
Wearables



Biotech/Pharma



Insurtech



Robotics



Diagnostics/Imaging

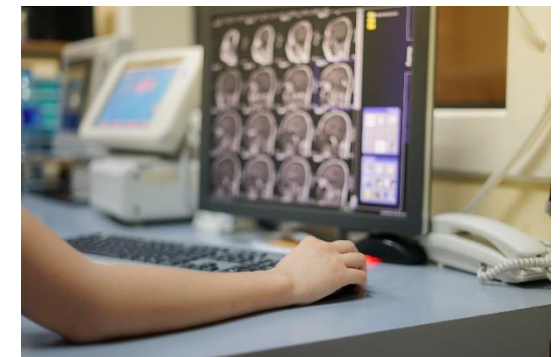


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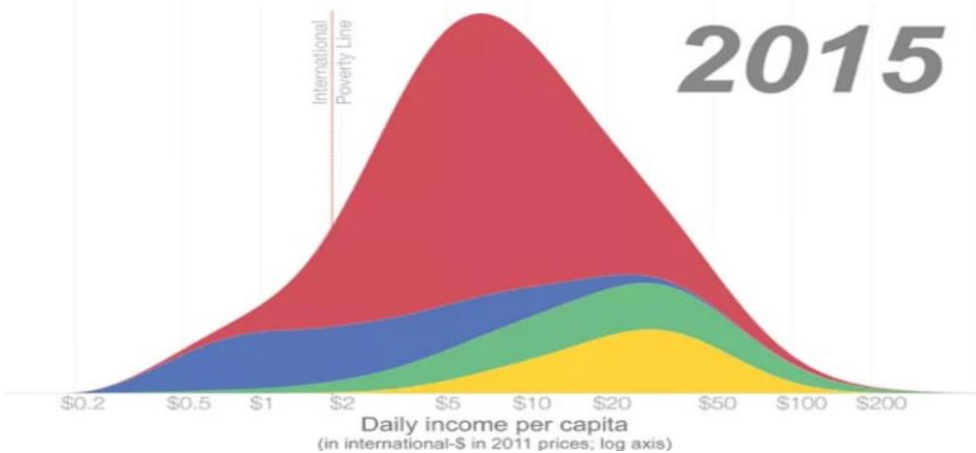
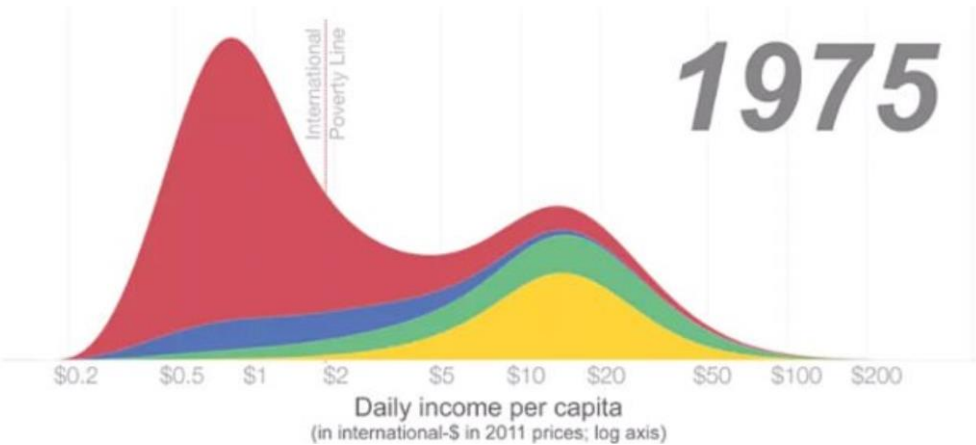
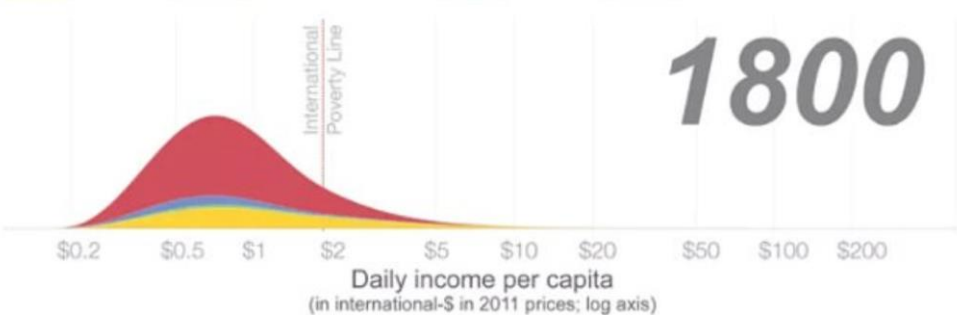
A composite image of Earth and the Moon in space. The Earth is the large, central sphere, showing continents and clouds. The Moon is a smaller sphere to the left. The background is a dark field of stars.

