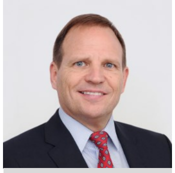
Newsletter October 2021

Inflation Surprise?

Market participants are debating whether the observed inflation is temporary or whether it will likely continue to rise. The target inflation of +2% in Europe and the USA has meanwhile been clearly exceeded, which is not inconvenient for the heavily indebted governments because it reduces their real debt.

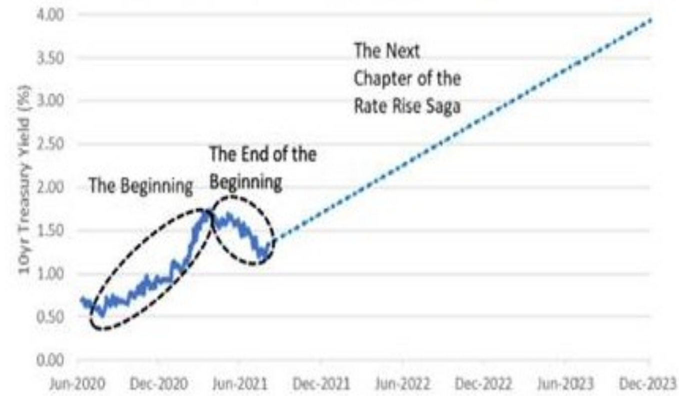
What is the probability that inflation will continue to rise and ultimately force the central banks to take action? From our point of view, an inflation surprise could emerge in the first half of 2022 because all input factors have risen significantly and many companies will be forced to pass on these higher costs, at least in part, through price increases. In addition to higher raw material and transport costs, higher property and land prices, wage costs are also rising significantly. Problems with the supply chains lead to further cost pressure if one is dependent on deliveries at short notice.

All of this makes persistent, higher inflation likely. This will also increase the pressure for higher interest rates, which will put pressure on the valuations of bonds, real estate and, ultimately, stocks. Relatively quickly rising interest rates, as shown in the chart below, would not be a good omen for the markets.



Stefan Steiner

FIGURE 12. HISTORICAL AND ADVOCATE PROJECTED 10YR TREASURY YIELD



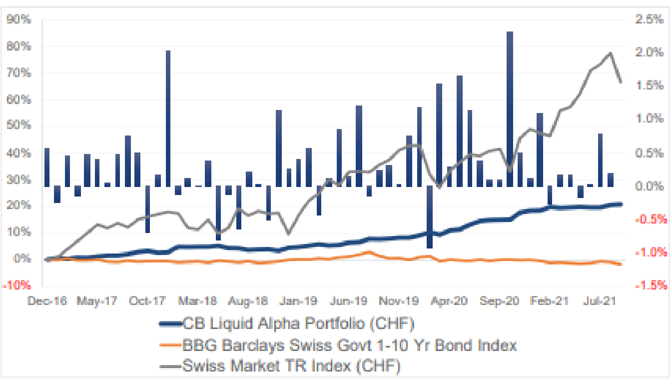
Sources: Bloomberg, Advocate

For more information please contact Stefan Steiner *at ss@cb-partners.com.*

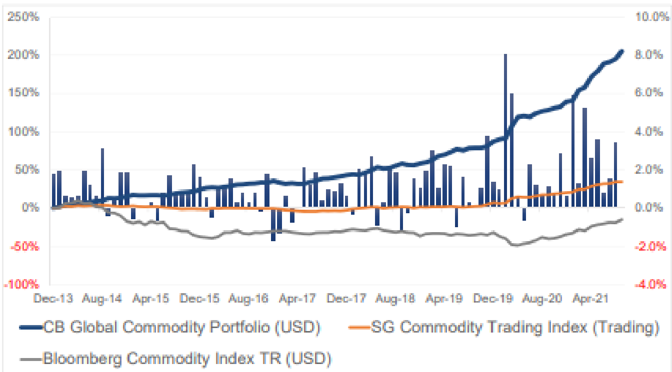
Crossbow Solutions

Strategy	Solution	Currency	Oct	YTD	2020	Factsheet
Alpha Strategies - Fixed Income Complement	Liquid Alpha	CHF	0.50%	2.63%	9.26%	
	Liquid Alpha	EUR	-0.16%	2.08%	9.56%	
	Equity Arbitrage	EUR	0.08%	4.81%	7.49%	
	Global Trading	USD	0.81%	2.04%	3.62%	
Portfolio Diversifier	Global Commodity	USD	-1.00%	26.32%	27.71%	

Track Record CB Liquid Alpha Portfolio (CHF)



Track Record CB Global Commodity Portfolio (USD)



