

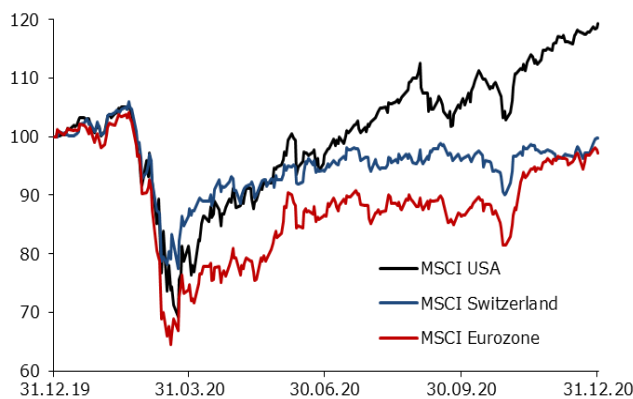


Year-End on a High Note

Dear Client,

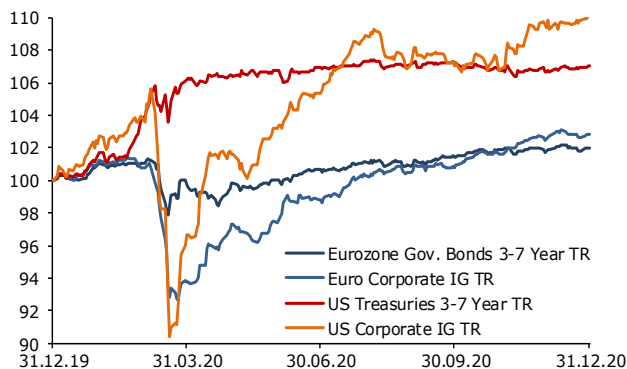
Following a particularly positive trend in 2019, the financial markets of 2020 were marked by a series of unprecedented surprises, strong emotions, turbulences and ended on an encouraging high note.

The eruption of the Covid 19 pandemic caused a partial halt in activity and a global recession in the first part of the year. The world economy began to recover from the third quarter as the first wave of the pandemic was successfully contained, as vaccines were developed rapidly and thanks to the timely, massive and unprecedented supportive actions of governments and central banks around the world. Despite the successive waves of the contagion, the imminence of mass vaccinations and the broad support from fiscal and monetary policies, which were also expected in the future, kept investor confidence high in the final part of the year.



The riskier assets collapsed in the first quarter of 2020, but recorded a remarkable recovery in the following nine months. The US and Asia markets fully recovered earlier losses, with the technology-heavy Nasdaq reaching new all-time highs; while Europe closed the year slightly negative.

The credit sector mimicked the stock market, with US corporate bonds showing strong gains in the US, while Europe closed slightly up.



Higher quality government bonds first played their role as safe haven assets and then were sustained by the ultra-expansionary monetary policies, a pattern which was also followed by gold.

On the currency market, the expected recovery of the world economy penalized the US Dollar against the main currencies in the second half of the year.

In 2020, we strived to maintain our traditionally cautious approach. Alongside a focus on corporate credit in the bond exposure, PKB's managed accounts already had several defensive features at the beginning of the year, thanks to the neutral weighting in equities protected by put options and a position in gold.

We navigated the turmoil of 2020 in a substantially active way. The equity positions were sharply reduced in February-March, reconstituted since April, first completed by the purchase of call options

on equity indices in April and then by put options in August and October. We promptly reduced the riskier elements of the bond exposure and increased the positioning in high-quality bonds. Subsequently, the bond exposure was further diversified through the purchase of subordinated financial debt, inflation-linked and Green issues.

Our active positioning bore good results, as reflected in the performances of mandates. Considering the low risk profile, the performance in 2020 of the Euro and Swiss Franc mandates were broadly positive – both in absolute and relative terms (in some cases significantly) – and negative in a few strategies. The year was excellent for US Dollar accounts, as well for the Euro *Sustainable* mandate.

As 2021 begins, the macroeconomic outlook is more favorable than it was twelve months ago. During the last year, the global economy overcame a recession and started a phase of cyclical expansion set to continue over the next several years. Monetary and fiscal policies will again support growth at least for the coming two years. Medium-term prospects look more attractive for equities than bonds. Equity markets will benefit from the cyclical recovery. Barring its riskier parts, the bond universe offers on the contrary negative to low returns in Europe, Switzerland and the United States.

As in the past, an active management style will be key to sail through opportunities and bouts of market uncertainty. With the pandemic under check, a few areas are likely to return centre stage in the global political agenda including the difficult USA-China relations, developments in the Middle East and concerns about some key elections in the EU. The global investor community is instead likely going to focus on key topics of concern such as public debt, the normalization of monetary policies, protectionism and the de-globalization of the world economy. In the meantime, the struggle against climate change requires long-term strategies and implies vast structural changes to the world economy. Entire sectors, production processes and consumption behaviors are set to be reshaped. Like never before, today we face a world featuring an abundance of investment opportunities in themes such as clean energies, circular economy, new mobility, reshoring or smart working.

The positive performance of financial markets at the end of 2020 has increased overall investor risk appetite. Investors are in a “risk-on” mindset, as some of the riskier asset classes recorded stellar performances in the second half of last year. We therefore approach the new year with some tactical cautiousness.

Asset Management