**Has our world become a
worse place?**

Fewer people live in poverty now than any other time in history

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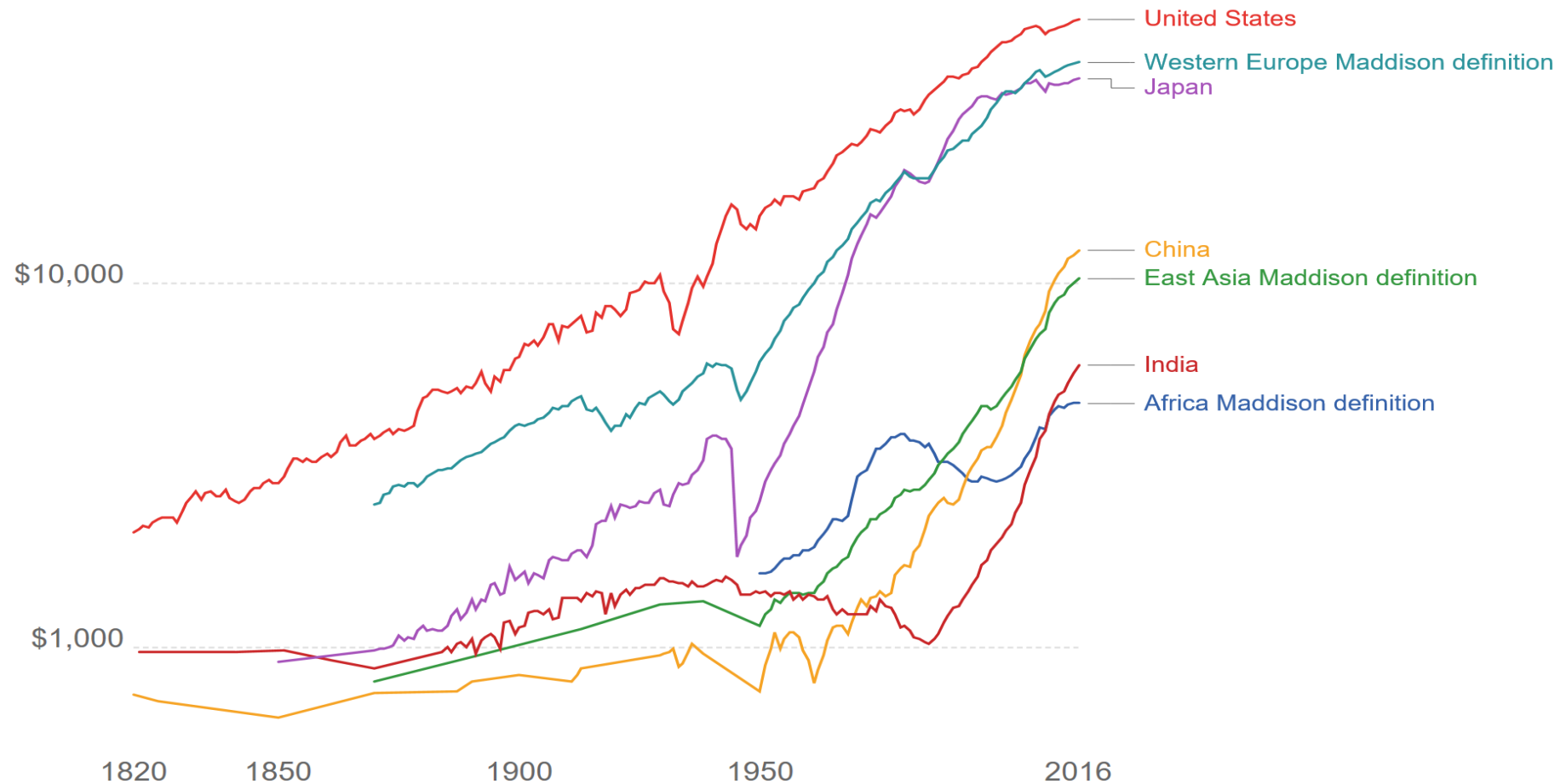
The worldwide distribution of wealth has become more equitable since 1800, when much of the world lived on less than \$2 a day