For more information please contact Armin Vogel *at av@cb-partners.com.*

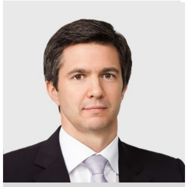
An actively managed and diversified exposure to blockchain digital assets

The universe of blockchain-based digital assets has grown so strongly over the last few years that it is now too large to be ignored. These assets include crypto-currencies (the native asset of a blockchain, e.g. BTC) and crypto tokens (built on an existing blockchain, e.g. a token representing an asset or a service within the Ethereum ecosystem). Although digital assets have reached a market value of more than USD 2 trillion, the potential for further growth is tremendous given their vast spectrum of transformative applications across almost any industry coupled with increasing institutional adoption. Looking at the financial sector only, famed Macro trader Paul Tudor Jones said he was buying BTC in 2020, banks and service providers are opening digital assets trading or servicing divisions, a long list of futures-based or physically backed BTC ETFs are waiting for SEC approval, and 86% of central banks are actively researching the potential for Central Bank Digital Currencies (BIS, 2021).

How can then investors gain exposure to this promising new asset class of digital assets? While it has become much easier for private investors to invest directly in cryptocurrencies and tokens through specialized exchanges, this option is often less applicable for larger investors due to reasons such as asset custody, although significant progresses have been made. And while BTC and ETH are still very attractive, which tokens should be selected among hundreds of existing tokens? And what should be the sector allocation to CeFi, DeFi, smart contract platforms, Web 3.0 and NFTs? And what about timing, allocation changes, profit taking?

The answer that resonates to us – as hedge fund investors – is that the most attractive investment approach to digital assets is through active management. Given the still early stage status of the digital asset industry, it is rife with secular thematic trends, inefficiencies and elevated volatility, in other words an exceptionally fertile ground for active, specialized managers. We think this approach is superior to products providing a passive exposure to one or several tokens.

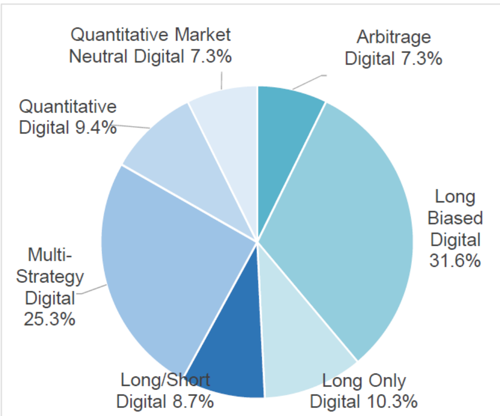
There are already several hundred hedge funds dedicated to digital assets, but as is the case in the much larger universe of traditional hedge funds, a large portion of these funds is not of interest due to insufficient asset size, lack of institutional set-up, unattractive performance profile or unsatisfactory manager's background, or a combination thereof. On the other hand, a smaller number of well-capitalized and setup digital asset managers have delivered impressive performance profiles. For example, some fundamentally based managers have been early investors in emerging themes, picked successful tokens and also actively rotated exposures across various digital sub-sectors. Although such strategies have an inherent long bias, the downside has often been contained relative to market corrections. Similar to traditional hedge funds, the universe of digital asset hedge funds also includes less directional or market neutral strategies (e.g. exchange arbitrage, market making) which can be run systematically, as well as directional quantitative strategies (e.g. trend-following). Again, these strategies benefit from inefficiencies that are of much larger magnitude than within traditional markets.



David Friche

Crossbow Partners is joining forces with CV VC, a leading blockchain startup venture investor based in the heart of Switzerland's Crypto Valley, to launch a multi-manager portfolio of digital asset dedicated hedge funds within a certificate structure. The portfolio, co-managed by Crossbow and CV VC, will benefit from diversification at the strategy and manager levels and will provide access to specialized managers benefiting from an information advantage and with a proven record of alpha generation within the digital asset space. This certificate has the potential to deliver strong albeit volatile returns, and will provide investors with an actively managed exposure to the long-term growth potential and diversification benefits of digital assets.

Strategies exposures

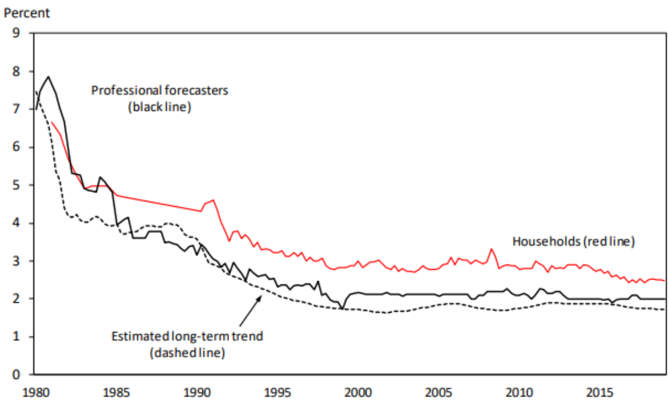


For more information please contact David Friche at df@cb-partners.com.