Global economies have been growing, driving up income levels

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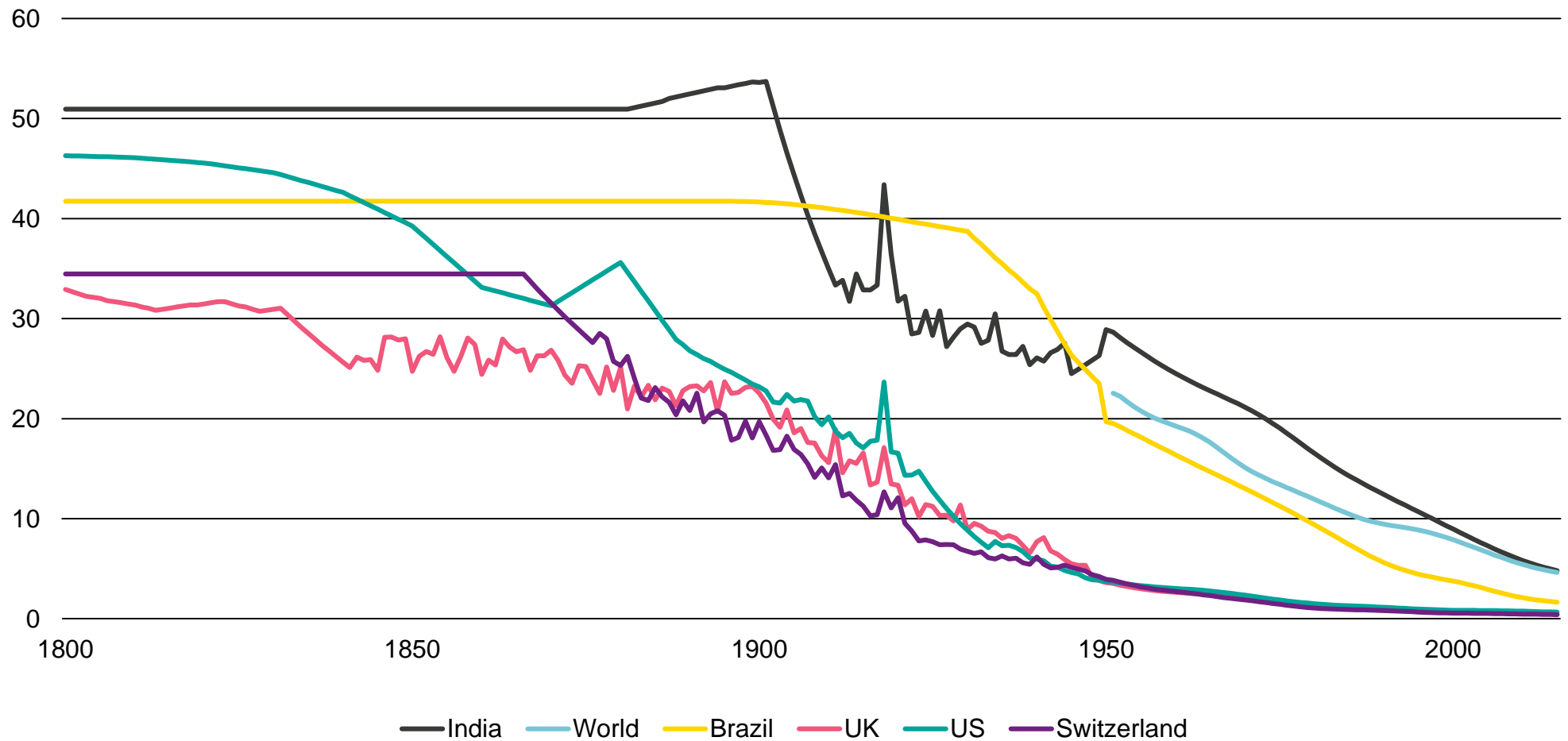
Real GDP per capita is measured using USD, inflation adjusted at prices of 2011



Worldwide child mortality rates have dropped significantly

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Child mortality rate



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Thank you for your attention!
Any questions?

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