Why Do We Think that Inflation Expectations Matter for Inflation?

(And Should We?)

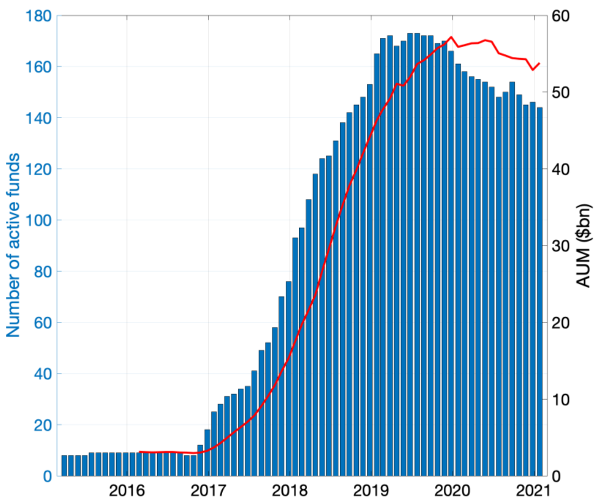
Economists and economic policymakers believe that households' and firms' expectations of future inflation are a key determinant of actual inflation. A review by Jeremy B. Rudd, Board of Governors of the Federal Reserve System, of the relevant theoretical and empirical literature suggests that this belief rests on extremely shaky foundations, and a case is made that adhering to it uncritically could easily lead to serious policy errors.



Long-Term Inflation Expectations and Long-Term Trend Inflation

On the Performance of Cryptocurrency Funds

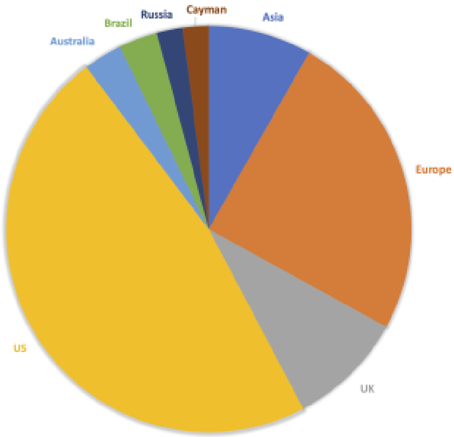
Daniele Bianchi (School of Economics and Finance, Queen Mary University of London) and Mykola Babiak (Department of Accounting and Finance, Lancaster University Management School) investigate the performance of funds that specialize in cryptocurrency markets.



Active Funds

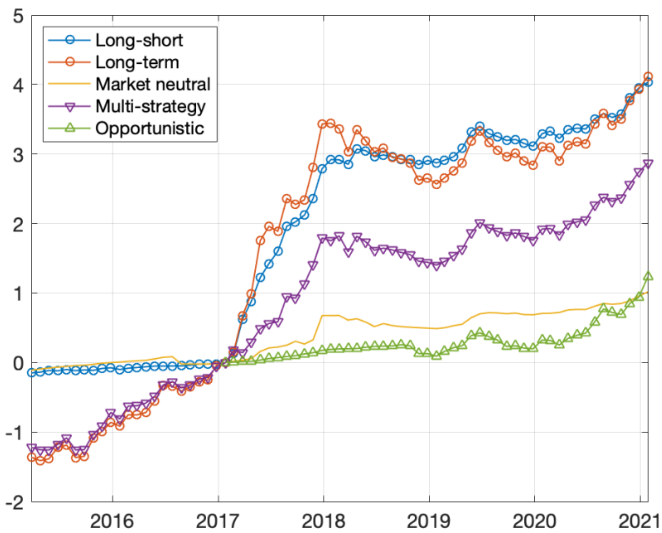
Armin Vogel

In doing so, they contribute to a growing literature that aims to understand the value of digital assets as investments. Methodologically, they implement a panel semi-parametric bootstrap approach that samples jointly the cross-sectional distribution of alphas conditional on different benchmark strategies and/or risk factors.



Geographical distribution of manager location

Empirically, they show that a small significant fraction of managers are able to generate economically large alphas which are not purely due to sampling variation. However, once they account for the within-strategy correlation of the fund returns, the significance of the alphas substantially decreases below standard threshold confidence levels.



Cumulative log returns per strategy

If you wish the above mentioned paper, please contact av@cb-partners.com.